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

Consolidated Interim Condensed
Financial Statements
for the three-month period
ended 31 March 2017

# Contents

JSC "KPMG"
10 Presnenskaya Naberezhnaya
Moscow, Russia 123112

| | |
|---|---|
| Telephone | +7 (495) 937 4477 |
| Fax | +7 (495) 937 4400/99 |
| Internet | www.kpmg.ru |


# Independent 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 31 March 2017, and the related consolidated interim condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended, 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).

Registration No. in the Unified State Register of Legal Entities 1027739555282.

Moscow, Russian Federation.

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.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organisation of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the 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 31 March 2017 and for the three-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.*

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628 МОСКВА
КПМГ
KPMG

Kolosov A.E.

Director

JSC "KPMG"

Moscow, Russian Federation

19 May 2017

*(in millions of Russian Roubles unless otherwise stated)*

| | Notes | Three-Month Period Ended 31 March 2017 (Unaudited) | Three-Month Period Ended 31 March 2016 (Unaudited) |
|---|---|---|---|
| Interest income | 4 | 31 130 | 27 494 |
| Interest expense | 4 | (20 708) | (18 348) |
| **Net interest income** | 4 | **10 422** | **9 146** |
| Provision for impairment of loans | 10 | (4 816) | (7 149) |
| **Net interest income after provision for impairment of loans** | | **5 606** | **1 997** |
| Fee and commission income | 5 | 4 259 | 3 011 |
| Fee and commission expense | 5 | (519) | (477) |
| Net gain (loss) on financial instruments at fair value through profit or loss | | 245 | (106) |
| Net realized gain (loss) on available-for-sale assets | | 77 | (32) |
| Net foreign exchange (losses) gains | | (299) | 811 |
| State deposit insurance scheme contributions | | (292) | (185) |
| Operating lease income | | 415 | - |
| Other operating (losses) income, net | | (37) | 204 |
| **Non-interest income** | | **3 849** | **3 226** |
| **Operating income** | | **9 455** | **5 223** |
| Salaries and employment benefits | 6 | (2 190) | (1 897) |
| Administrative expenses | 6 | (1 073) | (954) |
| Depreciation of property and equipment | | (452) | (180) |
| Recovery of (provision for) impairment of other assets and credit related commitments | | 209 | (114) |
| **Operating expense** | | **(3 506)** | **(3 145)** |
| **Profit before income taxes** | | **5 949** | **2 078** |
| Income tax | 7 | (1 356) | (421) |
| **Profit for the period** | | **4 593** | **1 657** |
| **Other comprehensive (loss) income** | | | |
| *Items that are or may be reclassified subsequently to profit or loss:* | | | |
| Revaluation reserve for available-for-sale securities: | | | |
| - net change in fair value | | 65 | 1 002 |
| - net change in fair value transferred to profit or loss | | (171) | (136) |
| Exchange differences on translation | | 17 | - |
| Income tax related to other comprehensive (loss) income | | 14 | (173) |
| **Other comprehensive (loss) income for the period, net of income tax** | | **(75)** | **693** |
| **Total comprehensive income for the period** | | **4 518** | **2 350** |
| **Basic and diluted earnings per share (in RUB per share)** | 20 | **0.19** | **0.07** |

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

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

*(in millions of Russian Roubles unless otherwise stated)*

| | Notes | 31 March 2017 (Unaudited) | 31 December 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | 369 362 | 373 327 |
| Obligatory reserves with the Central Bank of the Russian Federation | | 8 474 | 7 287 |
| Deposits in credit and other financial institutions | | 328 237 | 403 480 |
| Financial instruments at fair value through profit or loss | 8 | 68 513 | 83 909 |
| - *pledged under sale and repurchase agreements* | *8* | *11 025* | *6 544* |
| Available-for-sale securities | 9 | 45 133 | 45 903 |
| - *pledged under sale and repurchase agreements* | *9* | *19 561* | *19 818* |
| Loans to customers | 10 | 642 665 | 626 535 |
| - *loans to corporate clients* | *10* | *553 043* | *533 470* |
| - *loans to individuals* | *10* | *89 622* | *93 065* |
| Property and equipment | | 20 060 | 21 278 |
| Deferred tax asset | | 529 | - |
| Other assets | | 5 749 | 6 250 |
| **Total assets** | | **1 488 722** | **1 567 969** |
| **LIABILITIES AND EQUITY** | | | |
| Deposits by the Central Bank of the Russian Federation | 11 | 199 823 | 247 170 |
| Deposits by credit institutions | 12 | 288 345 | 381 624 |
| Deposits by customers | | 760 531 | 689 496 |
| - *deposits by corporate customers* | | *500 395* | *440 842* |
| - *deposits by individuals* | | *260 136* | *248 654* |
| Debt securities issued | 13 | 123 553 | 137 203 |
| Deferred tax liability | | 94 | 190 |
| Other liabilities | | 8 457 | 8 885 |
| **Total liabilities** | | **1 380 803** | **1 464 568** |
| **Equity** | | | |
| Share capital | 14 | 24 742 | 24 742 |
| Additional paid-in capital | | 35 047 | 35 047 |
| Revaluation surplus for buildings | | 688 | 688 |
| Revaluation reserve for available-for-sale securities | | 366 | 451 |
| Currency translation reserve | | 49 | 39 |
| Retained earnings | | 47 027 | 42 434 |
| **Total equity** | | **107 919** | **103 401** |
| **Total liabilities and equity** | | **1 488 722** | **1 567 969** |

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.

