

**CREDIT BANK OF MOSCOW**  
**(public joint-stock company)**

Consolidated Interim Condensed  
Financial Statements  
for the nine-month period  
ended 30 September 2016

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## **Auditors' Report on Review of Consolidated Interim Condensed Financial Information**

To the Shareholders and Supervisory Board  
CREDIT BANK OF MOSCOW (public joint-stock company)

### ***Introduction***

We have reviewed the accompanying consolidated interim condensed statement of financial position of CREDIT BANK OF MOSCOW (public joint-stock company) and its subsidiaries (the Group) as at 30 September 2016, and the related consolidated interim condensed statements of profit or loss and other comprehensive income for the three- and the nine-month periods ended 30 September 2016, and the related consolidated interim condensed statements of changes in equity and cash flows for the nine-month period ended 30 September 2016, and notes to the consolidated interim condensed financial information (the consolidated interim condensed financial information). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed 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 consolidated interim condensed 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.

Audited entity: Credit Bank of Moscow (public joint-stock company).

Registered by the Central Bank of the Russian Federation on 18 August 1999, Registration No. 1978.

Entered in the Unified State Register of Legal Entities on 18 November 2002 by the Department of Federal Tax Service, Registration No. 1027739555282, Certificate series 77 No. 004840877.

Address of audited entity: 2 (building 1), Lukov pereulok, Moscow, Russian Federation, 107045.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Self-regulated organisation of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.11603053203.



### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 September 2016 and for the three- and the nine-month periods ended 30 September 2016 is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.



Kolosov A.E.

Director

Power of attorney dated 24 March 2016 No. 12/16

JSC "KPMG"

22 November 2016

Moscow, Russian Federation

*CREDIT BANK OF MOSCOW (public joint-stock company)*  
*Consolidated Interim Condensed Statements of Profit or Loss and Other Comprehensive Income*  
*for the three- and the nine-month periods ended 30 September 2016*

|   | Notes | Nine-Month<br>Period Ended<br>30 September 2016<br>RUB'000<br>(Unaudited) | Nine-Month<br>Period Ended<br>30 September 2015<br>RUB'000<br>(Unaudited) | Three-Month<br>Period Ended<br>30 September 2016<br>RUB'000<br>(Unaudited) | Three-Month<br>Period Ended<br>30 September 2015<br>RUB'000<br>(Unaudited) |
|---|-------|---|---|--|--|
| Interest income   | 4     | 84 066 256  | 61 135 801  | 28 090 347   | 22 436 059   |
| Interest expense  | 4     | (52 704 924)  | (43 445 525)  | (17 191 244)   | (15 167 186)   |
| <b>Net interest income</b>  | 4     | <b>31 361 332</b>   | <b>17 690 276</b>   | <b>10 899 103</b>  | <b>7 268 873</b>   |
| Provision for impairment of loans   | 10    | (24 046 848)  | (14 585 203)  | (7 817 625)  | (6 103 169)  |
| <b>Net interest income after<br/>provision for impairment of<br/>loans</b>                  |       | <b>7 314 484</b>  | <b>3 105 073</b>  | <b>3 081 478</b>   | <b>1 165 704</b>   |
| Fee and commission income   | 5     | 9 470 474   | 6 439 410   | 3 156 650  | 2 139 771  |
| Fee and commission expense  | 5     | (1 530 856)   | (1 163 377)   | (535 029)  | 147 963  |
| Net gain (loss) on financial<br>instruments at fair value through<br>profit or loss         |       | 595 610   | 527 491   | 220 672  | (81 462)   |
| Net realized gain on available-for-<br>sale assets  |       | 956 706   | 25 718  | 594 788  | 893  |
| Net foreign exchange gains (losses)   |       | 3 595 161   | 1 142 054   | 1 433 069  | (133 240)  |
| State deposit insurance scheme<br>contributions   |       | (604 049)   | (504 395)   | (208 011)  | (166 509)  |
| Operating lease income  |       | 789 838   | 11 247  | 428 025  | 3 769  |
| Other operating income (expense),<br>net  |       | 184 095   | (249 841)   | (233 930)  | (68 747)   |
| <b>Non-interest income</b>  |       | <b>13 456 979</b>   | <b>6 228 307</b>  | <b>4 856 234</b>   | <b>1 842 438</b>   |
| <b>Operating income</b>   |       | <b>20 771 463</b>   | <b>9 333 380</b>  | <b>7 937 712</b>   | <b>3 008 142</b>   |
| Salaries and employment benefits  | 6     | (5 683 322)   | (3 890 738)   | (1 882 145)  | (1 297 224)  |
| Administrative expenses   | 6     | (3 629 818)   | (2 397 568)   | (1 447 166)  | (916 304)  |
| Depreciation of property and<br>equipment   |       | (1 017 290)   | (439 928)   | (471 689)  | (148 118)  |
| Recovery of (provision for)<br>impairment of other assets and<br>credit related commitments |       | 234 383   | (658 794)   | 217 244  | (214 227)  |
| <b>Operating expense</b>  |       | <b>(10 096 047)</b>   | <b>(7 387 028)</b>  | <b>(3 583 756)</b>   | <b>(2 575 873)</b>   |
| <b>Profit before income taxes</b>   |       | <b>10 675 416</b>   | <b>1 946 352</b>  | <b>4 353 956</b>   | <b>432 269</b>   |
| Income tax  | 7     | (2 333 282)   | (411 104)   | (1 079 203)  | (91 770)   |
| <b>Profit for the period</b>  |       | <b>8 342 134</b>  | <b>1 535 248</b>  | <b>3 274 753</b>   | <b>340 499</b>   |

The consolidated interim condensed statements of profit or loss and other comprehensive income are to be read in conjunction with the notes, forming an integral part of the consolidated interim condensed financial statements.

*CREDIT BANK OF MOSCOW (public joint-stock company)*  
*Consolidated Interim Condensed Statements of Profit or Loss and Other Comprehensive Income*  
*for the three- and the nine-month periods ended 30 September 2016 (continued)*

| Notes  | Nine-Month<br>Period Ended<br>30 September 2016<br>RUB'000<br>(Unaudited) | Nine-Month<br>Period Ended<br>30 September 2015<br>RUB'000<br>(Unaudited) | Three-Month<br>Period Ended<br>30 September<br>2016<br>RUB'000<br>(Unaudited) | Three-Month<br>Period Ended<br>30 September<br>2015<br>RUB'000<br>(Unaudited) |
|--|---|---|---|---|
| <b>Profit for the period</b>   | <b>8 342 134</b>  | <b>1 535 248</b>  | <b>3 274 753</b>  | <b>340 499</b>  |
| <b>Other comprehensive income</b>  |   |   |   |   |
| <i>Items that are or may be reclassified subsequently to profit or loss:</i> |   |   |   |   |
| Revaluation reserve for available-for-sale securities:                       |   |   |   |   |
| - net change in fair value   | 1 862 666   | 1 687 315   | 64 474  | (189 045)   |
| - net change in fair value transferred to profit or loss                     | (1 062 248)   | 50 451  | (538 094)   | 270 593   |
| Exchange differences on translation  | 27 650  | -   | 24 989  | -   |
| Income tax related to other comprehensive income                             | (165 614)   | (347 553)   | 89 527  | (16 309)  |
| <b>Other comprehensive income (loss) for the period, net of income tax</b>   | <b>662 454</b>  | <b>1 390 213</b>  | <b>(359 104)</b>  | <b>65 239</b>   |
| <b>Total comprehensive income for the period</b>                             | <b>9 004 588</b>  | <b>2 925 461</b>  | <b>2 915 649</b>  | <b>405 738</b>  |
| <b>Basic and diluted earnings per share (in RUB per share)</b>               | <b>0.35</b>   | <b>0.09</b>   | <b>0.14</b>   | <b>0.02</b>   |

Chairman of the Management Board



Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass

The consolidated interim condensed statements of profit or loss and other comprehensive income are to be read in conjunction with the notes, forming an integral part of the consolidated interim condensed financial statements.

*CREDIT BANK OF MOSCOW (public joint-stock company)*  
*Consolidated Interim Condensed Statement of Financial Position as at 30 September 2016*

