

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

Consolidated Interim Condensed  
Financial Statements  
for the six-month period  
ended 30 June 2017

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## **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 30 June 2017, and the related consolidated interim condensed statements of profit or loss and other comprehensive income for the three- and six-month periods ended 30 June 2017, and the related consolidated interim condensed statements of changes in equity and cash flows for the six-month period ended 30 June 2017, 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 30 June 2017 and for the three- and six-month periods then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.



Kolosov A.E.

Director

JSC "KPMG"

Moscow, Russian Federation

18 August 2017

*CREDIT BANK OF MOSCOW (public joint-stock company)*  
*Consolidated Interim Condensed Statements of Profit or Loss and Other Comprehensive Income*  
*for the three- and six-month periods ended 30 June 2017*  
*(in millions of Russian Roubles unless otherwise stated)*

	Notes	Six-Month Period Ended 30 June 2017 (Unaudited)	Six-Month Period Ended 30 June 2016 (Unaudited)	Three-Month Period Ended 30 June 2017 (Unaudited)	Three-Month Period Ended 30 June 2016 (Unaudited)
Interest income	4	60 292	55 976	29 162	28 482
Interest expense	4	(39 584)	(35 514)	(18 876)	(17 166)
<b>Net interest income</b>	4	<b>20 708</b>	<b>20 462</b>	<b>10 286</b>	<b>11 316</b>
Provision for impairment of loans	12	(7 377)	(16 229)	(2 561)	(9 080)
<b>Net interest income after provision for impairment of loans</b>		<b>13 331</b>	<b>4 233</b>	<b>7 725</b>	<b>2 236</b>
Fee and commission income	5	8 019	6 314	3 760	3 303
Fee and commission expense	5	(1 162)	(996)	(643)	(519)
Net gain on financial instruments at fair value through profit or loss		442	375	197	481
Net realized gain on available-for-sale assets		286	362	209	394
Net foreign exchange gains		1 235	2 162	1 534	1 351
State deposit insurance scheme contributions		(611)	(396)	(319)	(211)
Operating lease income		838	362	423	340
Other operating (expense) income, net		(1 069)	418	(1 032)	236
<b>Non-interest income</b>		<b>7 978</b>	<b>8 601</b>	<b>4 129</b>	<b>5 375</b>
<b>Operating income</b>		<b>21 309</b>	<b>12 834</b>	<b>11 854</b>	<b>7 611</b>
Salaries and employment benefits	6	(5 151)	(3 801)	(2 961)	(1 904)
Administrative expenses	6	(2 312)	(2 183)	(1 239)	(1 229)
Depreciation of property and equipment		(924)	(546)	(472)	(366)
Recovery of (provision for) impairment of other assets and credit related commitments		42	17	(167)	131
<b>Operating expense</b>		<b>(8 345)</b>	<b>(6 513)</b>	<b>(4 839)</b>	<b>(3 368)</b>
<b>Profit before income taxes</b>		<b>12 964</b>	<b>6 321</b>	<b>7 015</b>	<b>4 243</b>
Income tax	7	(2 956)	(1 254)	(1 600)	(833)
<b>Profit for the period</b>		<b>10 008</b>	<b>5 067</b>	<b>5 415</b>	<b>3 410</b>

The consolidated interim condensed statements 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.

*CREDIT BANK OF MOSCOW (public joint-stock company)*  
*Consolidated Interim Condensed Statements of Profit or Loss and Other Comprehensive Income*  
*for the three- and six-month periods ended 30 June 2017*  
*(in millions of Russian Roubles unless otherwise stated)*

	Notes	Six-Month Period Ended 30 June 2017 (Unaudited)	Six-Month Period Ended 30 June 2016 (Unaudited)	Three-Month Period Ended 30 June 2017 (Unaudited)	Three-Month Period Ended 30 June 2016 (Unaudited)
<b>Profit for the period</b>		<u>10 008</u>	<u>5 067</u>	<u>5 415</u>	<u>3 410</u>
<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		276	1 798	211	796
- net change in fair value transferred to profit or loss		(224)	(524)	(53)	(388)
Exchange differences on translation		(2)	3	(19)	3
Income tax related to other comprehensive income		(10)	(255)	(24)	(82)
<b>Other comprehensive income for the period, net of income tax</b>		<u>40</u>	<u>1 022</u>	<u>115</u>	<u>329</u>
<b>Total comprehensive income for the period</b>		<u>10 048</u>	<u>6 089</u>	<u>5 530</u>	<u>3 739</u>
<b>Basic and diluted earnings per share (in RUB per share)</b>	23	0.42	0.21	0.23	0.14

Chairman of the Management Board

Chief Accountant



Vladimir A. Chubar

Svetlana V. Sass

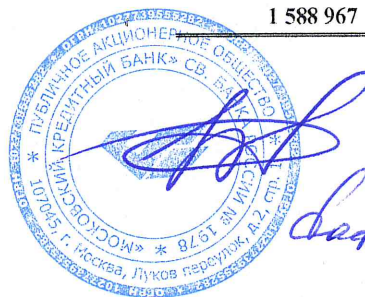
The consolidated interim condensed statements of profit or loss and other comprehensive income is to be read in conjunction with the notes, forming an integral part of the consolidated interim condensed financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)  
Consolidated Interim Condensed Statement of Financial Position as at 30 June 2017  
(in millions of Russian Roubles unless otherwise stated)