*(in millions of Russian Roubles unless otherwise stated)*

| | Three-Month Period Ended 31 March 2017 (Unaudited) | Three-Month Period Ended 31 March 2016 (Unaudited) |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Interest receipts | 29 394 | 24 577 |
| Interest payments | (21 031) | (15 822) |
| Fees and commission receipts | 4 081 | 3 181 |
| Fees and commission payments | (514) | (477) |
| Net receipts from operations with securities | 157 | 103 |
| Net receipts from foreign exchange | 5 723 | 1 433 |
| State deposit insurance scheme contributions payments | (281) | (190) |
| Net other operating income receipts | 85 | 256 |
| Operating leases income receipts | 415 | - |
| Salaries and employment benefits paid | (1 881) | (1 621) |
| Administrative expenses paid | (1 007) | (942) |
| Income tax paid | (1 055) | (148) |
| **Operating cash flows before changes in operating assets and liabilities** | **14 086** | **10 350** |
| **(Increase) decrease in operating assets** | | |
| Obligatory reserves with the Central Bank of the Russian Federation | (1 187) | (1 495) |
| Deposits in credit and other financial institutions | 54 880 | (106 944) |
| Financial instruments at fair value through profit or loss | 11 120 | 5 957 |
| Loans to customers | (30 858) | (18 919) |
| Other assets | 47 | 567 |
| **Increase (decrease) in operating liabilities** | | |
| Deposits by the Central Bank of the Russian Federation | (33 381) | 16 172 |
| Deposits by credit institutions except syndicated and subordinated loans | (109 044) | 149 004 |
| Deposits by customers except subordinated loans | 94 532 | 39 419 |
| Promissory notes issued | (1 113) | (1 059) |
| Other liabilities | (485) | 788 |
| **Net cash (used in) from operations** | **(1 403)** | **93 840** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of available-for-sale securities | (11 154) | (18 523) |
| Proceeds from disposal and redemption of available-for-sale securities | 10 339 | 6 864 |
| Net purchase of property and equipment | (243) | (256) |
| **Net cash used in investing activities** | **(1 058)** | **(11 915)** |

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.

*(in millions of Russian Roubles unless otherwise stated)*

| | Three-Month Period Ended 31 March 2017 (Unaudited) | Three-Month Period Ended 31 March 2016 (Unaudited) |
|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from syndicated borrowings | 24 453 | - |
| Repayment of subordinated deposits | (290) | (364) |
| Proceeds from placement of subordinated bonds | - | 391 |
| Proceeds from placement and issuance of other bonds | 1 500 | 2 074 |
| Repayments of other bonds | (7 967) | (7 191) |
| **Net cash from (used in) financing activities** | **17 696** | **(5 090)** |
| **Effect of exchange rates changes on cash and cash equivalents** | **(19 200)** | **(6 518)** |
| **Change in cash and cash equivalents** | **(3 965)** | **70 317** |
| Cash and cash equivalents, beginning of the period | 373 327 | 138 015 |
| **Cash and cash equivalents, end of the period** | **369 362** | **208 332** |

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — 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.

*(in millions of Russian Roubles unless otherwise stated)*

| | Share capital | Additional paid-in capital | Revaluation surplus for buildings | Revaluation reserve for available-for-sale securities | Currency translation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **1 January 2016** | **24 742** | **35 047** | **769** | **220** | **-** | **31 560** | **92 338** |
| Total comprehensive income for the period (Unaudited) | - | - | - | 693 | - | 1 657 | **2 350** |
| **31 March 2016 (Unaudited)** | **24 742** | **35 047** | **769** | **913** | **-** | **33 217** | **94 688** |
| **1 January 2017** | **24 742** | **35 047** | **688** | **451** | **39** | **42 434** | **103 401** |
| Total comprehensive income for the period (Unaudited) | - | - | - | (85) | 10 | 4 593 | **4 518** |
| **31 March 2017 (Unaudited)** | **24 742** | **35 047** | **688** | **366** | **49** | **47 027** | **107 919** |

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.

*(in millions of Russian Roubles unless otherwise stated)*

# 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 91 branches, 1 027 ATMs and 5 742 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:

| | | | Degree of control, % | |
|---|---|---|---|---|
| **Name** | **Country of incorporation** | **Principal activities** | **31 March 2017 (unaudited)** | **31 December 2016** |
| CBOM Finance p.l.c. | Ireland | Raising finance | 100% | 100% |
| MKB-Leasing Group | Russia | Finance leasing | 100% | 100% |
| INKAKHRAN Group | Russia | Cash handling | 100% | 100% |
| CBM Ireland Leasing Limited | Ireland | Operating leasing | 100% | 100% |
| LLC Bank SKS | Russia | Investment banking | 100% | 100% |
| CJSC Mortgage Agent MKB | Russia | Raising finance | 100% | 100% |
| LLC Mortgage Agent MKB 2 | Russia | Raising finance | 100% | 100% |

The Bank does not have any direct or indirect shareholdings in the subsidiaries "CBOM Finance p.l.c.", CJSC "Mortgage Agent MKB" and "LLC Mortgage Agent MKB 2". "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. "LLC Mortgage Agent MKB 2" was established for the purposes of the mortgage loans securitization program launched by the Bank in 2016. 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.

**Shareholders**

The Bank's shareholders as at 31 March 2017 are:

- LLC Concern Rossium – 56.83%
- RegionFinanceResurs, JSC – 8.19%
- LLC IC Algoritm – 5.39%
- European Bank for Reconstruction and Development (EBRD) – 4.54%
- LLC Savings Management – 3.86%

- JSC EFG Assets Management – 2.04%
- JSC EG Capital Partners – 1.99%
- RBOF Holding Company I Ltd – 1.88%
- International Finance Corporation (IFC) – 1.18%
- LLC B&N FINAM Group Asset Management – 1.00%
- Other shareholders - 13.10%.

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 16.

**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 2016, 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.

*(in millions of Russian Roubles unless otherwise stated)*

### Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries except for CBM Ireland Leasing Limited, whose functional currency is USD, 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 condense financial statements.