|   | Notes | 30 September 2016<br>RUB'000<br>(Unaudited) | 31 December 2015<br>RUB'000 |
|---|-------|---|-----------------------------|
| <b>ASSETS</b>   |       |   |                             |
| Cash and cash equivalents   |       | 214 238 296                                 | 138 014 586                 |
| Obligatory reserves with the Central Bank of the Russian Federation |       | 8 730 944                                   | 5 936 111                   |
| Deposits in credit and other financial institutions                 |       | 320 250 686                                 | 277 295 869                 |
| Financial instruments at fair value through profit or loss          | 8     | 67 338 939                                  | 72 136 989                  |
| - <i>pledged under sale and repurchase agreements</i>               | 8     | 4 633 794                                   | 2 654 432                   |
| Available-for-sale securities                                       | 9     | 54 947 339                                  | 87 402 909                  |
| - <i>pledged under sale and repurchase agreements</i>               | 9     | 28 429 054                                  | 2 115 753                   |
| Loans to customers  | 10    | 616 382 879                                 | 593 065 265                 |
| - <i>loans to corporate clients</i>                                 | 10    | 518 760 048                                 | 482 423 222                 |
| - <i>loans to individuals</i>                                       | 10    | 97 622 831                                  | 110 642 043                 |
| Property and equipment  |       | 22 551 796                                  | 7 004 418                   |
| Current tax assets  |       | 981 506                                     | 1 759 906                   |
| Other assets  |       | 6 526 973                                   | 25 584 575                  |
| <b>Total assets</b>   |       | <b>1 311 949 358</b>                        | <b>1 208 200 628</b>        |
| <b>LIABILITIES AND EQUITY</b>                                       |       |   |                             |
| Deposits by the Central Bank of the Russian Federation              |       | 4 263 336                                   | 4 044 647                   |
| Deposits by credit and other financial institutions                 |       | 234 888 805                                 | 84 659 913                  |
| Deposits by customers   |       | 856 724 292                                 | 898 692 231                 |
| - <i>deposits by corporate customers</i>                            |       | 629 770 476                                 | 697 763 224                 |
| - <i>deposits by individuals</i>                                    |       | 226 953 816                                 | 200 929 007                 |
| Debt securities issued  | 11    | 107 437 938                                 | 121 154 765                 |
| Deferred tax liability  |       | 919 508                                     | 2 380 552                   |
| Other liabilities   |       | 6 372 429                                   | 4 930 058                   |
| <b>Total liabilities</b>  |       | <b>1 210 606 308</b>                        | <b>1 115 862 166</b>        |
| <b>Equity</b>   |       |   |                             |
| Share capital   | 12    | 24 741 640                                  | 24 741 640                  |
| Additional paid-in capital  |       | 35 047 463                                  | 35 047 463                  |
| Revaluation surplus for buildings                                   |       | 769 176                                     | 769 176                     |
| Revaluation reserve for available-for-sale securities               |       | 860 404                                     | 220 070                     |
| Currency translation reserve  |       | 22 120                                      | -                           |
| Retained earnings   |       | 39 902 247                                  | 31 560 113                  |
| <b>Total equity</b>   |       | <b>101 343 050</b>                          | <b>92 338 462</b>           |
| <b>Total liabilities and equity</b>                                 |       | <b>1 311 949 358</b>                        | <b>1 208 200 628</b>        |

Chairman of the Management Board



Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass

The consolidated interim condensed statement of financial position is to be read in conjunction with the notes, forming an integral part of the consolidated interim condensed financial statements.

*CREDIT BANK OF MOSCOW (public joint-stock company)*  
*Consolidated Interim Condensed Statement of Cash Flows for the nine-month period ended 30 September 2016*

|  | <b>Nine-Month<br/>Period Ended<br/>30 September 2016<br/>RUB'000<br/>(Unaudited)</b> | <b>Nine-Month<br/>Period Ended<br/>30 September 2015<br/>RUB'000<br/>(Unaudited)</b> |
|--|--|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |  |  |
| Interest receipts  | 78 174 810   | 54 932 624   |
| Interest payments  | (47 189 075)   | (39 847 184)   |
| Fees and commission receipts   | 9 682 293  | 6 914 348  |
| Fees and commission payments   | (1 530 856)  | (1 664 561)  |
| Net receipts from operations with securities   | 1 120 035  | 330 009  |
| Net receipts from foreign exchange   | (8 197 102)  | 1 203 682  |
| State deposit insurance scheme contributions payments  | (592 253)  | (490 511)  |
| Net other operating income receipts  | 404 771  | 326 240  |
| Operating leases income receipts   | 789 838  | -  |
| Salaries and employment benefits paid  | (5 440 083)  | (3 898 406)  |
| Administrative expenses paid   | (3 160 518)  | (2 100 046)  |
| Income tax paid  | (3 173 195)  | (943 905)  |
| <b>Operating cash flows before changes in operating assets and liabilities</b>               | <b>20 888 665</b>  | <b>14 762 290</b>  |
| <b>(Increase) decrease in operating assets</b>   |  |  |
| Obligatory reserves with the Central Bank of the Russian Federation                          | (2 794 105)  | 393 366  |
| Deposits in credit and other financial institutions  | (82 236 172)   | (130 273 659)  |
| Financial instruments at fair value through profit or loss                                   | 3 971 031  | (21 558 201)   |
| Loans to customers   | (70 344 633)   | (130 996 019)  |
| Other assets   | 763 117  | 231 382  |
| <b>Increase (decrease) in operating liabilities</b>  |  |  |
| Deposits by the Central Bank of the Russian Federation                                       | 472 626  | 47 345 696   |
| Deposits by credit and other financial institutions except syndicated and subordinated loans | 168 658 911  | 70 267 002   |
| Deposits by customers except subordinated loans  | 28 430 226   | 268 904 293  |
| Promissory notes issued  | 216 881  | 1 463 127  |
| Other liabilities  | 156 807  | 81 071   |
| <b>Net cash from operations</b>  | <b>68 183 354</b>  | <b>120 620 348</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |  |  |
| Purchase of available-for-sale securities  | (20 139 416)   | (22 548 389)   |
| Proceeds from disposal and redemption of available-for-sale securities                       | 43 196 202   | 7 680 323  |
| Purchase of subsidiaries   | (193 630)  | -  |
| Purchase of property and equipment   | (592 178)  | (296 710)  |
| Sale of property and equipment   | 68 568   | 3 162  |
| <b>Net cash from (used in) investing activities</b>  | <b>22 339 546</b>  | <b>(15 161 614)</b>  |

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes, forming an integral part of the consolidated interim condensed financial statements.

*CREDIT BANK OF MOSCOW (public joint-stock company)*  
*Consolidated Interim Condensed Statement of Cash Flows for the nine-month period ended 30 September 2016*

|  | <b>Nine-Month<br/>Period Ended<br/>30 September 2016<br/>RUB'000<br/>(Unaudited)</b> | <b>Nine-Month<br/>Period Ended<br/>30 September 2015<br/>RUB'000<br/>(Unaudited)</b> |
|--|--|--|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                          |  |  |
| Issuance of common stock   | -  | 13 175 654   |
| Proceeds from syndicated borrowings                                  | -  | 251 237  |
| Repayment of syndicated borrowings                                   | -  | (22 696 239)   |
| Repayment of subordinated borrowings                                 | (700 857)  | -  |
| Proceeds from placement and issuance of bonds                        | 5 884 629  | 3 000 000  |
| Repayments of bonds  | (9 932 393)  | (11 998 080)   |
| <b>Net cash used in financing activities</b>                         | <b>(4 748 621)</b>   | <b>(18 267 428)</b>  |
| <b>Effect of exchange rates changes on cash and cash equivalents</b> | <b>(9 550 569)</b>   | <b>9 259 102</b>   |
| <b>Change in cash and cash equivalents</b>                           | <b>76 223 710</b>  | <b>96 450 408</b>  |
| Cash and cash equivalents, beginning of the period                   | 138 014 586  | 118 696 921  |
| <b>Cash and cash equivalents, end of the period</b>                  | <b>214 238 296</b>   | <b>215 147 329</b>   |

Chairman of the Management Board

Chief Accountant



Vladimir A. Chubar

Svetlana V. Sass

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes, forming an integral part of the consolidated interim condensed financial statements.

*CREDIT BANK OF MOSCOW (public joint-stock company)*  
*Consolidated Interim Condensed Statement of Changes in Equity for the nine-month period ended 30 September 2016*

|   | Share capital     | Additional paid-in capital | Shares in the process of issue | Revaluation surplus for buildings | Revaluation reserve for available-for-sale securities | Currency translation reserve | Retained earnings | Total equity       |
|---|-------------------|----------------------------|--------------------------------|-----------------------------------|---|------------------------------|-------------------|--------------------|
|   | RUB'000           | RUB'000                    | RUB'000                        | RUB'000                           | RUB'000   | RUB'000                      | RUB'000           | RUB'000            |
| <b>1 January 2015</b>                                 | <b>15 329 692</b> | <b>9 768 757</b>           | <b>5 000 000</b>               | <b>1 115 928</b>                  | <b>(1 277 529)</b>                                    | -                            | <b>30 050 642</b> | <b>59 987 490</b>  |
| Total comprehensive income for the period (Unaudited) | -                 | -                          | -                              | -                                 | 1 390 213   | -                            | 1 535 248         | 2 925 461          |
| Issued shares (Unaudited)                             | 4 911 948         | 13 263 706                 | (5 000 000)                    | -                                 | -   | -                            | -                 | 13 175 654         |
| <b>30 September 2015 (Unaudited)</b>                  | <b>20 241 640</b> | <b>23 032 463</b>          | <b>-</b>                       | <b>1 115 928</b>                  | <b>112 684</b>  | <b>-</b>                     | <b>31 585 890</b> | <b>76 088 605</b>  |
| <b>1 January 2016</b>                                 | <b>24 741 640</b> | <b>35 047 463</b>          | <b>-</b>                       | <b>769 176</b>                    | <b>220 070</b>  | <b>-</b>                     | <b>31 560 113</b> | <b>92 338 462</b>  |
| Total comprehensive income for the period (Unaudited) | -                 | -                          | -                              | -                                 | 640 334   | 22 120                       | 8 342 134         | 9 004 588          |
| <b>30 September 2016 (Unaudited)</b>                  | <b>24 741 640</b> | <b>35 047 463</b>          | <b>-</b>                       | <b>769 176</b>                    | <b>860 404</b>  | <b>22 120</b>                | <b>39 902 247</b> | <b>101 343 050</b> |

Chairman of the Management Board



Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes, forming an integral part of consolidated interim condensed financial statements.

# 1 Background

## Principal activities

These consolidated interim condensed financial statements include the financial statements of CREDIT BANK OF MOSCOW (public joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was formed on 5 August 1992 as an open joint-stock company, then re-registered as a limited liability company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganized as an open joint-stock company. On 16 May 2016 the Bank was re-registered as a public joint-stock company under the legislation of the Russian Federation. The Bank's registered legal address is 2 (bldg. 1), Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central Bank of the Russian Federation (the CBR), renewed on 21 January 2013. In December 2004 the Bank was admitted to the state program for individual deposit insurance.