	Notes	30 June 2017 (Unaudited)	31 December 2016
<b>ASSETS</b>			
Cash and cash equivalents	8	400 036	373 327
Obligatory reserves with the Central bank of the Russian Federation		8 197	7 287
Deposits in credit and other financial institutions	9	275 073	403 480
Financial instruments at fair value through profit or loss	10	97 641	83 909
- <i>pledged under sale and repurchase agreements</i>	10	7 250	6 544
Available-for-sale securities	11	59 187	45 903
- <i>pledged under sale and repurchase agreements</i>	11	13 150	19 818
Loans to customers	12	718 165	626 535
- <i>loans to corporate clients</i>	12	628 622	533 470
- <i>loans to individuals</i>	12	89 543	93 065
Property and equipment		20 443	21 278
Deferred tax asset		380	-
Other assets		9 845	6 250
<b>Total assets</b>		<b>1 588 967</b>	<b>1 567 969</b>
<b>LIABILITIES AND EQUITY</b>			
Deposits by the Central bank of the Russian Federation	13	136 090	247 170
Deposits by credit institutions	14	343 153	381 624
Due to customers		804 148	689 496
- <i>due to corporate customers</i>		529 414	440 842
- <i>due to individuals</i>		274 734	248 654
Debt securities issued	15	140 510	137 203
Deferred tax liability		2 851	190
Other liabilities		7 840	8 885
<b>Total liabilities</b>		<b>1 434 592</b>	<b>1 464 568</b>
<b>Equity</b>			
Share capital	16	24 742	24 742
Additional paid-in capital		35 047	35 047
Perpetual debt issued	16	41 360	-
Revaluation surplus for buildings		688	688
Revaluation reserve for available-for-sale securities		492	451
Currency translation reserve		38	39
Retained earnings		52 008	42 434
<b>Total equity</b>		<b>154 375</b>	<b>103 401</b>
<b>Total liabilities and equity</b>		<b>1 588 967</b>	<b>1 567 969</b>

Chairman of the Management Board

Chief Accountant



Vladimir A. Chubar

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 six-month period ended 30 June 2017*  
*(in millions of Russian Roubles unless otherwise stated)*

<b>Notes</b>	<b>Six-Month Period Ended 30 June 2017 (Unaudited)</b>	<b>Six -Month Period Ended 30 June 2016 (Unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest receipts	55 850	51 595
Interest payments	(38 178)	(33 000)
Fees and commission receipts	7 947	6 361
Fees and commission payments	(1 156)	(996)
Net receipts from operations with securities	371	519
Net receipts from foreign exchange	6 532	3 348
State deposit insurance scheme contributions payments	(580)	(390)
Net other operating (expense payments) income receipts	(1 053)	124
Operating leases income receipts	838	362
Salaries and employment benefits paid	(4 676)	(3 536)
Administrative expenses paid	(2 153)	(1 962)
Income tax paid	(4 356)	(2 067)
<b>Operating cash flows before changes in operating assets and liabilities</b>	<b>19 386</b>	<b>20 358</b>
<b>(Increase) decrease in operating assets</b>		
Obligatory reserves with the Central bank of the Russian Federation	(910)	(1 771)
Deposits in credit and other financial institutions	123 609	(22 742)
Financial instruments at fair value through profit or loss	15 430	9 169
Loans to customers	(98 467)	(19 437)
Other assets	129	187
<b>Increase (decrease) in operating liabilities</b>	<b>-</b>	
Deposits by the Central bank of the Russian Federation	(105 790)	(3 815)
Deposits by credit institutions except syndicated and subordinated loans	(66 481)	(3 766)
Due to customers except subordinated loans	85 170	99 796
Promissory notes issued	(1 113)	(1 059)
Other liabilities	(398)	140
<b>Net cash (used in) from operations</b>	<b>(29 435)</b>	<b>77 060</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of available-for-sale securities	(31 558)	(19 600)
Proceeds from disposal and redemption of available-for-sale securities	17 782	8 772
Net purchase of property and equipment	(496)	(426)
<b>Net cash used in investing activities</b>	<b>(14 272)</b>	<b>(11 254)</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 six-month period ended 30 June 2017*  
*(in millions of Russian Roubles unless otherwise stated)*

Notes	Six -Month Period Ended 30 June 2017 (Unaudited)	Six -Month Period Ended 30 June 2016 (Unaudited)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from placement and issuance of perpetual debt	40 818	-
Proceeds from syndicated borrowings	28 005	-
Repayment of subordinated deposits	(290)	(376)
Proceeds from placement and issuance of subordinated bonds	33 933	-
Partial redemption of subordinated bonds	(22 037)	-
Proceeds from placement and issuance of other bonds	3 879	3 964
Repayments of other bonds	(8 954)	(7 691)
<b>Net cash from (used in) financing activities</b>	<b>75 354</b>	<b>(4 103)</b>
<b>Effect of exchange rates changes on cash and cash equivalents</b>	<b>(4 938)</b>	<b>(10 279)</b>
<b>Change in cash and cash equivalents</b>	<b>26 709</b>	<b>51 424</b>
Cash and cash equivalents, beginning of the period	373 327	138 015
<b>Cash and cash equivalents, end of the period</b>	<b>400 036</b>	<b>189 439</b>

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.

*CREDIT BANK OF MOSCOW (public joint-stock company)*  
*Consolidated Interim Condensed Statement of Changes in Equity for the six-month period ended 30 June 2017*  
*(in millions of Russian Roubles unless otherwise stated)*

	Share capital	Additional paid-in capital	Perpetual debt issued	Revaluation surplus for buildings	Revaluation reserve for available-for-sale	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)	-	-	-	-	1 019	2	5 068	6 089
30 June 2016 (Unaudited)	24 742	35 047	-	769	1 239	2	36 628	98 427
1 January 2017	24 742	35 047	-	688	451	39	42 434	103 401
Total comprehensive income for the period (Unaudited)	-	-	-	-	41	(1)	10 008	10 048
Perpetual debt issued (note 16) (Unaudited)	-	-	40 977	-	-	-	-	40 977
Foreign exchange translation of perpetual debt issued (Unaudited)	-	-	383	-	-	-	(383)	-
Transaction costs on perpetual debt issued (Unaudited)	-	-	-	-	-	-	(159)	(159)
Tax effect on perpetual debt issued (Unaudited)	-	-	-	-	-	-	108	108
30 June 2017 (Unaudited)	24 742	35 047	41 360	688	492	38	52 008	154 375

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 97 branches, 1 063 ATMs and 5 945 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 June 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 30 June 2017 are:

- LLC Concern Rossium – 56.83%
- RegionFinanceResurs, JSC – 8.19%
- LLC IC Algoritm – 7.46%
- European Bank for Reconstruction and Development (EBRD) – 4.54%
- LLC Savings Management – 3.86%
- JSC EG Capital Partners – 2.56%

- JSC EFG Assets Management – 2.04%
- Other shareholders - 14.52%.