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

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:

| | **31 March 2017** | **31 December 2016** | **31 March 2016** |
|---|---|---|---|
| USD | 56.3779 | 60.6569 | 67.6076 |
| Euro | 60.5950 | 63.8111 | 76.5386 |

### 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 2016.

# 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 2016.

Certain amendments to IFRS became effective from 1 January 2017 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.

*(in millions of Russian Roubles unless otherwise stated)*

# 4 Net interest income

| | Three-Month Period Ended 31 March 2017 (Unaudited) | Three-Month Period Ended 31 March 2016 (Unaudited) |
|---|---|---|
| **Interest income** | | |
| Loans to customers | 19 983 | 21 443 |
| Deposits in credit and other financial institutions and the CBR | 8 703 | 2 363 |
| Financial instruments at fair value through profit or loss and available-for-sale securities | 2 444 | 3 688 |
| | **31 130** | **27 494** |
| **Interest expense** | | |
| Deposits by customers | (10 927) | (13 699) |
| Deposits by credit institutions and the CBR | (6 941) | (1 802) |
| Debt securities issued | (2 840) | (2 847) |
| | **(20 708)** | **(18 348)** |
| **Net interest income** | **10 422** | **9 146** |

# 5 Net fee and commission income

| | Three-Month Period Ended 31 March 2017 (Unaudited) | Three-Month Period Ended 31 March 2016 (Unaudited) |
|---|---|---|
| **Fee and commission income** | | |
| Guarantees and letters of credit | 804 | 551 |
| Currency exchange and brokerage commission | 675 | 108 |
| Plastic cards | 586 | 515 |
| Cash handling | 531 | 645 |
| Settlements and wire transfers | 526 | 357 |
| Other cash operations | 480 | 371 |
| Insurance contracts processing | 396 | 274 |
| Opening and maintenance of bank accounts | 235 | 164 |
| Other | 26 | 26 |
| | **4 259** | **3 011** |
| **Fee and commission expense** | | |
| Settlements, wire transfers and plastic cards | (479) | (437) |
| Other | (40) | (40) |
| | **(519)** | **(477)** |
| **Net fee and commission income** | **3 740** | **2 534** |

*(in millions of Russian Roubles unless otherwise stated)*

# 6 Salaries, employment benefits and administrative expenses

| | Three-Month Period Ended 31 March 2017 (Unaudited) | Three-Month Period Ended 31 March 2016 (Unaudited) |
|---|---|---|
| Salaries | 1 670 | 1 445 |
| Social security costs | 511 | 425 |
| Other | 9 | 27 |
| **Salaries and employment benefits** | **2 190** | **1 897** |
| | | |
| Occupancy | 271 | 242 |
| Advertising and business development | 154 | 51 |
| Security | 148 | 127 |
| Property maintenance | 133 | 79 |
| Operating taxes | 110 | 82 |
| Legal and consulting services | 58 | 18 |
| Property insurance | 50 | 53 |
| Write-off of low-value fixed assets | 42 | 74 |
| Computer maintenance and software expenses | 39 | 23 |
| Communications | 29 | 30 |
| Transport | 26 | 152 |
| Other | 13 | 23 |
| **Administrative expenses** | **1 073** | **954** |

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

| | Three-Month Period Ended 31 March 2017 (Unaudited) | Three-Month Period Ended 31 March 2016 (Unaudited) |
|---|---|---|
| Current tax charge | 1 966 | 1 882 |
| Deferred taxation | (610) | (1 461) |
| **Income tax expense** | **1 356** | **421** |

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 2017 and 2016.

*(in millions of Russian Roubles unless otherwise stated)*

# 8 Financial instruments at fair value through profit or loss

| | 31 March 2017 (Unaudited) | 31 December 2016 |
|---|---|---|
| **Held by the Group** | | |
| **Government and municipal bonds** | | |
| Russian Government Federal bonds (OFZ) | 448 | 1 047 |
| Russian Government eurobonds | 5 | 1 745 |
| Regional authorities and municipal bonds | 4 001 | 4 298 |
| **Corporate bonds** | | |
| from BBB+ to BBB- | 22 942 | 33 602 |
| from BB+ to BB- | 15 254 | 19 614 |
| from B+ to B- | 7 312 | 8 583 |
| not rated | 6 090 | 5 926 |
| **Equity investments** | 2 | 1 |
| **Derivative financial instruments** | 1 434 | 2 549 |
| **Total held by the Group** | **57 488** | **77 365** |
| | | |
| **Pledged under sale and repurchase agreements** | | |
| **Government and municipal bonds** | | |
| Russian Government Federal bonds (OFZ) | 535 | - |
| Russian Government eurobonds | 1 077 | 268 |
| **Corporate bonds** | | |
| from BBB+ to BBB- | 3 998 | 315 |
| from BB+ to BB- | 5 415 | 5 961 |
| **Total pledged under sale and repurchase agreements** | **11 025** | **6 544** |
| **Total financial instruments at fair value through profit or loss** | **68 513** | **83 909** |

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

As at 31 March 2017, debt instruments at fair value through profit or loss in the amount of RUB 51 339 million (31 December 2016: RUB 64 807 million) are qualified to be pledged against borrowings from the Central Bank of the Russian Federation.

*(in millions of Russian Roubles unless otherwise stated)*

# 9 Available-for-sale securities

| | 31 March 2017 (Unaudited) | 31 December 2016 |
|---|---|---|
| **Held by the Group** | | |
| **Corporate bonds** | | |
| from BBB+ to BBB- | 118 | 1 538 |
| from BB+ to BB- | 10 743 | 8 590 |
| from B+ to B- | 6 151 | 6 265 |
| not rated | 8 448 | 9 580 |
| **Equity investments** | 112 | 112 |
| **Total held by the Group** | **25 572** | **26 085** |
| **Pledged under sale and repurchase agreements** | | |
| **Corporate bonds** | | |
| from BBB+ to BBB- | 5 195 | 5 428 |
| from BB+ to BB- | 13 459 | 14 390 |
| from B+ to B- | 907 | - |
| **Total pledged under sale and repurchase agreements** | **19 561** | **19 818** |
| **Total available-for-sale securities** | **45 133** | **45 903** |

No available-for-sale securities are past due.