The Bank is among the 10 largest banks in Russia by assets and conducts its business in Moscow and the Moscow region with a branch network comprising 75 branches, 998 ATMs and 5 678 payment terminals.

The Group operates in industry where significant seasonal or cyclical variations in operating income are not experienced during the financial year.

The principal subsidiaries of the Group are as follows:

| Name                        | Country of incorporation | Principal activities | Degree of control, %             |                  |
|-----------------------------|--------------------------|----------------------|----------------------------------|------------------|
|                             |                          |                      | 30 September 2016<br>(unaudited) | 31 December 2015 |
| CBOM Finance p.l.c.         | Ireland                  | Raising finance      | 100%                             | 100%             |
| MKB-Leasing Group           | Russia                   | Finance leasing      | 100%                             | 100%             |
| CJSC Mortgage Agent MKB     | Russia                   | Raising finance      | 100%                             | 100%             |
| INKAKHRAN Group             | Russia                   | Cash handling        | 100%                             | 100%             |
| CBM Ireland Leasing Limited | Ireland                  | Operating leasing    | 100%                             | -                |
| LLC Bank SKS                | Russia                   | Investment banking   | 100%                             | -                |

The Bank does not have any direct or indirect shareholdings in the subsidiaries "CBOM Finance p.l.c." and CJSC "Mortgage Agent MKB". "CBOM Finance p.l.c." was established to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to the Bank. CJSC "Mortgage Agent MKB" was established for the purposes of the mortgage loans securitization program launched by the Bank in 2014. CBM Ireland Leasing Limited was established for operating leasing of aircrafts. In August 2016 the Bank acquired 100% of shares in LLC Bank SKS to develop investment banking activities. The Bank believes that purchase of the subsidiary does not have significant impact on these consolidated interim condensed financial statements.

## Shareholders

The Bank's shareholders as at 30 September 2016 are:

- LLC Concern Rossium – 56.83%
- RegionFinanceResurs, JSC – 8.69%
- LLC IC Algoritm – 6.93%
- European Bank for Reconstruction and Development (EBRD) – 4.54%
- LLC Savings Management – 2.89%

- RBOF Holding Company I Ltd – 2.79%
- JSC EG Capital Partners – 1.99%
- International Finance Corporation (IFC) – 1.75%
- Powerboom Investments Limited – 1.32%
- Other shareholders – 12.27%

The majority participant of Concern Rossium, LLC, is Roman I. Avdeev, who is an ultimate controlling party of the Group.

Related party transactions are detailed in note 14.

### **Russian business environment**

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial risks in the markets of the Russian Federation, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities, including banks, may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. Management of the Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment.

The consolidated interim condensed financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

## **2 Basis of preparation**

### **Statement of compliance**

The accompanying consolidated interim condensed financial statements are prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full consolidated financial statements, and should be read in conjunction with the consolidated financial statements as at and for the year ended 31 December 2015, as these consolidated interim condensed financial statements provide an update of previously reported financial information.

### **Basis of measurement**

The consolidated interim condensed financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale securities are stated at fair value and buildings are stated at revalued amounts.

### **Functional and presentation currency**

The functional currency of the Bank and the majority of its subsidiaries is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated interim condensed financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

Foreign currencies, particularly USD and euro, play significant role in determination of economic parameters for many business operations conducted in the Russian Federation. The table below sets out exchange rates for USD and euro against RUB, defined by the CBR:

|      | 30 September 2016 | 31 December 2015 | 30 September 2015 |
|------|-------------------|------------------|-------------------|
| USD  | 63.1581           | 72.8827          | 66.2367           |
| Euro | 70.8823           | 79.6972          | 74.5825           |

### **Use of estimates and judgments**

The preparation of consolidated interim condensed financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these consolidated interim condensed financial statements the critical judgments made by management in applying the accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

## **3 Significant accounting policies**

The accounting policies applied by the Group in the preparation of these consolidated interim condensed financial statements are consistent with those applied by the Group in the consolidated financial statements for the year ended 31 December 2015.

Certain amendments to IFRS became effective from 1 January 2016 and have been adopted by the Group since that date. These changes do not have a significant effect on the Group's consolidated interim condensed financial statements.

## 4 Net interest income

|  | Nine-Month<br>Period Ended<br>30 September 2016<br>RUB'000<br>(Unaudited) | Nine-Month<br>Period Ended<br>30 September 2015<br>RUB'000<br>(Unaudited) | Three-Month<br>Period Ended<br>30 September 2016<br>RUB'000<br>(Unaudited) | Three-Month<br>Period Ended<br>30 September 2015<br>RUB'000<br>(Unaudited) |
|--|---|---|--|--|
| <b>Interest income</b>   |   |   |  |  |
| Loans to customers   | 60 508 134  | 48 790 952  | 20 171 508   | 17 826 008   |
| Financial instruments at fair value through profit or loss and available-for-sale securities | 9 356 453   | 6 245 173   | 2 594 394  | 2 198 673  |
| Deposits in credit and other financial institutions and the CBR                              | 14 201 669  | 6 099 676   | 5 324 445  | 2 411 378  |
|  | <u>84 066 256</u>   | <u>61 135 801</u>   | <u>28 090 347</u>  | <u>22 436 059</u>  |
| <b>Interest expense</b>  |   |   |  |  |
| Deposits by customers  | (41 215 780)  | (31 558 733)  | (13 941 305)   | (10 895 888)   |
| Debt securities issued   | (7 995 399)   | (8 763 774)   | (2 579 062)  | (2 978 638)  |
| Deposits by credit and other financial institutions and the CBR                              | (3 493 745)   | (3 123 018)   | (670 877)  | (1 292 660)  |
|  | <u>(52 704 924)</u>   | <u>(43 445 525)</u>   | <u>(17 191 244)</u>  | <u>(15 167 186)</u>  |
| <b>Net interest income</b>   | <u>31 361 332</u>   | <u>17 690 276</u>   | <u>10 899 103</u>  | <u>7 268 873</u>   |

## 5 Net fee and commission income

|   | Nine-Month<br>Period Ended<br>30 September 2016<br>RUB'000<br>(Unaudited) | Nine-Month<br>Period Ended<br>30 September 2015<br>RUB'000<br>(Unaudited) | Three-Month<br>Period Ended<br>30 September 2016<br>RUB'000<br>(Unaudited) | Three-Month<br>Period Ended<br>30 September 2015<br>RUB'000<br>(Unaudited) |
|---|---|---|--|--|
| <b>Fee and commission income</b>              |   |   |  |  |
| Cash handling                                 | 1 921 130   | 943 763   | 638 399  | 337 285  |
| Plastic cards                                 | 1 676 181   | 1 356 009   | 596 590  | 481 243  |
| Guarantees and letters of credit              | 1 336 853   | 1 240 403   | 198 016  | 289 491  |
| Insurance contracts processing                | 1 288 494   | 871 408   | 579 062  | 419 960  |
| Settlements and wire transfers                | 1 237 010   | 750 308   | 470 510  | 124 838  |
| Other cash operations                         | 1 204 650   | 502 616   | 428 901  | 193 219  |
| Opening and maintenance of bank accounts      | 359 179   | 221 913   | 92 919   | 82 550   |
| Currency exchange commission                  | 356 898   | 257 826   | 143 027  | 110 231  |
| Other   | 90 079  | 295 164   | 9 226  | 100 954  |
|   | <u>9 470 474</u>  | <u>6 439 410</u>  | <u>3 156 650</u>   | <u>2 139 771</u>   |
| <b>Fee and commission expense</b>             |   |   |  |  |
| Settlements, wire transfers and plastic cards | (1 394 727)   | (983 281)   | (486 409)  | (314 018)  |
| Other   | (136 129)   | (180 096)   | (48 620)   | 461 981  |
|   | <u>(1 530 856)</u>  | <u>(1 163 377)</u>  | <u>(535 029)</u>   | <u>147 963</u>   |
| <b>Net fee and commission income</b>          | <u>7 939 618</u>  | <u>5 276 033</u>  | <u>2 621 621</u>   | <u>2 287 734</u>   |

## 6 Salaries, employment benefits and administrative expenses

|   | Nine-Month<br>Period Ended<br>30 September 2016<br>RUB'000<br>(Unaudited) | Nine-Month<br>Period Ended<br>30 September 2015<br>RUB'000<br>(Unaudited) | Three-Month<br>Period Ended<br>30 September 2016<br>RUB'000<br>(Unaudited) | Three-Month<br>Period Ended<br>30 September 2015<br>RUB'000<br>(Unaudited) |
|---|---|---|--|--|
| Salaries                                      | 4 442 572   | 2 985 030   | 1 499 982  | 1 022 031  |
| Social security costs                         | 1 163 296   | 810 570   | 355 103  | 242 829  |
| Other   | 77 454  | 95 138  | 27 060   | 32 364   |
| <b>Salaries and<br/>employment benefits</b>   | <b>5 683 322</b>  | <b>3 890 738</b>  | <b>1 882 145</b>   | <b>1 297 224</b>   |
| Occupancy                                     | 787 801   | 563 424   | 286 598  | 166 473  |
| Advertising and business<br>development       | 634 638   | 544 301   | 425 922  | 272 490  |
| Security                                      | 435 351   | 189 895   | 152 277  | 71 618   |
| Property maintenance                          | 403 876   | 217 128   | 167 425  | 76 449   |
| Operating taxes                               | 361 106   | 339 132   | 142 315  | 125 478  |
| Write-off of low-value<br>fixed assets        | 235 185   | 63 826  | 54 397   | 13 980   |
| Transport                                     | 178 539   | 86 061  | 7 909  | 25 370   |
| Property insurance                            | 140 128   | 79 243  | 45 788   | 28 483   |
| Communications                                | 120 644   | 76 159  | 44 487   | 39 683   |
| Computer maintenance<br>and software expenses | 114 043   | 103 573   | 35 162   | 49 836   |
| Legal and consulting<br>services              | 92 430  | 55 594  | 34 550   | 30 924   |
| Other   | 126 077   | 79 232  | 50 336   | 15 520   |
| <b>Administrative expenses</b>                | <b>3 629 818</b>  | <b>2 397 568</b>  | <b>1 447 166</b>   | <b>916 304</b>   |

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to profit or loss in the period the related compensation is earned by the employee.