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 19.

### **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.

### **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 condensed 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:

	<b>30 June 2017</b>	<b>31 December 2016</b>	<b>30 June 2016</b>
USD	59.0855	60.6569	64.2575
Euro	67.4993	63.8111	71.2102

### **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.

## 4 Net interest income

	<b>Six-Month Period Ended 30 June 2017 (Unaudited)</b>	<b>Six-Month Period Ended 30 June 2016 (Unaudited)</b>	<b>Three-Month Period Ended 30 June 2017 (Unaudited)</b>	<b>Three-Month Period Ended 30 June 2016 (Unaudited)</b>
<b>Interest income</b>				
Loans to customers	39 766	40 337	19 783	18 894
Deposits in credit and other financial institutions and the CBR	15 728	8 877	7 025	6 514
Financial instruments at fair value through profit or loss and available-for-sale securities	4 798	6 762	2 354	3 074
	<b>60 292</b>	<b>55 976</b>	<b>29 162</b>	<b>28 482</b>
<b>Interest expense</b>				
Due to customers	(22 159)	(27 275)	(11 232)	(13 576)
Deposits by credit institutions and the CBR	(11 487)	(2 823)	(4 546)	(1 021)
Debt securities issued	(5 938)	(5 416)	(3 098)	(2 569)
	<b>(39 584)</b>	<b>(35 514)</b>	<b>(18 876)</b>	<b>(17 166)</b>
<b>Net interest income</b>	<b>20 708</b>	<b>20 462</b>	<b>10 286</b>	<b>11 316</b>

## 5 Net fee and commission income

	<b>Six-Month Period Ended 30 June 2017 (Unaudited)</b>	<b>Six-Month Period Ended 30 June 2016 (Unaudited)</b>	<b>Three-Month Period Ended 30 June 2017 (Unaudited)</b>	<b>Three-Month Period Ended 30 June 2016 (Unaudited)</b>
<b>Fee and commission income</b>				
Guarantees and letters of credit	1 285	1 139	481	588
Plastic cards	1 216	1 080	630	565
Settlements and wire transfers	1 104	766	578	409
Cash handling	1 072	1 283	541	638
Other cash operations	1 002	776	522	405
Insurance contracts processing	985	709	589	435
Currency exchange and brokerage commission	782	214	107	106
Opening and maintenance of bank accounts	356	266	121	102
Other	217	81	191	55
	<b>8 019</b>	<b>6 314</b>	<b>3 760</b>	<b>3 303</b>
<b>Fee and commission expense</b>				
Settlements, wire transfers and plastic cards	(1 062)	(908)	(583)	(471)
Other	(100)	(88)	(60)	(48)
	<b>(1 162)</b>	<b>(996)</b>	<b>(643)</b>	<b>(519)</b>
<b>Net fee and commission income</b>	<b>6 857</b>	<b>5 318</b>	<b>3 117</b>	<b>2 784</b>

## 6 Salaries, employment benefits and administrative expenses

	<b>Six-Month Period Ended 30 June 2017 (Unaudited)</b>	<b>Six-Month Period Ended 30 June 2016 (Unaudited)</b>	<b>Three-Month Period Ended 30 June 2017 (Unaudited)</b>	<b>Three-Month Period Ended 30 June 2016 (Unaudited)</b>
Salaries	4 085	2 993	2 406	1 521
Social security costs	1 066	808	555	383
<b>Salaries and employment benefits</b>	<b>5 151</b>	<b>3 801</b>	<b>2 961</b>	<b>1 904</b>
Rent expenses	520	501	249	259
Advertising and business development	416	209	262	170
Property maintenance	307	236	174	157
Security	300	283	152	156
Operating taxes	258	219	148	137
Write-off of low-value fixed assets	95	181	53	107
Property insurance	93	94	43	41
Legal and consulting services	90	58	32	46
Communications	78	76	49	46
Computer maintenance and software expenses	74	79	35	56
Transport	59	171	33	19
Other	22	76	9	35
<b>Administrative expenses</b>	<b>2 312</b>	<b>2 183</b>	<b>1 239</b>	<b>1 229</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

	<b>Six-Month Period Ended 30 June 2017 (Unaudited)</b>	<b>Six-Month Period Ended 30 June 2016 (Unaudited)</b>
Current tax charge	611	3 371
Deferred taxation	2 345	(2 117)
<b>Income tax expense</b>	<b>2 956</b>	<b>1 254</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 2017 and 2016.