As at 31 March 2017, debt instruments available for sale in the amount of RUB 32 216 million (31 December 2016: RUB 31 536 million) are qualified to be pledged against borrowings from the Central Bank of the Russian Federation.

# 10 Loans to customers

| | 31 March 2017 (Unaudited) | 31 December 2016 |
|---|---|---|
| Loans to corporate clients | 587 100 | 566 168 |
| Impairment allowance | (34 057) | (32 698) |
| **Total loans to corporate clients, net** | **553 043** | **533 470** |
| **Loans to individuals** | | |
| Auto loans | 934 | 1 183 |
| Mortgage loans | 21 292 | 23 861 |
| Credit card loans | 3 847 | 3 783 |
| Other loans to individuals | 71 097 | 71 743 |
| Impairment allowance | (7 548) | (7 505) |
| **Total loans to individuals, net** | **89 622** | **93 065** |
| **Total gross loans to customers** | **684 270** | **666 738** |
| **Impairment allowance** | **(41 605)** | **(40 203)** |
| **Net loans to customers** | **642 665** | **626 535** |

*(in millions of Russian Roubles unless otherwise stated)*

### Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 March 2017 and 31 December 2016:

| | 31 March 2017 (Unaudited) | 31 December 2016 |
|---|---|---|
| **Loans to customers** | | |
| - Not past due | 613 614 | 617 224 |
| - Not past due but impaired | 49 219 | 30 214 |
| - Overdue less than 31 days | 6 371 | 1 857 |
| - Overdue 31-60 days | 1 418 | 1 210 |
| - Overdue 61-90 days | 832 | 964 |
| - Overdue 91-180 days | 1 993 | 1 544 |
| - Overdue 181-360 days | 4 401 | 6 213 |
| - Overdue more than 360 days | 6 422 | 7 512 |
| **Total gross loans to customers** | **684 270** | **666 738** |
| **Impairment allowance** | **(41 605)** | **(40 203)** |
| **Total net loans to customers** | **642 665** | **626 535** |

Movements in the loan impairment allowance for the three-month periods ended 31 March 2017 and 31 March 2016 are as follows:

| | Three-Month Period Ended 31 March 2017 (Unaudited) | Three-Month Period Ended 31 March 2016 (Unaudited) |
|---|---|---|
| **Balance at the beginning of the period** | **40 203** | **36 874** |
| Net charge | 4 816 | 7 149 |
| Net write-offs | (3 414) | (2 607) |
| **Balance at the end of the period** | **41 605** | **41 416** |

As at 31 March 2017, net interest accrued on overdue and impaired loans amounts to RUB 2 393 million (31 December 2016: RUB 1 696 million).

### Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 31 March 2017 and 31 December 2016:

| | 31 March 2017 (Unaudited) | 31 December 2016 |
|---|---|---|
| **Loans to corporate clients** | | |
| - Not past due | 527 530 | 527 212 |
| - Not past due but impaired | 49 219 | 30 214 |
| - Overdue less than 31 days | 4 846 | 534 |
| - Overdue 31-60 days | 325 | 163 |
| - Overdue 61-90 days | - | 98 |
| - Overdue 91-180 days | 3 | 212 |
| - Overdue 181-360 days | 1 410 | 2 947 |
| - Overdue more than 360 days | 3 767 | 4 788 |
| **Total gross loans to corporate clients** | **587 100** | **566 168** |
| **Impairment allowance** | **(34 057)** | **(32 698)** |
| **Total net loans to corporate clients** | **553 043** | **533 470** |

*(in millions of Russian Roubles unless otherwise stated)*

As at 31 March 2017, 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 31 March 2017 would decrease/increase by RUB 11 061 million (31 December 2016: RUB 10 669 million).

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

Movements in the loan impairment allowance for loans to corporate clients for the three-month periods ended 31 March 2017 and 31 March 2016 are as follows:

| | **Three-Month Period Ended 31 March 2017 (Unaudited)** | **Three-Month Period Ended 31 March 2016 (Unaudited)** |
|---|---|---|
| **Balance at the beginning of the period** | **32 698** | **27 783** |
| Net charge | 3 546 | 5 261 |
| Net write-offs | (2 187) | (663) |
| **Balance at the end of the period** | **34 057** | **32 381** |

## Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 March 2017:

| **(Unaudited)** | **Auto loans** | **Mortgage loans** | **Credit card loans** | **Other loans to individuals** | **Total** |
|---|---|---|---|---|---|
| - Not past due | 850 | 18 782 | 3 586 | 62 866 | 86 084 |
| - Overdue less than 31 days | 16 | 304 | - | 1 205 | 1 525 |
| - Overdue 31-60 days | 9 | 243 | 67 | 774 | 1 093 |
| - Overdue 61-90 days | 6 | 135 | 18 | 673 | 832 |
| - Overdue 91-180 days | 13 | 93 | 29 | 1 855 | 1 990 |
| - Overdue 181-360 days | 22 | 306 | 99 | 2 564 | 2 991 |
| - Overdue more than 360 days | 18 | 1 429 | 48 | 1 160 | 2 655 |
| **Gross loans to individuals** | **934** | **21 292** | **3 847** | **71 097** | **97 170** |
| **Impairment allowance** | **(49)** | **(925)** | **(205)** | **(6 369)** | **(7 548)** |
| **Net loans to individuals** | **885** | **20 367** | **3 642** | **64 728** | **89 622** |