## 7 Income tax

|                           | Nine-Month<br>Period Ended<br>30 September 2016<br>RUB'000<br>(Unaudited) | Nine-Month<br>Period Ended<br>30 September 2015<br>RUB'000<br>(Unaudited) |
|---------------------------|---|---|
| Current tax charge        | 3 951 595   | 573 735   |
| Deferred taxation         | (1 618 313)   | (162 631)   |
| <b>Income tax expense</b> | <b>2 333 282</b>  | <b>411 104</b>  |

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The statutory income tax rate for the Bank is 20% in 2016 and 2015.

## 8 Financial instruments at fair value through profit or loss

|   | 30 September 2016<br>RUB'000<br>(Unaudited) | 31 December 2015<br>RUB'000 |
|---|---|-----------------------------|
| <b><u>Held by the Group</u></b>   |   |                             |
| <b>Government and municipal bonds</b>                                   |   |                             |
| Russian Government Federal bonds (OFZ)                                  | 388 594                                     | 508 810                     |
| Russian Government eurobonds  | 4 972                                       | -                           |
| Moscow Government bonds   | -   | 223 936                     |
| Regional authorities and municipal bonds                                | 4 610 168                                   | 3 391 004                   |
| <b>Corporate bonds</b>  |   |                             |
| rated AAA   | -   | 170 475                     |
| from BBB+ to BBB-   | 24 885 348                                  | 22 847 946                  |
| from BB+ to BB-   | 12 801 323                                  | 20 382 401                  |
| from B+ to B-   | 12 455 141                                  | 15 260 063                  |
| not rated   | 6 934 343                                   | 5 771 732                   |
| <b>Derivative financial instruments</b>                                 | 625 256                                     | 926 190                     |
| <b>Total held by the Group</b>  | <b>62 705 145</b>                           | <b>69 482 557</b>           |
| <b><u>Pledged under sale and repurchase agreements</u></b>              |   |                             |
| <b>Government and municipal bonds</b>                                   |   |                             |
| Russian Government eurobonds  | 2 076 978                                   | -                           |
| Regional authorities and municipal bonds                                | -   | 2 303 352                   |
| <b>Corporate bonds</b>  |   |                             |
| from BBB+ to BBB-   | 821 185                                     | 219 288                     |
| from BB+ to BB-   | 1 735 631                                   | 131 792                     |
| <b>Total pledged under sale and repurchase agreements</b>               | <b>4 633 794</b>                            | <b>2 654 432</b>            |
| <b>Total financial instruments at fair value through profit or loss</b> | <b>67 338 939</b>                           | <b>72 136 989</b>           |

No financial instruments at fair value through profit or loss are past due.

As at 30 September 2016, debt instruments at fair value through profit or loss in the amount of RUB 55 125 362 thousand (31 December 2015: RUB 64 464 969 thousand) are qualified to be pledged against borrowings from the Central Bank of the Russian Federation.

## 9 Available-for-sale securities

|  | 30 September 2016<br>RUB'000<br>(Unaudited) | 31 December 2015<br>RUB'000 |
|--|---|-----------------------------|
| <b><u>Held by the Group</u></b>                            |   |                             |
| <b>Corporate bonds</b>                                     |   |                             |
| from BBB+ to BBB-  | 2 431 660                                   | 23 519 257                  |
| from BB+ to BB-  | 8 114 726                                   | 40 615 035                  |
| from B+ to B-  | 1 753 540                                   | 5 827 315                   |
| from CCC+ to CCC-  | 19 486                                      | 121 821                     |
| not rated  | 9 708 576                                   | 3 159 347                   |
| <b>Promissory notes</b>                                    |   |                             |
| from BB+ to BB-  | 4 378 640                                   | 8 389 557                   |
| from B+ to B-  | -   | 3 543 557                   |
| <b>Equity investments</b>                                  |   |                             |
|  | 111 657                                     | 111 267                     |
| <b>Total held by the Group</b>                             | <b>26 518 285</b>                           | <b>85 287 156</b>           |
| <b><u>Pledged under sale and repurchase agreements</u></b> |   |                             |
| <b>Corporate bonds</b>                                     |   |                             |
| from BBB+ to BBB-  | 7 256 113                                   | 249 696                     |
| from BB+ to BB-  | 21 172 941                                  | 1 866 057                   |
| <b>Total pledged under sale and repurchase agreements</b>  | <b>28 429 054</b>                           | <b>2 115 753</b>            |
| <b>Total available-for-sale securities</b>                 | <b>54 947 339</b>                           | <b>87 402 909</b>           |

No available-for-sale securities are past due.

As at 30 September 2016, debt instruments available for sale in the amount of RUB 45 351 773 thousand (31 December 2015: RUB 62 223 479 thousand) are qualified to be pledged against borrowings from the Central Bank of the Russian Federation.

## 10 Loans to customers

|  | 30 September 2016<br>RUB'000<br>(Unaudited) | 31 December 2015<br>RUB'000 |
|--|---|-----------------------------|
| Loans to corporate clients                   | 547 238 678                                 | 510 205 763                 |
| Impairment allowance                         | (28 478 630)                                | (27 782 541)                |
| <b>Total loans to corporate clients, net</b> | <b>518 760 048</b>                          | <b>482 423 222</b>          |
| <b>Loans to individuals</b>                  |   |                             |
| Auto loans                                   | 1 451 171                                   | 3 307 156                   |
| Mortgage loans                               | 23 749 522                                  | 21 559 432                  |
| Credit card loans                            | 3 906 978                                   | 4 141 275                   |
| Other loans to individuals                   | 76 844 245                                  | 90 725 254                  |
| Impairment allowance                         | (8 329 085)                                 | (9 091 074)                 |
| <b>Total loans to individuals, net</b>       | <b>97 622 831</b>                           | <b>110 642 043</b>          |
| <b>Total gross loans to customers</b>        | <b>653 190 594</b>                          | <b>629 938 880</b>          |
| <b>Impairment allowance</b>                  | <b>(36 807 715)</b>                         | <b>(36 873 615)</b>         |
| <b>Net loans to customers</b>                | <b>616 382 879</b>                          | <b>593 065 265</b>          |

### Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 30 September 2016 and 31 December 2015:

|                                       | <b>30 September 2016</b> | <b>31 December 2015</b> |
|---------------------------------------|--------------------------|-------------------------|
|                                       | <b>RUB'000</b>           | <b>RUB'000</b>          |
|                                       | <b>(Unaudited)</b>       |                         |
| <b>Loans to customers</b>             |                          |                         |
| - Not past due                        | 605 853 499              | 562 343 490             |
| - Not past due but impaired           | 10 722 297               | 21 794 590              |
| - Overdue less than 31 days           | 2 947 314                | 7 398 954               |
| - Overdue 31-60 days                  | 1 085 533                | 4 356 496               |
| - Overdue 61-90 days                  | 1 095 980                | 1 606 736               |
| - Overdue 91-180 days                 | 10 417 697               | 10 882 199              |
| - Overdue 181-360 days                | 6 614 586                | 18 205 851              |
| - Overdue more than 360 days          | 14 453 688               | 3 350 564               |
| <b>Total gross loans to customers</b> | <b>653 190 594</b>       | <b>629 938 880</b>      |
| <b>Impairment allowance</b>           | <b>(36 807 715)</b>      | <b>(36 873 615)</b>     |
| <b>Total net loans to customers</b>   | <b>616 382 879</b>       | <b>593 065 265</b>      |

Movements in the loan impairment allowance for the nine-month periods ended 30 September 2016 and 30 September 2015 are as follows:

|   | <b>Nine-Month</b>        | <b>Nine-Month</b>        |
|---|--------------------------|--------------------------|
|   | <b>Period Ended</b>      | <b>Period Ended</b>      |
|   | <b>30 September 2016</b> | <b>30 September 2015</b> |
|   | <b>RUB'000</b>           | <b>RUB'000</b>           |
|   | <b>(Unaudited)</b>       |                          |
| <b>Balance at the beginning of the period</b> | <b>36 873 615</b>        | <b>16 176 196</b>        |
| Net charge                                    | 24 046 848               | 14 585 203               |
| Net write-offs                                | (24 112 748)             | (3 575 467)              |
| <b>Balance at the end of the period</b>       | <b>36 807 715</b>        | <b>27 185 932</b>        |

As at 30 September 2016, net interest accrued on overdue and impaired loans amounts to RUB 1 533 359 thousand (31 December 2015: RUB 803 123 thousand).

### Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 30 September 2016 and 31 December 2015:

|   | <b>30 September 2016</b> | <b>31 December 2015</b> |
|---|--------------------------|-------------------------|
|   | <b>RUB'000</b>           | <b>RUB'000</b>          |
|   | <b>(Unaudited)</b>       |                         |
| <b>Loans to corporate clients</b>             |                          |                         |
| - Not past due                                | 511 783 416              | 456 119 669             |
| - Not past due but impaired                   | 10 722 297               | 21 794 590              |
| - Overdue less than 31 days                   | 1 154 000                | 5 906 042               |
| - Overdue 31-60 days                          | 143 384                  | 3 180 256               |
| - Overdue 61-90 days                          | 333 617                  | 213 323                 |
| - Overdue 91-180 days                         | 8 076 265                | 7 965 233               |
| - Overdue 181-360 days                        | 3 593 117                | 14 148 922              |
| - Overdue more than 360 days                  | 11 432 582               | 877 728                 |
| <b>Total gross loans to corporate clients</b> | <b>547 238 678</b>       | <b>510 205 763</b>      |
| <b>Impairment allowance</b>                   | <b>(28 478 630)</b>      | <b>(27 782 541)</b>     |
| <b>Total net loans to corporate clients</b>   | <b>518 760 048</b>       | <b>482 423 222</b>      |

As at 30 September 2016, the Group estimates loan impairment for loans to corporate clients based on an analysis of future cash flows for impaired loans and based on its internal credit rating adjusted for the value of collateral for portfolios of loans for which no indications of impairment have been identified. The key assumptions used in the analysis of future cash flows for impaired loans are based on the assessment of the value of collateral pledged to secure these loans when applicable. To estimate net realizable value of collateral for sale, management generally relies on market prices and professional judgment of internal appraisers, applying discount where appropriate.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus two percent, the impairment allowance as at 30 September 2016 would decrease/increase by RUB 10 375 201 thousand (31 December 2015: RUB 9 648 464 thousand).

#### *Analysis of movements in the impairment allowance*

Movements in the loan impairment allowance for loans to corporate clients for the nine-month periods ended 30 September 2016 and 30 September 2015 are as follows:

|   | <b>Nine-Month<br/>Period Ended<br/>30 September 2016<br/>RUB'000<br/>(Unaudited)</b> | <b>Nine-Month<br/>Period Ended<br/>30 September 2015<br/>RUB'000<br/>(Unaudited)</b> |
|---|--|--|
| <b>Balance at the beginning of the period</b> | <b>27 782 541</b>  | <b>8 366 428</b>   |
| Net charge                                    | 18 322 810   | 10 617 667   |
| Net write-offs                                | (17 626 721)   | (185 382)  |
| <b>Balance at the end of the period</b>       | <b>28 478 630</b>  | <b>18 798 713</b>  |

#### **Credit quality of loans to individuals**

The following table provides information on the credit quality of loans to individuals as at 30 September 2016:

| <b>RUB'000<br/>(Unaudited)</b>    | <b>Auto loans</b> | <b>Mortgage<br/>loans</b> | <b>Credit card<br/>loans</b> | <b>Other loans<br/>to individuals</b> | <b>Total</b>       |
|-----------------------------------|-------------------|---------------------------|------------------------------|---------------------------------------|--------------------|
| - Not past due                    | 1 343 862         | 21 371 679                | 3 574 949                    | 67 779 593                            | 94 070 083         |
| - Overdue less than 31 days       | 20 479            | 224 070                   | 34 419                       | 1 514 346                             | 1 793 314          |
| - Overdue 31-60 days              | 11 466            | 126 991                   | 150                          | 803 542                               | 942 149            |
| - Overdue 61-90 days              | 1 949             | 38 579                    | 20 314                       | 701 521                               | 762 363            |
| - Overdue 91-180 days             | 17 411            | 161 125                   | 59 858                       | 2 103 038                             | 2 341 432          |
| - Overdue 181-360 days            | 35 354            | 322 182                   | 125 616                      | 2 538 317                             | 3 021 469          |
| - Overdue more than 360           | 20 650            | 1 504 896                 | 91 672                       | 1 403 888                             | 3 021 106          |
| <b>Gross loans to individuals</b> | <b>1 451 171</b>  | <b>23 749 522</b>         | <b>3 906 978</b>             | <b>76 844 245</b>                     | <b>105 951 916</b> |
| <b>Impairment allowance</b>       | <b>(67 614)</b>   | <b>(1 158 464)</b>        | <b>(280 544)</b>             | <b>(6 822 463)</b>                    | <b>(8 329 085)</b> |
| <b>Net loans to individuals</b>   | <b>1 383 557</b>  | <b>22 591 058</b>         | <b>3 626 434</b>             | <b>70 021 782</b>                     | <b>97 622 831</b>  |

The following table provides information on the credit quality of loans to individuals as at 31 December 2015:

| <b>RUB'000</b>                    | <b>Auto loans</b> | <b>Mortgage loans</b> | <b>Credit card loans</b> | <b>Other loans to individuals</b> | <b>Total</b>       |
|-----------------------------------|-------------------|-----------------------|--------------------------|-----------------------------------|--------------------|
| - Not past due                    | 3 138 330         | 18 746 326            | 3 439 798                | 80 899 367                        | 106 223 821        |
| - Overdue less than 31 days       | 23 724            | 221 695               | 98                       | 1 247 395                         | 1 492 912          |
| - Overdue 31-60 days              | 9 525             | 78 073                | 39 944                   | 1 048 698                         | 1 176 240          |
| - Overdue 61-90 days              | 9 985             | 125 636               | 33 930                   | 1 223 862                         | 1 393 413          |
| - Overdue 91-180 days             | 33 199            | 1 085 725             | 122 832                  | 1 675 210                         | 2 916 966          |
| - Overdue 181-360 days            | 57 814            | 461 521               | 331 872                  | 3 205 722                         | 4 056 929          |
| - Overdue more than 360           | 34 579            | 840 456               | 172 801                  | 1 425 000                         | 2 472 836          |
| <b>Gross loans to individuals</b> | <b>3 307 156</b>  | <b>21 559 432</b>     | <b>4 141 275</b>         | <b>90 725 254</b>                 | <b>119 733 117</b> |
| <b>Impairment allowance</b>       | <b>(113 863)</b>  | <b>(902 046)</b>      | <b>(545 475)</b>         | <b>(7 529 690)</b>                | <b>(9 091 074)</b> |
| <b>Net loans to individuals</b>   | <b>3 193 293</b>  | <b>20 657 386</b>     | <b>3 595 800</b>         | <b>83 195 564</b>                 | <b>110 642 043</b> |

Management estimates loan impairment based on historical loss experience for these types of loans using historical loss migration patterns for the past twenty four months. The significant assumptions used by management in determining the impairment losses for loans to individuals is that loss migration rates and recovery rates are stable and can be estimated based on the historic loss migration pattern for the past twenty four months.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by three percent, the impairment allowance as at 30 September 2016 would increase/decrease by RUB 2 928 685 thousand (31 December 2015: RUB 3 319 261 thousand).

#### *Analysis of movements in the impairment allowance*

Movements in the loan impairment allowance by classes of loans to individuals for the nine-month period ended 30 September 2016 are as follows:

| <b>RUB'000<br/>(Unaudited)</b>                | <b>Auto loans</b> | <b>Mortgage loans</b> | <b>Credit card loans</b> | <b>Other loans to individuals</b> | <b>Total</b>     |
|---|-------------------|-----------------------|--------------------------|-----------------------------------|------------------|
| <b>Balance at the beginning of the period</b> | <b>113 863</b>    | <b>902 046</b>        | <b>545 475</b>           | <b>7 529 690</b>                  | <b>9 091 074</b> |
| Net charge                                    | 6 232             | 840 695               | 195 643                  | 4 681 468                         | 5 724 038        |
| Net write-offs                                | (52 481)          | (584 277)             | (460 574)                | (5 388 695)                       | (6 486 027)      |
| <b>Balance at the end of the period</b>       | <b>67 614</b>     | <b>1 158 464</b>      | <b>280 544</b>           | <b>6 822 463</b>                  | <b>8 329 085</b> |

Movements in the loan impairment allowance by classes of loans to individuals for the nine-month period ended 30 September 2015 are as follows:

| <b>RUB'000<br/>(Unaudited)</b>                | <b>Auto loans</b> | <b>Mortgage loans</b> | <b>Credit card loans</b> | <b>Other loans to individuals</b> | <b>Total</b>     |
|---|-------------------|-----------------------|--------------------------|-----------------------------------|------------------|
| <b>Balance at the beginning of the period</b> | <b>120 461</b>    | <b>305 563</b>        | <b>618 437</b>           | <b>6 765 307</b>                  | <b>7 809 768</b> |
| Net charge                                    | 122 695           | 286 308               | 207 436                  | 3 351 097                         | 3 967 536        |
| Net write-offs                                | (119 629)         | -                     | (282 076)                | (2 988 380)                       | (3 390 085)      |
| <b>Balance at the end of the period</b>       | <b>123 527</b>    | <b>591 871</b>        | <b>543 797</b>           | <b>7 128 024</b>                  | <b>8 387 219</b> |

## Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

|  | <b>30 September 2016</b><br><b>RUB'000</b><br><b>(Unaudited)</b> | <b>31 December 2015</b><br><b>RUB'000</b> |
|--|--|---|
| Loans to individuals                                       | 105 951 916  | 119 733 117                               |
| Oil and industrial chemicals                               | 97 559 935   | 95 427 480                                |
| Food and farm products                                     | 62 238 924   | 63 578 011                                |
| Services   | 57 638 362   | 61 159 187                                |
| Metallurgical  | 52 668 934   | 39 150 165                                |
| Financial  | 50 436 814   | 46 866 680                                |
| Automotive, motorcycles and spare parts                    | 47 901 186   | 42 089 711                                |
| Residential and commercial construction and development    | 43 520 415   | 38 573 473                                |
| Property rental  | 41 973 953   | 30 297 150                                |
| Industrial and infrastructure construction                 | 21 113 723   | 24 808 966                                |
| Pharmaceutical and medical products                        | 16 677 497   | 12 742 011                                |
| Industrial equipment and machinery                         | 13 009 532   | 6 098 559                                 |
| Construction and decorative materials, furniture           | 11 333 833   | 10 017 245                                |
| Clothing, shoes, textiles and sporting goods               | 10 039 410   | 10 503 336                                |
| Consumer electronics, appliances and computers             | 8 609 188  | 10 325 576                                |
| Telecommunications   | 6 629 863  | 4 023 846                                 |
| Paper, stationery and packaging products                   | 2 981 994  | 2 916 325                                 |
| Consumer chemicals, perfumes and hygiene products          | 970 749  | 2 689 256                                 |
| Books, video, print and copy                               | 513 361  | 323 184                                   |
| Gardening and pet products                                 | 305 030  | 329 515                                   |
| Products for home, gifts, jewelry and business accessories | 247 710  | 184 218                                   |
| Equipment leasing  | 148 341  | 32 812                                    |
| Electric utility   | 25 000   | 2 002 940                                 |
| Other  | 694 924  | 6 066 117                                 |
|  | <b>653 190 594</b>   | <b>629 938 880</b>                        |
| <b>Impairment allowance</b>                                | <b>(36 807 715)</b>  | <b>(36 873 615)</b>                       |
|  | <b>616 382 879</b>   | <b>593 065 265</b>                        |