## 8 Cash and cash equivalents

	<b>30 June 2017</b> <b>(Unaudited)</b>	<b>31 December 2016</b>
Cash on hand	13 677	18 763
Correspondent account with the Central bank of the Russian Federation	41 080	22 768
<b>Nostro accounts with other banks</b>		
rated from AA+ to AA-	1 108	1 133
rated from A+ to A-	2 606	3 621
rated from BBB+ to BBB-	8 720	74 357
rated from BB+ to BB-	789	873
rated from B+ to B-	8	27
not rated	315	518
<b>Total nostro accounts with other banks</b>	<b>13 546</b>	<b>80 529</b>
<b>Deposits in credit and other financial institutions with maturity of less than 1 month</b>		
Deposits with the Central bank of the Russian Federation	1 285	-
rated from A+ to A-	9 674	5 052
rated from BBB+ to BBB-	7 351	9 608
rated from BB+ to BB-	16 904	12 444
rated from B+ to B-	64 681	64 198
not rated	231 838	159 965
<b>Total deposits in credit and other financial institutions with maturity of less than 1 month</b>	<b>331 733</b>	<b>251 267</b>
<b>Total cash and cash equivalents</b>	<b>400 036</b>	<b>373 327</b>

Ratings are based on Fitch, Moody's and Standard & Poor's rating system.

No cash and cash equivalents are impaired or past due.

The correspondent account with the Central bank of the Russian Federation represents balances held with the Central bank of the Russian Federation related to settlement activity, and was available for withdrawal at the period end.

As at 30 June 2017, receivables under reverse sale and repurchase agreements included in cash and cash equivalents are RUB 313 494 million (31 December 2016: RUB 228 616 million).

As at 30 June 2017, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 384 262 million (31 December 2016: RUB 278 955 million).

As at 30 June 2017, deposits in not rated credit and other financial institutions with maturity of less than 1 month include term deposits secured by liquid securities under agreements to resell (reverse repo) in the amount of RUB 230 136 million (31 December 2016: RUB 158 264 million).

As at 30 June 2017, the Group has two counterparties (31 December 2016: three counterparties) whose nostro accounts and deposits with maturity of less than 1 month exceed 10% of total cash and cash equivalents. The gross value of these balances as at 30 June 2017 is RUB 266 604 million (31 December 2016: RUB 256 993 million).



## 9 Deposits in credit and other financial institutions

	30 June 2017 (Unaudited)	31 December 2016
<b>Term deposits</b>		
rated from BB+ to BB-	-	1 506
rated from B+ to B-	52 858	167 063
rated from CCC+ to CCC-	8 377	29 558
not rated	213 838	205 353
<b>Total deposits in credit and other financial institutions</b>	<b>275 073</b>	<b>403 480</b>

No deposits in credit and other financial institutions are impaired or past due.

As at 30 June 2017, receivables under reverse sale and repurchase agreements included in deposits in credit and other financial institutions are RUB 266 632 million (31 December 2016: RUB 397 591 million).

As at 30 June 2017, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 325 777 million (31 December 2016: RUB 483 281 million).

As at 30 June 2017, deposits included in not rated and rated from CCC+ to CCC- credit and other financial institutions are receivables in the amount of RUB 218 834 million (31 December 2016: RUB 232 989 million) secured by liquid securities under agreements to resell (reverse repo).

As at 30 June 2017, the Group has two counterparties (31 December 2016: two counterparties) whose deposit balances exceed 10% of total deposits in credit and other financial institutions. The gross value of these balances as at 30 June 2017 is RUB 247 371 million (31 December 2016: RUB 365 788 million).

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

	30 June 2017 (Unaudited)	31 December 2016
<b><u>Held by the Group</u></b>		
<b>Government and municipal bonds</b>		
Russian Government Federal bonds (OFZ)	1 075	1 047
Russian Government Eurobonds	2 673	1 745
Regional authorities and municipal bonds	4 029	4 298
<b>Corporate bonds</b>		
from BBB+ to BBB-	24 841	33 602
from BB+ to BB-	14 394	19 614
from B+ to B-	4 883	8 583
not rated	5 843	5 926
<b>Equity investments</b>	<b>1</b>	<b>1</b>
<b>Derivative financial instruments</b>	<b>32 652</b>	<b>2 549</b>
<b>Total held by the Group</b>	<b>90 391</b>	<b>77 365</b>
<b><u>Pledged under sale and repurchase agreements</u></b>		
<b>Government and municipal bonds</b>		
Russian Government Eurobonds	-	268
<b>Corporate bonds</b>		
from BBB+ to BBB-	3 336	315
from BB+ to BB-	3 914	5 961
<b>Total pledged under sale and repurchase agreements</b>	<b>7 250</b>	<b>6 544</b>
<b>Total financial instruments at fair value through profit or loss</b>	<b>97 641</b>	<b>83 909</b>

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

As at 30 June 2017, debt instruments at fair value through profit or loss in the amount of RUB 49 670 million (31 December 2016: RUB 64 807 million) are qualified to be pledged against borrowings from the Central bank of the Russian Federation.

## 11 Available-for-sale securities

	30 June 2017 (Unaudited)	31 December 2016
<b><u>Held by the Group</u></b>		
<b>Corporate bonds</b>		
from BBB+ to BBB-	1 485	1 538
from BB+ to BB-	10 378	8 590
from B+ to B-	13 347	6 265
not rated	20 716	9 580
<b>Equity investments</b>	<u>111</u>	<u>112</u>
<b>Total held by the Group</b>	<b><u>46 037</u></b>	<b><u>26 085</u></b>
<b><u>Pledged under sale and repurchase agreements</u></b>		
<b>Corporate bonds</b>		
from BBB+ to BBB-	3 960	5 428
from BB+ to BB-	9 190	14 390
<b>Total pledged under sale and repurchase agreements</b>	<u>13 150</u>	<u>19 818</u>
<b>Total available-for-sale securities</b>	<b><u>59 187</u></b>	<b><u>45 903</u></b>

No available-for-sale securities are past due.

As at 30 June 2017, debt instruments available for sale in the amount of RUB 28 232 million (31 December 2016: RUB 31 536 million) are qualified to be pledged against borrowings from the Central bank of the Russian Federation.