*(in millions of Russian Roubles unless otherwise stated)*

The following table provides information on the credit quality of loans to individuals as at 31 December 2016:

| | Auto loans | Mortgage loans | Credit card loans | Other loans to individuals | Total |
|---|---|---|---|---|---|
| - Not past due | 1 094 | 21 603 | 3 511 | 63 804 | 90 012 |
| - Overdue less than 31 days | 16 | 182 | - | 1 125 | 1 323 |
| - Overdue 31-60 days | 8 | 44 | 25 | 970 | 1 047 |
| - Overdue 61-90 days | 9 | 54 | 20 | 783 | 866 |
| - Overdue 91-180 days | 9 | 176 | 54 | 1 093 | 1 332 |
| - Overdue 181-360 days | 33 | 415 | 101 | 2 717 | 3 266 |
| - Overdue more than 360 days | 14 | 1 387 | 72 | 1 251 | 2 724 |
| **Gross loans to individuals** | **1 183** | **23 861** | **3 783** | **71 743** | **100 570** |
| **Impairment allowance** | **(54)** | **(1 127)** | **(239)** | **(6 085)** | **(7 505)** |
| **Net loans to individuals** | **1 129** | **22 734** | **3 544** | **65 658** | **93 065** |

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 plus/minus three percent, the impairment allowance as at 31 March 2017 would decrease/increase by RUB 2 689 million (31 December 2016: RUB 2 792 million).

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

Movements in the loan impairment allowance by classes of loans to individuals for the three-month period ended 31 March 2017 are as follows:

| **(Unaudited)** | **Auto loans** | **Mortgage loans** | **Credit card loans** | **Other loans to individuals** | **Total** |
|---|---|---|---|---|---|
| **Balance at the beginning of the period** | **54** | **1 127** | **239** | **6 085** | **7 505** |
| Net charge | 4 | (170) | 28 | 1 408 | 1 270 |
| Net write-offs | (9) | (32) | (62) | (1 124) | (1 227) |
| **Balance at the end of the period** | **49** | **925** | **205** | **6 369** | **7 548** |

Movements in the loan impairment allowance by classes of loans to individuals for the three-month period ended 31 March 2016 are as follows:

| **(Unaudited)** | **Auto loans** | **Mortgage loans** | **Credit card loans** | **Other loans to individuals** | **Total** |
|---|---|---|---|---|---|
| **Balance at the beginning of the period** | **114** | **902** | **545** | **7 530** | **9 091** |
| Net charge | 4 | 43 | 68 | 1 773 | 1 888 |
| Net write-offs | (22) | - | (165) | (1 757) | (1 944) |
| **Balance at the end of the period** | **96** | **945** | **448** | **7 546** | **9 035** |

*(in millions of Russian Roubles unless otherwise stated)*

### 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:

| | 31 March 2017 (Unaudited) | 31 December 2016 |
|---|---|---|
| Loans to individuals | 97 170 | 100 570 |
| Oil and industrial chemicals | 129 894 | 101 345 |
| Property rental | 65 899 | 62 505 |
| Financial | 58 393 | 59 203 |
| Food and farm products | 52 305 | 72 255 |
| Automotive, motorcycles and spare parts | 49 666 | 49 693 |
| Residential and commercial construction and development | 48 150 | 45 749 |
| Services | 36 330 | 44 747 |
| Metallurgical | 36 010 | 39 914 |
| Pharmaceutical and medical products | 23 447 | 20 145 |
| Industrial and infrastructure construction | 20 614 | 21 246 |
| Industrial equipment and machinery | 20 496 | 14 147 |
| Consumer electronics, appliances and computers | 13 397 | 8 251 |
| Construction and decorative materials, furniture | 11 206 | 11 918 |
| Clothing, shoes, textiles and sporting goods | 8 919 | 8 599 |
| Government and municipal bodies | 8 254 | 1 422 |
| Paper, stationery and packaging products | 1 702 | 2 628 |
| Consumer chemicals, perfumes and hygiene products | 723 | 917 |
| Equipment leasing | 513 | 318 |
| Other | 1 182 | 1 166 |
| **Total gross loans to customers** | **684 270** | **666 738** |
| Impairment allowance | (41 605) | (40 203) |
| **Net loans to customers** | **642 665** | **626 535** |

# 11 Deposits by the Central Bank of the Russian Federation

| | 31 March 2017 (Unaudited) | 31 December 2016 |
|---|---|---|
| Payables under repurchase agreements or collateralized loans | 199 823 | 247 170 |
| **Total deposits by the Central Bank of the Russian Federation** | **199 823** | **247 170** |

As at 31 March 2017, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 240 277 million (31 December 2016: RUB 285 678 million).

*(in millions of Russian Roubles unless otherwise stated)*

# 12 Deposits by credit institutions

| | 31 March 2017 (Unaudited) | 31 December 2016 |
|---|---|---|
| Payables under repurchase agreements or collateralized loans | 211 342 | 247 011 |
| Term deposits | 50 522 | 129 999 |
| Syndicated debt | 24 453 | - |
| Current accounts | 1 744 | 3 991 |
| Subordinated debt | 284 | 623 |
| **Total deposits by credit institutions** | **288 345** | **381 624** |

As at 31 March 2017, the Group has three counterparties (31 December 2016: two counterparties) whose deposits balances exceed 10% of deposits by credit institutions. The gross value of these balances as at 31 March 2017 is RUB 229 368 million (31 December 2016: RUB 329 968 million).

As at 31 March 2017, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 256 314 million (31 December 2016: RUB 284 635 million).