## 11 Debt securities issued

|  | <b>30 September 2016</b><br><b>RUB'000</b><br><b>(Unaudited)</b> | <b>31 December 2015</b><br><b>RUB'000</b> |
|--|--|---|
| Promissory notes issued at nominal value | 1 275 881  | 1 059 000                                 |
| Accrued interest                         | -  | 265                                       |
| Unamortized discount                     | (6 797)  | (14 706)                                  |
| <b>Total promissory notes issued</b>     | <b>1 269 084</b>   | <b>1 044 559</b>                          |
| Bonds                                    | 63 182 309   | 73 901 654                                |
| Subordinated bonds                       | 42 986 545   | 46 208 552                                |
| <b>Total bonds issued</b>                | <b>106 168 854</b>   | <b>120 110 206</b>                        |
| <b>Total debt securities issued</b>      | <b>107 437 938</b>   | <b>121 154 765</b>                        |

## **12 Share capital**

Share capital consists of ordinary shares and was contributed by the shareholders in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital at 30 September 2016 comprises 23 879 709 866 shares (31 December 2015: 23 879 709 866 shares) with par value of 1 RUB per share. In addition, at 30 September 2016 the Bank has 12 396 448 142 authorized ordinary shares with an aggregate nominal value of RUB 12 396 million. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUB 861 930 thousand.

In 2015 the Bank issued 8 139 683 500 additional ordinary shares with a par value of 1 RUB per share under initial and secondary public offerings. The Bank raised RUB 29 690 654 thousand during these offerings.

## **13 Contingencies**

### **Insurance**

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

### **Litigation**

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

### **Taxation contingencies**

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period.

Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

## 14 Related party transactions

The outstanding balances with related parties and related average interest rates as at 30 September 2016 and 31 December 2015 are as follows:

|  | 30 September 2016<br>(Unaudited) |                                       | 31 December 2015  |                                       |
|--|----------------------------------|---------------------------------------|-------------------|---------------------------------------|
|  | Amount<br>RUB'000                | Average<br>effective<br>interest rate | Amount<br>RUB'000 | Average<br>effective<br>interest rate |
| <b>Loans to customers</b>                  |                                  |                                       |                   |                                       |
| Under control of majority beneficiary      | 6 893 850                        | 15.4%                                 | 991 190           | 17.4%                                 |
| Management                                 | 47 696                           | 17.3%                                 | 114 800           | 16.4%                                 |
| <b>Total loans to customers</b>            | <b>6 941 546</b>                 |                                       | <b>1 105 990</b>  |                                       |
| <b>Deposits by customers</b>               |                                  |                                       |                   |                                       |
| <b>Term deposits by customers</b>          |                                  |                                       |                   |                                       |
| Under control of majority beneficiary      | 318 155                          | 8.3%                                  | 266 381           | 10.8%                                 |
| Parent company                             | 253 200                          | 9.8%                                  | 14 207            | 10.0%                                 |
| Management                                 | 213 326                          | 6.6%                                  | 191 100           | 7.8%                                  |
| Majority beneficiary                       | 153 295                          | 4.9%                                  | 282 176           | 13.2%                                 |
| <b>Total term deposits by customers</b>    | <b>937 976</b>                   |                                       | <b>753 864</b>    |                                       |
| <b>Current accounts by customers</b>       |                                  |                                       |                   |                                       |
| Under control of majority beneficiary      | 86 586                           |                                       | 210 502           |                                       |
| Management                                 | 18 091                           |                                       | 8 485             |                                       |
| Parent company                             | 8 575                            |                                       | 41 817            |                                       |
| Majority beneficiary                       | 740                              |                                       | 355               |                                       |
| <b>Total current accounts by customers</b> | <b>113 992</b>                   |                                       | <b>261 159</b>    |                                       |
| <b>Total deposits by customers</b>         | <b>1 051 968</b>                 |                                       | <b>1 015 023</b>  |                                       |
| <b>Guarantees issued</b>                   |                                  |                                       |                   |                                       |
| Under control of majority beneficiary      | 752 430                          |                                       | 4 287 052         |                                       |
| <b>Total guarantees</b>                    | <b>752 430</b>                   |                                       | <b>4 287 052</b>  |                                       |

Amounts included in profit or loss and other comprehensive income for the nine-month periods ended 30 September 2016 and 30 September 2015 in relation to transactions with related parties are as follows:

|  | Nine-Month<br>Period Ended<br>30 September 2016<br>RUB'000<br>(Unaudited) | Nine-Month Period<br>Ended<br>30 September 2015<br>RUB'000<br>(Unaudited) |
|--|---|---|
| <b>Interest income on loans to customers</b> |   |   |
| Under control of majority beneficiary        | 415 557   | 80 463  |
| Management                                   | 6 686   | 2 676   |
| Parent company                               | 2 276   | -   |

|  | <b>Nine-Month<br/>Period Ended<br/>30 September 2016<br/>RUB'000<br/>(Unaudited)</b> | <b>Nine-Month Period<br/>Ended<br/>30 September 2015<br/>RUB'000<br/>(Unaudited)</b> |
|--|--|--|
| Majority beneficiary                             | -  | 151 756  |
| <b>Total interest income</b>                     | <b>424 519</b>   | <b>234 895</b>   |
| <b>Interest expense on deposits by customers</b> |  |  |
| Under control of majority beneficiary            | 228 831  | 8 277  |
| Parent company                                   | 59 609   | 66 415   |
| Majority beneficiary                             | 17 669   | 18 758   |
| Management                                       | 10 812   | 10 614   |
| <b>Total interest expense</b>                    | <b>316 921</b>   | <b>104 064</b>   |

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the nine-month periods ended 30 September 2016 and 30 September 2015 (refer to note 6) is as follows:

|                                       | <b>Nine-Month<br/>Period Ended<br/>30 September 2016<br/>RUB'000<br/>(Unaudited)</b> | <b>Nine-Month<br/>Period Ended<br/>30 September 2015<br/>RUB'000<br/>(Unaudited)</b> |
|---------------------------------------|--|--|
| Board Members of the Management Board | 72 648   | 65 370   |
| Members of the Supervisory Board      | 59 456   | 53 523   |
|                                       | <b>132 104</b>   | <b>118 893</b>   |

## 15 Capital management

The CBR sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. The Group calculates the amount of capital in accordance with Provision of the CBR dated 28 December 2012 No. 395-P On methodology of calculation of own funds (capital) of the credit organizations (Basel III) (Provision of the CBR No. 395-P).

As at 30 September 2016, minimum level of main capital ratio (ratio N20.2) is 6.0%, basic capital ratio (ratio N20.1) is 4.5%, own funds (capital) ratio (ratio N20.0) is 8.0% (31 December 2015: 6.0%, 5.0%, 10.0%, respectively).

Management believes that the Group maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Group provides the territorial CBR offices that supervise the Bank with information on mandatory ratios in accordance with regulatory requirements. The Accounting Department controls on a daily basis compliance with capital adequacy ratios.

In case capital adequacy ratios become close to limits set by the CBR and the Group's internal limits this information is communicated to the Management Board and the Supervisory Board. The Group is in compliance with the statutory capital ratios as at 30 September 2016 and 31 December 2015.

The capital adequacy ratio of the Group calculated in accordance with the Basel III requirements as adopted in the Russian Federation, based on the consolidated IFRS financial statements as at 30 September 2016 and 31 December 2015 is as follows:

|   | <b>30 September 2016</b><br><b>RUB'000</b><br><b>(Unaudited)</b> | <b>31 December 2015</b><br><b>RUB'000</b> |
|---|--|---|
| <b>Tier 1 capital</b>   |  |   |
| Share capital and additional paid-in capital  | 59 789 103   | 59 789 103                                |
| Retained earnings   | 39 902 247   | 31 560 113                                |
| Intangible assets   | (314 250)  | (354 719)                                 |
| <b>Core tier 1</b>  | <b>99 377 100</b>  | <b>90 994 497</b>                         |
| <b>Total tier 1 capital</b>   | <b>99 377 100</b>  | <b>90 994 497</b>                         |
| <b>Tier 2 capital</b>   |  |   |
| Revaluation surplus for buildings   | 769 176  | 769 176                                   |
| Revaluation reserve for investments available-for-sale  | 860 404  | 220 070                                   |
| <b>Subordinated loans</b>   |  |   |
| Subordinated loans  | 39 235 272   | 42 291 275                                |
| Subordinated bonds  | 21 065 285   | 28 277 204                                |
| <b>Total tier 2 capital</b>   | <b>61 930 137</b>  | <b>71 557 725</b>                         |
| <b>Total capital</b>  | <b>161 307 237</b>   | <b>162 552 222</b>                        |
| <b>Risk-weighted assets</b>   |  |   |
| Banking book  | 743 921 246  | 749 365 459                               |
| Trading book  | 127 129 009  | 179 465 196                               |
| Operational risk  | 57 449 960   | 57 449 960                                |
| <b>Total risk weighted assets</b>   | <b>928 500 215</b>   | <b>986 280 615</b>                        |
| <b>Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)</b>              | <b>17.4</b>  | <b>16.5</b>                               |
| <b>Total tier 1 capital expressed as a percentage of risk-weighted assets (Core tier 1 capital ratio) (%)</b> | <b>10.7</b>  | <b>9.2</b>                                |
| <b>Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)</b>      | <b>10.7</b>  | <b>9.2</b>                                |

Included in subordinated bonds in tier 2 capital are subordinated bonds in the amount of RUB 15 860 368 thousand (31 December 2015: RUB 23 398 755 thousand) which are fully in compliance with Basel III requirements as adopted in the Russian Federation. Subordinated loans are subject to accelerated amortization, following the transition rules applied by the CBR for inclusion in tier 2 capital of subordinated loans received before March 2013.