## 12 Loans to customers

	30 June 2017 (Unaudited)	31 December 2016
Loans to corporate clients	663 914	566 168
Impairment allowance	(35 292)	(32 698)
<b>Total loans to corporate clients, net</b>	<u>628 622</u>	<u>533 470</u>
<b>Loans to individuals</b>		
Auto loans	713	1 183
Mortgage loans	20 876	23 861
Credit card loans	3 909	3 783
Other loans to individuals	71 416	71 743
Impairment allowance	(7 371)	(7 505)
<b>Total loans to individuals, net</b>	<u>89 543</u>	<u>93 065</u>
<b>Total gross loans to customers</b>	<b>760 828</b>	<b>666 738</b>
<b>Impairment allowance</b>	<b>(42 663)</b>	<b>(40 203)</b>
<b>Net loans to customers</b>	<b><u>718 165</u></b>	<b><u>626 535</u></b>

### Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 30 June 2017 and 31 December 2016:

	<b>30 June 2017</b> <b>(Unaudited)</b>	<b>31 December 2016</b>
<b>Loans to customers</b>		
- Not past due	688 781	617 224
- Not past due but impaired	52 594	30 214
- Overdue less than 31 days	2 916	1 857
- Overdue 31-60 days	1 059	1 210
- Overdue 61-90 days	1 395	964
- Overdue 91-180 days	4 026	1 544
- Overdue 181-360 days	3 152	6 213
- Overdue more than 360 days	6 905	7 512
<b>Total gross loans to customers</b>	<b>760 828</b>	<b>666 738</b>
<b>Impairment allowance</b>	<b>(42 663)</b>	<b>(40 203)</b>
<b>Total net loans to customers</b>	<b>718 165</b>	<b>626 535</b>

As at 30 June 2017, the gross amount of overdue loans with payments that are overdue at least for one day totals RUB 19 453 million, which represents 2.6% of the gross loan portfolio (31 December 2016: RUB 19 300 million and 2.9%, respectively).

Non-performing loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 14 083 million or 1.9% of the gross loan portfolio (31 December 2016: RUB 15 269 million and 2.3%, respectively).

As at 30 June 2017, the ratio of total impairment allowance to overdue loans equals 219.3%, the ratio of total impairment allowance to NPLs equals 302.9% (31 December 2016: 208.3%, 263.3%, respectively).

Movements in the loan impairment allowance for the six-month periods ended 30 June 2017 and 30 June 2016 are as follows:

	<b>Six-Month Period</b> <b>Ended</b> <b>30 June 2017</b> <b>(Unaudited)</b>	<b>Six-Month Period</b> <b>Ended</b> <b>30 June 2016</b> <b>(Unaudited)</b>
<b>Balance at the beginning of the period</b>	<b>40 203</b>	<b>36 874</b>
Net charge	7 377	16 229
Net write-offs	(4 917)	(6 876)
<b>Balance at the end of the period</b>	<b>42 663</b>	<b>46 227</b>

As at 30 June 2017, net interest accrued on overdue and impaired loans amounts to RUB 3 105 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 30 June 2017 and 31 December 2016:

	<b>30 June 2017</b> <b>(Unaudited)</b>	<b>31 December 2016</b>
<b>Loans to corporate clients</b>		
- Not past due	602 478	527 212
- Not past due but impaired	52 594	30 214
- Overdue less than 31 days	1 166	534
- Overdue 31-60 days	328	163
- Overdue 61-90 days	764	98
- Overdue 91-180 days	2 372	212
- Overdue 181-360 days	54	2 947
- Overdue more than 360 days	4 158	4 788
<b>Total gross loans to corporate clients</b>	<b>663 914</b>	<b>566 168</b>
<b>Impairment allowance</b>	<b>(35 292)</b>	<b>(32 698)</b>
<b>Total net loans to corporate clients</b>	<b>628 622</b>	<b>533 470</b>

As at 30 June 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 30 June 2017 would decrease/increase by RUB 12 572 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 six-month periods ended 30 June 2017 and 30 June 2016 are as follows:

	<b>Six-Month Period</b> <b>Ended</b> <b>30 June 2017</b> <b>(Unaudited)</b>	<b>Six-Month Period</b> <b>Ended</b> <b>30 June 2016</b> <b>(Unaudited)</b>
<b>Balance at the beginning of the period</b>	<b>32 698</b>	<b>27 783</b>
Net charge	4 875	12 675
Net write-offs	(2 281)	(2 933)
<b>Balance at the end of the period</b>	<b>35 292</b>	<b>37 525</b>

### Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 30 June 2017:

(Unaudited)	Auto loans	Mortgage loans	Credit card loans	Other loans to individuals	Total
<b>Loans to individuals</b>					
- Not past due	654	18 625	3 656	63 368	86 303
- Overdue less than 31 days	12	315	35	1 388	1 750
- Overdue 31-60 days	4	78	-	649	731
- Overdue 61-90 days	5	135	19	472	631
- Overdue 91-180 days	7	286	62	1 299	1 654
- Overdue 181-360 days	19	211	88	2 780	3 098
- Overdue more than 360 days	12	1 226	49	1 460	2 747
<b>Gross loans to individuals</b>	<b>713</b>	<b>20 876</b>	<b>3 909</b>	<b>71 416</b>	<b>96 914</b>
<b>Impairment allowance</b>	<b>(35)</b>	<b>(776)</b>	<b>(205)</b>	<b>(6 355)</b>	<b>(7 371)</b>
<b>Net loans to individuals</b>	<b>678</b>	<b>20 100</b>	<b>3 704</b>	<b>65 061</b>	<b>89 543</b>