# 13 Debt securities issued

| | 31 March 2017 (Unaudited) | 31 December 2016 |
|---|---|---|
| Promissory notes issued at nominal value | - | 1 145 |
| **Total promissory notes issued** | **-** | **1 145** |
| | | |
| Bonds | 84 057 | 95 252 |
| Subordinated bonds | 39 496 | 40 806 |
| **Total bonds issued** | **123 553** | **136 058** |
| **Total debt securities issued** | **123 553** | **137 203** |

# 14 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 31 March 2017 comprises 23 879 709 866 shares (31 December 2016: 23 879 709 866 shares) with par value of 1 RUB per share. In addition, at 31 March 2017 the Bank has 12 396 448 142 authorized but unissued 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 862 million.

# 15 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.

*(in millions of Russian Roubles unless otherwise stated)*

# 16 Related party transactions

The outstanding balances with related parties and related average interest rates as at 31 March 2017 and 31 December 2016 are as follows:

| | 31 March 2017 (Unaudited) | | 31 December 2016 | |
|---|---|---|---|---|
| | **Amount** | **Average effective interest rate** | **Amount** | **Average effective interest rate** |
| **Loans to customers** | | | | |
| Under control of principal beneficiary | 22 985 | 14.3% | 18 318 | 14.2% |
| Management | 79 | 16.4% | 70 | 16.4% |
| **Total loans to customers** | **23 064** | | **18 388** | |
| **Deposits by customers** | | | | |
| **Term deposits by customers** | | | | |
| Principal beneficiary | 1 725 | 8.5% | 828 | 9.9% |
| Under control of principal beneficiary | 1 466 | 4.7% | 241 | 10.0% |
| Parent company | 805 | 9.5% | 977 | 10.1% |
| Management | 126 | 4.4% | 145 | 5.0% |
| **Total term deposits by customers** | **4 122** | | **2 191** | |
| **Current accounts by customers** | | | | |
| Under control of principal beneficiary | 76 | | 68 | |
| Parent company | 73 | | - | |
| Management | 65 | | 64 | |
| Principal beneficiary | 35 | | 3 | |
| **Total current accounts by customers** | **249** | | **135** | |
| **Total deposits by customers** | **4 371** | | **2 326** | |
| **Guarantees issued** | | | | |
| Under control of principal beneficiary | 29 | | 343 | |
| **Total guarantees** | **29** | | **343** | |

Amounts included in profit or loss and other comprehensive income for the three-month periods ended 31 March 2017 and 31 March 2016 in relation to transactions with related parties are as follows:

| | **Three-Month Period Ended 31 March 2017 (Unaudited)** | **Three-Month Period Ended 31 March 2016 (Unaudited)** |
|---|---|---|
| **Interest income on loans to customers** | | |
| Under control of principal beneficiary | 720 | 28 |
| Parent company | 16 | - |
| Management | 3 | 4 |
| **Total interest income** | **739** | **32** |
| **Interest expense on deposits by customers** | | |
| Under control of principal beneficiary | 12 | 8 |
| Parent company | 11 | 2 |
| Principal beneficiary | 8 | 5 |
| Management | 2 | 2 |
| **Total interest expense** | **33** | **17** |

*(in millions of Russian Roubles unless otherwise stated)*

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the three-month periods ended 31 March 2017 and 31 March 2016 (refer to note 6) is as follows:

| | **Three-Month Period Ended 31 March 2017 (Unaudited)** | **Three-Month Period Ended 31 March 2016 (Unaudited)** |
|---|---|---|
| Board Members of the Management Board | 39 | 29 |
| Members of the Supervisory Board | 17 | 21 |
| | **56** | **50** |

# 17 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 31 March 2017, 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 2016: 6.0%, 4.5%, 8.0%, 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 31 March 2017 and 31 December 2016.

The capital adequacy ratio of the Group calculated in accordance with the Basel III requirements as adopted in the Russian Federation, based on the IFRS financial statements as at 31 March 2017 and 31 December 2016 is as follows:

*(in millions of Russian Roubles unless otherwise stated)*

| | 31 March 2017 (Unaudited) | 31 December 2016 |
|---|---|---|
| Tier 1 capital | | |
| Share capital and additional paid-in capital | 59 789 | 59 789 |
| Retained earnings | 47 027 | 42 434 |
| Intangible assets | (319) | (314) |
| **Core tier 1** | **106 497** | **101 909** |
| Additional capital | - | - |
| **Total tier 1 capital** | **106 497** | **101 909** |
| Tier 2 capital | | |
| Revaluation surplus for buildings | 688 | 688 |
| Revaluation reserve for investments available-for-sale | 366 | 451 |
| **Subordinated loans** | | |
| Subordinated loans | 39 670 | 38 464 |
| Subordinated bonds (*) | 42 085 | 18 294 |
| **Total tier 2 capital** | **82 809** | **57 897** |
| **Total capital** | **189 306** | **159 806** |
| **Risk-weighted assets** | | |
| Banking book | 791 821 | 869 092 |
| Trading book | 124 544 | 138 703 |
| Operational risk | 77 593 | 77 593 |
| **Total risk weighted assets** | **993 958** | **1 085 388** |
| **Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)** | **19.0** | **14.7** |
| **Total tier 1 capital expressed as a percentage of risk-weighted assets (Core tier 1 capital ratio) (%)** | **10.7** | **9.4** |
| **Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)** | **10.7** | **9.4** |

(*) In the table above capital ratios are shown taking into account new subordinated eurobonds issue amounting to RUB 33 597 million and partial redemption of bonds series CBOM-18 amounting to RUB 22 914 million which took place on 5 April 2017. If these transactions had not been included in the calculation, total capital ratio, core tier 1 capital ratio and tier 1 capital ratio would have been 16.5%, 10.7% and 10.7% respectively.

In June 2015 the State Corporation “Deposit Insurance Agency” provided a subordinated loan of RUB 20 231 million 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.

*(in millions of Russian Roubles unless otherwise stated)*

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.