In June 2015 the State Corporation "Deposit Insurance Agency" provided a subordinated loan of RUB 20 231 000 thousand to the Bank in a form of federal loan bonds (OFZ). The Bank has an obligation to return securities received back to the lender at the maturity of the agreement. The Bank pays charges equal to coupons on the bonds transferred plus a fixed margin. The contract also includes certain restrictions on ability of the Bank to sell or pledge securities received. The arrangement is a securities lending transaction. The Group does not recognize securities received and a subordinated obligation to return them to the lender in the consolidated interim condensed statement of financial position of the Group. The obligation to return securities received to the State Corporation "Deposit Insurance Agency" is subordinated to other ordinary obligations of the

Group and the terms of the loan satisfy the criteria for inclusion of the loan into the regulatory capital of the Bank in accordance with Russian banking legislation. As such, the Bank includes the amount of the subordinated loan described above into its Tier 2 capital for the purpose of statutory regulatory capital and capital calculated for capital management purposes in accordance with Basel III.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees.

## 16 Analysis by segment

The Group has four reportable segments, as described below, which are strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate banking: comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guaranties, corporate deposit taking, settlements and money transfer, currency conversion
- Retail banking: comprises retail demand and term deposit services; retail lending, including car loans, mortgages and other loans to individuals, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals
- Treasury: comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes
- Cash operations: comprises all operations connected with cash, cash handling, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on consolidated financial information prepared in accordance with IFRS, as included in the internal management reports that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The segment breakdown of assets and liabilities is set out below:

|                          | 30 September 2016<br>RUB'000<br>(Unaudited) | 31 December 2015<br>RUB'000 |
|--------------------------|---|-----------------------------|
| <b>ASSETS</b>            |   |                             |
| Corporate banking        | 525 178 088                                 | 487 032 141                 |
| Retail banking           | 99 935 735                                  | 111 969 235                 |
| Treasury                 | 645 059 410                                 | 557 505 468                 |
| Cash operations          | 11 715 850                                  | 17 344 885                  |
| Unallocated assets       | 30 060 275                                  | 34 348 899                  |
| <b>Total assets</b>      | <b>1 311 949 358</b>                        | <b>1 208 200 628</b>        |
| <b>LIABILITIES</b>       |   |                             |
| Corporate banking        | 629 770 476                                 | 697 763 224                 |
| Retail banking           | 226 953 816                                 | 200 929 007                 |
| Treasury                 | 346 590 079                                 | 209 859 325                 |
| Unallocated liabilities  | 7 291 937                                   | 7 310 610                   |
| <b>Total liabilities</b> | <b>1 210 606 308</b>                        | <b>1 115 862 166</b>        |

Segment information for the main reportable segments for the nine-month period ended 30 September 2016 is set below:

| <b>RUB'000 (Unaudited)</b>                | <b>Corporate banking</b> | <b>Retail banking</b> | <b>Treasury</b>     | <b>Cash operations</b> | <b>Unallocated</b> | <b>Total</b>        |
|---|--------------------------|-----------------------|---------------------|------------------------|--------------------|---------------------|
| External interest income                  | 46 350 355               | 14 157 779            | 23 558 122          | -                      | -                  | 84 066 256          |
| Fee and commission income                 | 2 540 996                | 3 650 513             | 153 185             | 3 125 780              | -                  | 9 470 474           |
| Net gain on securities                    | -                        | -                     | 1 552 316           | -                      | -                  | 1 552 316           |
| Net foreign exchange gains                | 464 579                  | 88 481                | 3 042 101           | -                      | -                  | 3 595 161           |
| Other operating income, net               | 733 052                  | 143 433               | 97 448              | -                      | -                  | 973 933             |
| Revenue (expenses) from other segments    | 6 026 956                | 7 079 245             | (13 418 356)        | 312 155                | -                  | -                   |
| <b>Revenue</b>                            | <b>56 115 938</b>        | <b>25 119 451</b>     | <b>14 984 816</b>   | <b>3 437 935</b>       | <b>-</b>           | <b>99 658 140</b>   |
| Impairment losses on loans                | (18 322 810)             | (5 724 038)           | -                   | -                      | -                  | (24 046 848)        |
| Interest expense                          | (27 354 920)             | (13 860 860)          | (11 489 144)        | -                      | -                  | (52 704 924)        |
| Fee and commission expense                | (1 318 642)              | (135 698)             | (76 516)            | -                      | -                  | (1 530 856)         |
| General administrative and other expenses | (3 516 131)              | (3 093 840)           | (244 218)           | (1 246 148)            | (2 599 759)        | (10 700 096)        |
| <b>Expense</b>                            | <b>(50 512 503)</b>      | <b>(22 814 436)</b>   | <b>(11 809 878)</b> | <b>(1 246 148)</b>     | <b>(2 599 759)</b> | <b>(88 982 724)</b> |
| <b>Segment result</b>                     | <b>5 603 435</b>         | <b>2 305 015</b>      | <b>3 174 938</b>    | <b>2 191 787</b>       | <b>(2 599 759)</b> | <b>10 675 416</b>   |

Segment information for the main reportable segments for the nine-month period ended 30 September 2015 is set below:

| <b>RUB'000 (Unaudited)</b>                | <b>Corporate banking</b> | <b>Retail banking</b> | <b>Treasury</b>     | <b>Cash operations</b> | <b>Unallocated</b> | <b>Total</b>        |
|---|--------------------------|-----------------------|---------------------|------------------------|--------------------|---------------------|
| External interest income                  | 33 382 642               | 15 408 310            | 12 344 849          | -                      | -                  | 61 135 801          |
| Fee and commission income                 | 1 522 209                | 3 331 989             | 138 833             | 1 446 379              | -                  | 6 439 410           |
| Net gain on securities                    | -                        | -                     | 553 209             | -                      | -                  | 553 209             |
| Net foreign exchange gains                | 978 750                  | 37 042                | 126 262             | -                      | -                  | 1 142 054           |
| Revenue (expenses) from other segments    | 564 365                  | (3 253 540)           | 1 958 536           | 730 639                | -                  | -                   |
| <b>Revenue</b>                            | <b>36 447 966</b>        | <b>15 523 801</b>     | <b>15 121 689</b>   | <b>2 177 018</b>       | <b>-</b>           | <b>69 270 474</b>   |
| Impairment losses on loans                | (10 617 667)             | (3 967 536)           | -                   | -                      | -                  | (14 585 203)        |
| Interest expense                          | (16 926 177)             | (14 632 556)          | (11 886 792)        | -                      | -                  | (43 445 525)        |
| Fee and commission expense                | (985 944)                | (112 652)             | (64 781)            | -                      | -                  | (1 163 377)         |
| Other operating expense                   | (210 702)                | (16 013)              | (11 879)            | -                      | -                  | (238 594)           |
| General administrative and other expenses | (1 047 068)              | (2 937 605)           | (128 918)           | (1 223 025)            | (2 554 807)        | (7 891 423)         |
| <b>Expense</b>                            | <b>(29 787 558)</b>      | <b>(21 666 362)</b>   | <b>(12 092 370)</b> | <b>(1 223 025)</b>     | <b>(2 554 807)</b> | <b>(67 324 122)</b> |
| <b>Segment result</b>                     | <b>6 660 408</b>         | <b>(6 142 561)</b>    | <b>3 029 319</b>    | <b>953 993</b>         | <b>(2 554 807)</b> | <b>1 946 352</b>    |

### Information about major customers and geographical areas

The majority of revenues from external customers relate to residents of the Russian Federation. The majority of non-current assets are located in the Russian Federation.