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
<b>Loans to individuals</b>					
- 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
<b>Gross loans to individuals</b>	<b>1 183</b>	<b>23 861</b>	<b>3 783</b>	<b>71 743</b>	<b>100 570</b>
<b>Impairment allowance</b>	<b>(54)</b>	<b>(1 127)</b>	<b>(239)</b>	<b>(6 085)</b>	<b>(7 505)</b>
<b>Net loans to individuals</b>	<b>1 129</b>	<b>22 734</b>	<b>3 544</b>	<b>65 658</b>	<b>93 065</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 plus/minus three percent, the impairment allowance as at 30 June 2017 would decrease/increase by RUB 2 686 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 six-month period ended 30 June 2017 are as follows:

<b>(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>54</b>	<b>1 127</b>	<b>239</b>	<b>6 085</b>	<b>7 505</b>
Net charge	4	(117)	73	2 542	2 502
Net write-offs	(23)	(234)	(107)	(2 272)	(2 636)
<b>Balance at the end of the period</b>	<b>35</b>	<b>776</b>	<b>205</b>	<b>6 355</b>	<b>7 371</b>

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

<b>(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>114</b>	<b>902</b>	<b>545</b>	<b>7 530</b>	<b>9 091</b>
Net charge	11	516	134	2 893	3 554
Net write-offs	(48)	(20)	(317)	(3 558)	(3 943)
<b>Balance at the end of the period</b>	<b>77</b>	<b>1 398</b>	<b>362</b>	<b>6 865</b>	<b>8 702</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 June 2017 (Unaudited)</b>	<b>31 December 2016</b>
Loans to individuals	96 914	100 570
Oil and industrial chemicals	181 113	101 345
Financial	78 377	59 203
Property rental	77 289	62 505
Residential and commercial construction and development	54 911	45 749
Automotive, motorcycles and spare parts	49 202	49 693
Food and farm products	47 122	72 255
Services	37 431	44 747
Pharmaceutical and medical products	25 940	20 145
Metallurgical	23 472	39 914
Industrial and infrastructure construction	22 550	21 246
Industrial equipment and machinery	19 734	14 147
Construction and decorative materials, furniture	14 874	11 918
Consumer electronics, appliances and computers	14 264	8 251
Clothing, shoes, textiles and sporting goods	7 591	8 599

	<b>30 June 2017</b> <b>(Unaudited)</b>	<b>31 December 2016</b>
Consumer chemicals, perfumes and hygiene products	2 645	917
Government and municipal bodies	2 611	1 422
Equipment leasing	1 949	318
Paper, stationery and packaging products	1 694	2 628
Other	1 145	1 166
<b>Total gross loans to customers</b>	<b>760 828</b>	<b>666 738</b>
Impairment allowance	(42 663)	(40 203)
<b>Net loans to customers</b>	<b>718 165</b>	<b>626 535</b>

### 13 Deposits by the Central bank of the Russian Federation

	<b>30 June 2017</b> <b>(Unaudited)</b>	<b>31 December 2016</b>
Payables under repurchase agreements	136 090	247 170
<b>Total deposits by the Central bank of the Russian Federation</b>	<b>136 090</b>	<b>247 170</b>

As at 30 June 2017, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 161 805 million (31 December 2016: RUB 285 678 million).

### 14 Deposits by credit institutions

	<b>30 June 2017</b> <b>(Unaudited)</b>	<b>31 December</b> <b>2016</b>
Payables under repurchase agreements	266 737	247 011
Term deposits	43 430	129 999
Syndicated debt	29 946	-
Current accounts	2 737	3 991
Subordinated debt	303	623
<b>Total deposits by credit institutions</b>	<b>343 153</b>	<b>381 624</b>

As at 30 June 2017, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 306 473 million (31 December 2016: RUB 284 635 million).

As at 30 June 2017, the Group has two counterparties (31 December 2016: two counterparties) whose deposits balances exceed 10% of deposits by credit institutions. The gross value of these balances as at 30 June 2017 is RUB 245 442 million (31 December 2016: RUB 329 968 million).



## 15 Debt securities issued

	30 June 2017 (Unaudited)	31 December 2016
Promissory notes issued at nominal value	-	1 145
<b>Total promissory notes issued</b>	<b>-</b>	<b>1 145</b>
Bonds	88 540	95 252
Subordinated bonds	51 970	40 806
<b>Total bonds issued</b>	<b>140 510</b>	<b>136 058</b>
<b>Total debt securities issued</b>	<b>140 510</b>	<b>137 203</b>

## 16 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 June 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 30 June 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.

In May 2017 the Group issued subordinated perpetual Eurobonds in the amount of USD 700 million at par with a coupon rate of 8.875% per annum. The Group has the right to call the Eurobonds in November 2022 or on any subsequent coupon payment date thereafter at the option of the Group. The coupon is paid on a quarterly basis and the coupon rate is fixed until the first call date after which it is reset every 5 years. The coupon payment is not cumulative and may be cancelled at the discretion of the Group.

As the Group has discretion in relation to coupon and principal repayment, the Group classified subordinated perpetual Eurobonds as an equity instrument in the consolidated interim condensed statement of financial position. The Central bank of the Russian Federation (CBR) approved the inclusion of the perpetual Eurobonds in the calculation of statutory capital adequacy ratio. The Eurobonds are Basel-III compliant and eligible for inclusion into the Group's Additional Tier 1 capital upon receiving approval from the CBR (Note 20).

The USD denominated subordinated perpetual Eurobonds are translated to its RUB equivalent at the period-end exchange rate with exchange differences recorded in retained earnings when incurred. Issuance costs are also recorded in retained earnings when incurred.