# 18 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 business comprises corporate lending, overdraft lending, factoring, financial and operating leasing , letters of credit, guarantees, corporate deposit services, settlements and money transfers, currency conversion
- Retail banking comprises retail demand and term deposit services; retail lending, including other loans to individuals, car loans and mortgages, money transfers and private banking services; banking card products, settlements and money transfers, 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:

| | 31 March 2017 (Unaudited) | 31 December 2016 |
|---|---|---|
| **ASSETS** | | |
| Corporate banking | 571 637 | 552 400 |
| Retail banking | 92 520 | 95 693 |
| Treasury | 799 177 | 887 856 |
| Cash operations | 12 069 | 18 763 |
| Unallocated assets | 13 319 | 13 257 |
| **Total assets** | **1 488 722** | **1 567 969** |
| | | |
| **LIABILITIES** | | |
| Corporate banking | 500 395 | 440 842 |
| Retail banking | 260 136 | 248 654 |
| Treasury | 611 721 | 765 997 |
| Unallocated liabilities | 8 551 | 9 075 |
| **Total liabilities** | **1 380 803** | **1 464 568** |

*(in millions of Russian Roubles unless otherwise stated)*

Segment information for the main reportable segments for the three-month period ended 31 March 2017 is set below:

| (Unaudited) | Corporate banking | Retail banking | Treasury | Cash operations | Unallocated | Total |
|---|---|---|---|---|---|---|
| External interest income | 15 919 | 4 064 | 11 147 | - | - | 31 130 |
| Fee and commission income | 1 118 | 1 536 | 581 | 1 024 | - | 4 259 |
| Net gain on securities | - | - | 322 | - | - | 322 |
| Net foreign exchange losses | - | - | (299) | - | - | (299) |
| Other operating income, net | 390 | - | - | (11) | - | 379 |
| (Expenses) revenue from other segments | (1 943) | 2 548 | (789) | 184 | - | - |
| **Revenue** | **15 484** | **8 148** | **10 962** | **1 197** | - | **35 791** |
| Impairment losses on loans | (3 547) | (1 269) | - | - | - | (4 816) |
| Interest expense | (6 052) | (4 875) | (9 781) | - | - | (20 708) |
| Fee and commission expense | (2) | (471) | (43) | (2) | - | (518) |
| General administrative and other expenses | (657) | (1 038) | (82) | (1 068) | (955) | (3 800) |
| **Expense** | **(10 258)** | **(7 653)** | **(9 906)** | **(1 070)** | **(955)** | **(29 842)** |
| **Segment result** | **5 226** | **495** | **1 056** | **127** | **(955)** | **5 949** |

Segment information for the main reportable segments for the three-month period ended 31 March 2016 is set below:

| (Unaudited) | Corporate banking | Retail banking | Treasury | Cash operations | Unallocated | Total |
|---|---|---|---|---|---|---|
| External interest income | 16 409 | 5 034 | 6 051 | - | - | 27 494 |
| Fee and commission income | 808 | 1 152 | 48 | 1 002 | - | 3 011 |
| Net loss on securities | - | - | (138) | - | - | (138) |
| Net foreign exchange gain | 110 | 24 | 677 | - | - | 811 |
| Other operating income, net | 127 | 52 | 24 | - | - | 204 |
| Revenue (expenses) from other segments | 442 | 1 084 | (1 606) | 79 | - | - |
| **Revenue** | **17 896** | **7 346** | **5 056** | **1 081** | - | **31 382** |
| Impairment losses on loans | (5 261) | (1 888) | - | - | - | (7 149) |
| Interest expense | (8 963) | (4 736) | (4 650) | - | - | (18 348) |
| Fee and commission expense | (395) | (59) | (23) | - | - | (477) |
| General administrative and other expenses | (1 059) | (985) | (61) | (392) | (833) | (3 330) |
| **Expense** | **(15 678)** | **(7 668)** | **(4 734)** | **(392)** | **(833)** | **(29 304)** |
| **Segment result** | **2 218** | **(322)** | **322** | **689** | **(833)** | **2 078** |

## 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.

*(in millions of Russian Roubles unless otherwise stated)*

# 19 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 31 March 2017:

| (unaudited) | Held for trading | Loans and receivables | Available-for-sale | Other amortized cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | - | 369 362 | - | - | 369 362 | 369 362 |
| Obligatory reserves with the CBR | - | 8 474 | - | - | 8 474 | 8 474 |
| Deposits in credit and other financial institutions | - | 328 237 | - | - | 328 237 | 328 237 |
| Financial instruments at fair value through profit or loss | 68 513 | - | - | - | 68 513 | 68 513 |
| Available-for-sale securities | - | - | 45 133 | - | 45 133 | 45 021 |
| Loans to customers | | 642 665 | | | 642 665 | 644 162 |
| Other financial assets | - | 1 512 | - | - | 1 512 | 1 512 |
| | **68 513** | **1 350 250** | **45 133** | **-** | **1 463 896** | **1 465 281** |
| Deposits by the CBR | - | - | - | 199 823 | 199 823 | 199 823 |
| Deposits by credit institutions | - | - | - | 288 345 | 288 345 | 288 345 |
| Deposits by customers | - | - | - | 760 531 | 760 531 | 761 056 |
| Debt securities issued | - | - | - | 123 553 | 123 553 | 128 056 |
| Other financial liabilities | 1 490 | - | - | 1 347 | 2 837 | 2 837 |
| | **1 490** | **-** | **-** | **1 373 599** | **1 375 089** | **1 380 117** |

The main assumptions used by management to estimate the fair values of financial instruments as at 31 March 2017 are:

- discount rates from 9.7% to 16.3% (roubles) and from 3.0% to 9.2% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 13.3% to 27.7% (roubles) and from 9.0% to 11.8% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 5.3% to 10.2% (roubles) and from 0.5% to 3.4% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 7.0% to 9.5% (roubles) and from 0.6% to 1.0% (foreign currency) are used for discounting future cash flows from retail deposits.