## 17 Financial assets and liabilities: fair values and accounting classifications

### Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 30 September 2016:

| RUB'000 (unaudited)  | Held for trading  | Loans and receivables | Available-for-sale | Other amortised cost | Total carrying amount | Fair value           |
|--|-------------------|-----------------------|--------------------|----------------------|-----------------------|----------------------|
| Cash and cash equivalents                                  | -                 | 214 238 296           | -                  | -                    | 214 238 296           | 214 238 296          |
| Obligatory reserves with the CBR                           | -                 | 8 730 944             | -                  | -                    | 8 730 944             | 8 730 944            |
| Deposits in credit and other financial institutions        | -                 | 320 250 686           | -                  | -                    | 320 250 686           | 320 250 686          |
| Financial instruments at fair value through profit or loss | 67 338 939        | -                     | -                  | -                    | 67 338 939            | 67 338 939           |
| Available-for-sale securities                              | -                 | -                     | 54 947 339         | -                    | 54 947 339            | 54 835 682           |
| Loans to customers   | -                 | 616 382 879           | -                  | -                    | 616 382 879           | 617 180 515          |
| Other financial assets                                     | -                 | 1 960 657             | -                  | -                    | 1 960 657             | 1 960 657            |
|  | <b>67 338 939</b> | <b>1 161 563 462</b>  | <b>54 947 339</b>  | <b>-</b>             | <b>1 283 849 740</b>  | <b>1 284 535 719</b> |
| Deposits by the CBR  | -                 | -                     | -                  | 4 263 336            | 4 263 336             | 4 263 336            |
| Deposits by credit and other financial institutions        | -                 | -                     | -                  | 234 888 805          | 234 888 805           | 234 888 805          |
| Deposits by customers                                      | -                 | -                     | -                  | 856 724 292          | 856 724 292           | 861 482 501          |
| Debt securities issued                                     | -                 | -                     | -                  | 107 437 938          | 107 437 938           | 111 263 377          |
| Other financial liabilities                                | 876 940           | -                     | -                  | 796 495              | 1 673 435             | 1 673 435            |
|  | <b>876 940</b>    | <b>-</b>              | <b>-</b>           | <b>1 204 110 866</b> | <b>1 204 987 806</b>  | <b>1 213 571 454</b> |

The main assumptions used by management to estimate the fair values of financial instruments as at 30 September 2016 are:

- discount rates from 10.5% to 18.2% (roubles) and from 2.5% to 10.0% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 13.6% to 28.2% (roubles) and from 11.0% to 13.4% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 5.5% to 13.9% (roubles) and from 0.2% to 2.0% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 8.3% to 10.5% (roubles) and from 0.8% to 2.0% (foreign currency) are used for discounting future cash flows from retail deposits.

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2015:

| <b>RUB'000</b>   | <b>Held for trading</b> | <b>Loans and receivables</b> | <b>Available-for-sale</b> | <b>Other amortised cost</b> | <b>Total carrying amount</b> | <b>Fair value</b>    |
|--|-------------------------|------------------------------|---------------------------|-----------------------------|------------------------------|----------------------|
| Cash and cash equivalents                                  | -                       | 138 014 586                  | -                         | -                           | 138 014 586                  | 138 014 586          |
| Obligatory reserves with the CBR                           | -                       | 5 936 111                    | -                         | -                           | 5 936 111                    | 5 936 111            |
| Deposits in credit and other financial institutions        | -                       | 277 295 869                  | -                         | -                           | 277 295 869                  | 277 295 869          |
| Financial instruments at fair value through profit or loss | 72 136 989              | -                            | -                         | -                           | 72 136 989                   | 72 136 989           |
| Available-for-sale securities                              | -                       | -                            | 87 402 909                | -                           | 87 402 909                   | 87 402 909           |
| Loans to customers   | -                       | 593 065 265                  | -                         | -                           | 593 065 265                  | 598 244 308          |
| Other financial assets                                     | -                       | 2 433 915                    | -                         | -                           | 2 433 915                    | 2 433 915            |
|  | <b>72 136 989</b>       | <b>1 016 745 746</b>         | <b>87 402 909</b>         | <b>-</b>                    | <b>1 176 285 644</b>         | <b>1 181 464 687</b> |
| Deposits by the CBR  | -                       | -                            | -                         | 4 044 647                   | 4 044 647                    | 4 044 647            |
| Deposits by credit and other financial institutions        | -                       | -                            | -                         | 84 659 913                  | 84 659 913                   | 84 659 913           |
| Deposits by customers                                      | -                       | -                            | -                         | 898 692 231                 | 898 692 231                  | 912 243 118          |
| Debt securities issued                                     | -                       | -                            | -                         | 121 154 765                 | 121 154 765                  | 119 441 817          |
| Other financial liabilities                                | 782 834                 | -                            | -                         | 911 320                     | 1 694 154                    | 1 694 154            |
|  | <b>782 834</b>          | <b>-</b>                     | <b>-</b>                  | <b>1 109 462 876</b>        | <b>1 110 245 710</b>         | <b>1 122 083 649</b> |

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2015 are:

- discount rates from 12.1% to 15.5% (roubles) and from 4.5% to 10.8% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 13.3% to 28.2% (roubles) and from 10.4% to 19.0% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 9.5% to 12.0% (roubles) and from 2.0% to 4.9% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 8.0% to 12.0% (roubles) and from 1.3% to 3.0% (foreign currency) are used for discounting future cash flows from retail deposits;

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market-observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates used in estimating discount rates and foreign currency exchange rates.

The Group uses widely recognized valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter derivatives such as interest rate swaps.

There is no active market for loans to customers. The estimation of fair value for loans to customers is based on management's assumptions.

### **Fair value hierarchy**

The Group measures fair values for financial instruments recorded in the consolidated interim condensed statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following tables show an analysis of financial instruments recorded at fair value and financial instruments recorded at amortized cost for which fair value does not approximate their carrying amount as at 30 September 2016 and 31 December 2015:

| <b>30 September 2016<br/>(Unaudited)</b>              | <b>Level 1<br/>RUB'000</b> | <b>Level 2<br/>RUB'000</b> | <b>Level 3<br/>RUB'000</b> | <b>Valuation technique<br/>used for Level 2 and 3</b> | <b>Total<br/>RUB'000</b> |
|---|----------------------------|----------------------------|----------------------------|---|--------------------------|
| Financial assets at fair value through profit or loss | 66 713 683                 | 625 256                    | -                          | Discounted cash flows                                 | <b>67 338 939</b>        |
| Available-for-sale securities                         | 50 457 042                 | 4 378 640                  | -                          | Discounted cash flows                                 | <b>54 835 682</b>        |
| Loans to customers                                    | -                          | -                          | 617 180 515                | Discounted cash flows                                 | <b>617 180 515</b>       |
| Deposits by customers                                 | -                          | 861 482 501                | -                          | Discounted cash flows                                 | <b>861 482 501</b>       |
| Debt securities issued                                | 109 994 293                | 1 269 084                  | -                          | Discounted cash flows                                 | <b>111 263 377</b>       |
| Other financial liabilities - Derivatives             | -                          | 876 940                    | -                          | Discounted cash flows                                 | <b>876 940</b>           |

| 31 December 2015                                      | Level 1<br>RUB'000 | Level 2<br>RUB'000 | Level 3<br>RUB'000 | Valuation technique<br>used for Level 2 and 3 | Total<br>RUB'000   |
|---|--------------------|--------------------|--------------------|---|--------------------|
| Financial assets at fair value through profit or loss | 71 210 799         | 926 190            | -                  | Discounted cash flows                         | <b>72 136 989</b>  |
| Available-for-sale securities                         | 74 338 170         | 13 064 739         | -                  | Discounted cash flows                         | <b>87 402 909</b>  |
| Loans to customers                                    | -                  | -                  | 598 244 308        | Discounted cash flows                         | <b>598 244 308</b> |
| Deposits by customers                                 | -                  | 912 243 118        | -                  | Discounted cash flows                         | <b>912 243 118</b> |
| Debt securities issued                                | 118 397 258        | 1 044 559          | -                  | Discounted cash flows                         | <b>119 441 817</b> |
| Other financial liabilities - Derivatives             | -                  | 782 834            | -                  | Discounted cash flows                         | <b>782 834</b>     |

During nine-month periods ended 30 September 2016 there were no transfers of assets between Level 1 and Level 2.

## 18 Earnings per share

Basic earnings per share are calculated by dividing profit for the period by the weighted average number of ordinary shares in issue during the period.

Basic earnings per share are calculated as follows:

|  | 30 September 2016<br>RUB'000<br>(Unaudited) | 30 September 2015<br>RUB'000<br>(Unaudited) |
|--|---|---|
| Profit for the period  | 8 342 134                                   | 1 535 248                                   |
| Weighted average number of ordinary shares in issue            | 23 879 709 866                              | 16 674 284 355                              |
| <b>Basic and diluted earnings per share (in RUB per share)</b> | <b>0.35</b>                                 | <b>0.09</b>                                 |

## 19 Events subsequent to the reporting date

In October 2016 the Bank paid out the 6th coupon in the amount of RUB 307.1 million or RUB 61.42 per one bond on exchange bonds series BO-06. The issue was originally placed on 24 October 2013 with a maturity of 5 years. The nominal value of the issue is RUB 5 billion.

In October 2016 the Bank paid out the 6th coupon on exchange bonds series BO-07 in amount of RUB 319.3 million or RUB 45.62 per one bond. The issue was originally placed on 30 October 2013 with a maturity of 5 years. The nominal value of the issue is RUB 15 billion.

In October 2016 the Bank placed a Loan Participation Notes issue in the total amount of USD 500 million with fixed coupon rate of 5.875% p.a. at par and maturity of 5 years.

In October 2016 MKB-leasing placed a domestic bonds issue series 01 in the total amount of RUB 3 billion with maturity of 5 years and a coupon rate of 12.50% p.a., applicable for 1-3 coupon periods.

In November 2016 the Bank acquired 4 763 157 domestic exchange bonds series BO-07 from the holders based on a put option at the price 100% of par value. The issue was originally placed on 30 October 2013 with a maturity of 5 years. The total amount of the issue is RUB 7 billion, the par value of each bond is RUB 1,000.

In November 2016 CBOM Finance p.l.c. paid out the 7th coupon in the amount of USD 21.75 million on subordinated Loan Participation Notes. The issue was originally placed in May 2013 with a maturity of 5.5 years. The nominal value of the issue is RUB 500 million.

In November 2016 Nicholas Haag and Bernard Sucher, previously Members of the Supervisory Board, left the Supervisory Board. Ilkka Seppo Salonen and Andreas Klingen were appointed Members of Supervisory Board.

Chairman of the Management Board

Chief Accountant

22 November 2016



Vladimir A. Chubar

Svetlana V. Sass