## 17 Commitments

	30 June 2017 (Unaudited)	31 December 2016
Guarantees and letters of credit	75 319	101 612
Undrawn loan commitments	26 875	26 677
Other contingent liabilities	137	322
	<b>102 331</b>	<b>128 611</b>

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

## **18 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.

## 19 Related party transactions

The outstanding balances with related parties and related average interest rates as at 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017 (Unaudited)		31 December 2016	
	Amount	Average effective interest rate	Amount	Average effective interest rate
<b>Loans to customers</b>				
Under control of principal beneficiary	25 999	13.7%	18 318	14.2%
Management	87	16.0%	70	16.4%
<b>Total loans to customers</b>	<b>26 086</b>		<b>18 388</b>	
<b>Due to customers</b>				
<b>Term deposits by customers</b>				
Principal beneficiary	823	6.5%	828	9.9%
Under control of principal beneficiary	800	7.5%	241	10.0%
Management	425	4.9%	145	5.0%
Parent company	-	-	977	10.1%
<b>Total term deposits by customers</b>	<b>2 048</b>		<b>2 191</b>	
<b>Current accounts by customers</b>				
Parent company	917		-	
Under control of principal beneficiary	388		68	
Management	39		64	
Principal beneficiary	7		3	
<b>Total current accounts by customers</b>	<b>1 351</b>		<b>135</b>	
<b>Total due to customers</b>	<b>3 399</b>		<b>2 326</b>	
<b>Guarantees issued</b>				
Under control of principal beneficiary	79		343	
<b>Total guarantees</b>	<b>79</b>		<b>343</b>	

Amounts included in profit or loss and other comprehensive income for the six-month periods ended 30 June 2017 and 30 June 2016 in relation to transactions with related parties are as follows:

	Six-Month Period Ended 30 June 2017 (Unaudited)	Six -Month Period Ended 30 June 2016 (Unaudited)
<b>Interest income on loans to customers</b>		
Under control of principal beneficiary	1 620	119
Parent company	58	-
Management	6	5
<b>Total interest income</b>	<b>1 684</b>	<b>124</b>
<b>Interest expense on due to customers</b>		
Under control of principal beneficiary	32	214
Majority beneficiary	31	9
Parent company	26	35
Management	6	4
<b>Total interest expense</b>	<b>95</b>	<b>262</b>

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the six-month periods ended 30 June 2017 and 30 June 2016 (refer to note 6) is as follows:

	<b>Six-Month Period Ended 30 June 2017 (Unaudited)</b>	<b>Six -Month Period Ended 30 June 2016 (Unaudited)</b>
Board Members of the Management Board	327	48
Members of the Supervisory Board	35	40
	<b>362</b>	<b>88</b>

## 20 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 June 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 30 June 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 30 June 2017 and 31 December 2016 is as follows:

	<b>30 June 2017</b> <b>(Unaudited)</b>	<b>31 December 2016</b>
<b>Tier 1 capital</b>		
Share capital and additional paid-in capital	59 789	59 789
Retained earnings	52 008	42 434
Intangible assets	(365)	(314)
<b>Core tier 1</b>	<b>111 432</b>	<b>101 909</b>
Additional capital		
Perpetual debt issued	41 360	-
<b>Total tier 1 capital</b>	<b>152 792</b>	<b>101 909</b>
<b>Tier 2 capital</b>		
Revaluation surplus for buildings	688	688
Revaluation reserve for investments available-for-sale	492	451
Subordinated loans	36 199	38 464
Subordinated bonds	43 434	18 294
<b>Total tier 2 capital</b>	<b>80 813</b>	<b>57 897</b>
<b>Total capital</b>	<b>233 605</b>	<b>159 806</b>
<b>Risk-weighted assets</b>		
Banking book	847 527	869 092
Trading book	144 669	138 703
Operational risk	77 593	77 593
<b>Total risk weighted assets</b>	<b>1 069 789</b>	<b>1 085 388</b>
<b>Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)</b>	<b>21.8</b>	<b>14.7</b>
<b>Total tier 1 capital expressed as a percentage of risk-weighted assets (Core tier 1 capital ratio) (%)</b>	<b>10.4</b>	<b>9.4</b>
<b>Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)</b>	<b>14.3</b>	<b>9.4</b>

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.

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.

## 21 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:

	<b>30 June 2017</b>	<b>31 December 2016</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Corporate banking	649 834	552 400
Retail banking	93 189	95 693
Treasury	815 715	887 856
Cash operations	16 414	18 763
Unallocated assets	13 815	13 257
<b>Total assets</b>	<b>1 588 967</b>	<b>1 567 969</b>
<b>LIABILITIES</b>		
Corporate banking	532 836	440 604
Retail banking	278 729	248 654
Treasury	614 300	763 107
Cash operations	2 159	3 289
Unallocated liabilities	6 568	8 914
<b>Total liabilities</b>	<b>1 434 592</b>	<b>1 464 568</b>

Segment information for the main reportable segments for the six-month period ended 30 June 2017 is set below:

<b>(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	31 669	8 128	20 487	8	-	60 292
Fee and commission income	2 248	3 044	634	2 093	-	8 019
Net gain on securities	-	-	728	-	-	728
Net foreign exchange gain	-	-	1 235	-	-	1 235
Other operating income (expenses), net	899	160	(1 282)	(8)	-	(231)
(Expenses) revenue from other segments	(4 063)	5 465	(1 726)	324	-	-
<b>Revenue</b>	<b>30 753</b>	<b>16 797</b>	<b>20 076</b>	<b>2 417</b>	<b>-</b>	<b>70 043</b>
Impairment losses on loans	(4 875)	(2 502)	-	-	-	(7 377)
Interest expense	(12 503)	(9 997)	(17 084)	-	-	(39 584)
Fee and commission expense	(3)	(1 041)	(109)	(9)	-	(1 162)
General administrative and other expenses	(1 477)	(2 582)	(216)	(2 264)	(2 417)	(8 956)
<b>Expense</b>	<b>(18 858)</b>	<b>(16 122)</b>	<b>(17 409)</b>	<b>(2 273)</b>	<b>(2 417)</b>	<b>(57 079)</b>
<b>Segment result</b>	<b>11 895</b>	<b>675</b>	<b>2 667</b>	<b>144</b>	<b>(2 417)</b>	<b>12 964</b>