*(in millions of Russian Roubles unless otherwise stated)*

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2016:

| | Held for trading | Loans and receivables | Available-for-sale | Other amortized cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | - | 373 327 | - | - | 373 327 | 373 327 |
| Obligatory reserves with the CBR | - | 7 287 | - | - | 7 287 | 7 287 |
| Deposits in credit and other financial institutions | - | 403 480 | - | - | 403 480 | 403 480 |
| Financial instruments at fair value through profit or loss | 83 909 | - | - | - | 83 909 | 83 909 |
| Available-for-sale financial assets | - | - | 45 903 | - | 45 903 | 45 792 |
| Loans to customers | - | 626 535 | - | - | 626 535 | 628 248 |
| Other financial assets | - | 1 845 | - | - | 1 845 | 1 845 |
| | **83 909** | **1 412 474** | **45 903** | **-** | **1 542 286** | **1 543 888** |
| Deposits by the CBR | - | - | - | 247 170 | 247 170 | 247 170 |
| Deposits by credit institutions | - | - | - | 381 624 | 381 624 | 381 624 |
| Deposits by customers | - | - | - | 689 496 | 689 496 | 694 976 |
| Debt securities issued | - | - | - | 137 203 | 137 203 | 139 661 |
| Other financial liabilities | 1 081 | - | - | 1 885 | 2 966 | 2 967 |
| | **1 081** | **-** | **-** | **1 457 378** | **1 458 459** | **1 466 398** |

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2016 are:

- discount rates from 9.5% to 18.1% (roubles) and from 3.5% to 10.0% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 13.6% to 28.0% (roubles) and from 10.1% to 12.5% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 5.5% to 10.5% (roubles) and from 0.1% to 2.7% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 8.1% to 9.8% (roubles) and from 0.6% to 1.6% (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.

*(in millions of Russian Roubles unless otherwise stated)*

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 31 March 2017 and 31 December 2016:

| **31 March 2017 (Unaudited)** | **Level 1** | **Level 2** | **Level 3** | **Valuation technique used for Level 2 and 3** | **Total** |
|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 67 079 | 1 434 | - | Discounted cash flows | **68 513** |
| Available-for-sale securities | 45 021 | - | - | - | **45 021** |
| Loans to customers | - | - | 644 162 | Discounted cash flows | **644 162** |
| Deposits by customers | - | 761 056 | - | Discounted cash flows | **761 056** |
| Debt securities issued | 128 056 | - | - | - | **128 056** |
| Other financial liabilities-Derivatives | - | 1 490 | - | Discounted cash flows | **1 490** |

| **31 December 2016** | **Level 1** | **Level 2** | **Level 3** | **Valuation technique used for Level 2 and 3** | **Total** |
|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 81 360 | 2 549 | - | Discounted cash flows | **83 909** |
| Available-for-sale securities | 45 792 | - | - | - | **45 792** |
| Loans to customers | - | - | 628 248 | Discounted cash flows | **628 248** |
| Deposits by customers | - | 694 976 | - | Discounted cash flows | **694 976** |
| Debt securities issued | 138 516 | 1 145 | - | Discounted cash flows | **139 661** |
| Other financial liabilities-Derivatives | - | 1 081 | - | Discounted cash flows | **1 081** |

During three-month period ended 31 March 2017 there were no transfers of assets between Level 1 and Level 2.

*(in millions of Russian Roubles unless otherwise stated)*

# 20 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:

| | 31 March 2017 (Unaudited) | 31 March 2016 (Unaudited) |
|---|---|---|
| Profit for the period | 4 593 | 1 657 |
| Weighted average number of ordinary shares in issue | 23 879 709 866 | 23 879 709 866 |
| **Basic and diluted earnings per share (in RUB per share)** | 0.19 | 0.07 |

# 21 Events subsequent to the reporting date

In April 2017 the Bank placed subordinated Loan Participation Notes in the total amount of USD 600 million at par with a fixed coupon rate of 7.50% p.a. and maturity in 10.5 years, callable in October 2022 and on every coupon date thereafter at the Issuer's discretion. In April 2017 the CBR approved the inclusion of the Notes into the Bank's Tier 2 capital.

In April 2017 the Bank partially redeemed its USD 500 million 8.7% subordinated Loan Participation Notes due in 2018 through a tender offer to purchase any and all of the outstanding Notes for cash. The value of the Notes accepted for purchase amounted to USD 393.8 million.

In April 2017 the Bank paid out the 7th coupon in the amount of RUB 305.4 million or RUB 61.08 per bond on domestic bonds series BO-06. The issue was originally placed on 24 October 2013 with a maturity in 5 years. The nominal value of the issue is RUB 5 billion.

In May 2017 the Bank paid out the 7th coupon in the amount RUB 116.17 million or RUB 51.36 per bond on domestic bonds series BO-07. The issue was originally placed on 30 October 2013 with maturity in 5 years. The nominal value of the issue is RUB 7 billion.

In May 2017 the Bank placed subordinated perpetual Loan Participation Notes in the total amount of USD 700 million at par with a coupon rate of 8.875% p.a. fixed for the first 5.5-year period. The Notes are callable in November 2022 and on every coupon date thereafter at the Issuer's discretion. The Notes are Basel-III compliant and eligible for inclusion into the Bank's Additional Tier 1 capital upon receiving approval from the CBR.

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «МОСКОВСКИЙ КРЕДИТНЫЙ БАНК» * БАНКА РОССИИ № 1978 * 107045, г. Москва, Луков переулок, д.2, стр.1 * ОГРН 1027739555282

19 May 2017