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

<b>(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	30 327	10 010	15 639	-	-	55 976
Fee and commission income	1 709	2 445	102	2 058	-	6 314
Net gain on securities	-	-	737	-	-	737
Net foreign exchange gain	302	58	1 802	-	-	2 162
Other operating income, net	648	103	29	-	-	780
Revenue (expenses) from other segments	4 508	3 731	(8 434)	195	-	-
<b>Revenue</b>	<b>37 494</b>	<b>16 347</b>	<b>9 875</b>	<b>2 253</b>	<b>-</b>	<b>65 969</b>
Impairment losses on loans	(12 675)	(3 554)	-	-	-	(16 229)
Interest expense	(18 111)	(9 164)	(8 239)	-	-	(35 514)
Fee and commission expense	(843)	(105)	(48)	-	-	(996)
General administrative and other expenses	(2 220)	(2 019)	(123)	(815)	(1 732)	(6 909)
<b>Expense</b>	<b>(33 849)</b>	<b>(14 842)</b>	<b>(8 410)</b>	<b>(815)</b>	<b>(1 732)</b>	<b>(59 648)</b>
<b>Segment result</b>	<b>3 645</b>	<b>1 505</b>	<b>1 465</b>	<b>1 438</b>	<b>(1 732)</b>	<b>6 321</b>

### Information about 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.

## 22 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 June 2017:

<b>(unaudited)</b>	<b>Fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Available- for-sale</b>	<b>Other amortized cost</b>	<b>Total carrying amount</b>	<b>Fair value</b>
Cash and cash equivalents	-	400 036	-	-	400 036	400 036
Obligatory reserves with the CBR	-	8 197	-	-	8 197	8 197
Deposits in credit and other financial institutions	-	275 073	-	-	275 073	275 073
Financial instruments at fair value through profit or loss	97 641	-	-	-	97 641	97 641
Available-for-sale securities	-	-	59 187	-	59 187	59 075
Loans to customers	-	718 165	-	-	718 165	723 438
Other financial assets	-	1 444	-	-	1 444	1 444
	<b>97 641</b>	<b>1 402 915</b>	<b>59 187</b>	<b>-</b>	<b>1 559 743</b>	<b>1 564 904</b>
Deposits by the CBR	-	-	-	136 090	136 090	136 090
Deposits by credit institutions	-	-	-	343 153	343 153	343 153
Due to customers	26 426	-	-	777 722	804 148	806 558
Debt securities issued	-	-	-	140 510	140 510	144 174
Other financial liabilities	1 335	-	-	1 464	2 799	2 799
	<b>27 761</b>	<b>-</b>	<b>-</b>	<b>1 398 939</b>	<b>1 426 700</b>	<b>1 432 774</b>

The main assumptions used by management to estimate the fair values of financial instruments as at 30 June 2017 are:

- discount rates from 9.6% to 16.0% (roubles) and from 3.1% to 9.0% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 12.8% to 27.2% (roubles) and from 9.0% to 11.6% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 6.0% to 9.2% (roubles) and from 0.6% to 3.4% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 7.0% to 8.8% (roubles) and from 0.6% to 1.0% (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 2016:

	Fair value through profit or loss	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
	<b>83 909</b>	<b>1 412 474</b>	<b>45 903</b>	<b>-</b>	<b>1 542 286</b>	<b>1 543 888</b>
Deposits by the CBR	-	-	-	247 170	247 170	247 170
Deposits by credit institutions	-	-	-	381 624	381 624	381 624
Due to 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	2 966
	<b>1 081</b>	<b>-</b>	<b>-</b>	<b>1 457 378</b>	<b>1 458 459</b>	<b>1 466 397</b>

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, comparison to similar instruments for which market-observable prices exist, Monte Carlo and polynomial-option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

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 June 2017 and 31 December 2016:

<b>30 June 2017 (Unaudited)</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial instruments at fair value through profit or loss	64 989	32 652	-	<b>97 641</b>
Available-for-sale securities	57 572	1 504	-	<b>59 076</b>
Loans to customers	-	-	723 438	<b>723 438</b>
Due to customers	-	806 558	-	<b>806 558</b>
Debt securities issued	144 174	-	-	<b>144 174</b>
Other financial liabilities	-	2 799	-	<b>2 799</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>31 December 2016</b>				
Financial instruments at fair value through profit or loss	81 360	2 549	-	<b>83 909</b>
Available-for-sale securities	45 792	-	-	<b>45 792</b>
Loans to customers	-	-	628 248	<b>628 248</b>
Due to customers	-	694 976	-	<b>694 976</b>
Debt securities issued	138 516	1 145	-	<b>139 661</b>
Other financial liabilities	-	2 966	-	<b>2 966</b>

During six-month period ended 30 June 2017 there were no transfers of assets between Level 1 and Level 2.

## 23 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:

	Six-Month Period Ended 30 June 2017 (Unaudited)	Six-Month Period Ended 30 June 2016 (Unaudited)	Three-Month Period Ended 30 June 2017 (Unaudited)	Three-Month Period Ended 30 June 2016 (Unaudited)
Profit for the period	10 008	5 067	5 415	3 410
Weighted average number of ordinary shares in issue	23 879 709 866	23 879 709 866	23 879 709 866	23 879 709 866
<b>Basic and diluted earnings per share (in RUB per share)</b>	<b>0.42</b>	<b>0.21</b>	<b>0.23</b>	<b>0.14</b>

## 24 Events subsequent to the reporting date

In July 2017 the Group paid out the 6th coupon in the amount of RUB 214.3 million or RUB 54.55 per bond on domestic bonds series BO-10. The issue was originally placed on 10 July 2014 with a maturity of 5 years. The nominal value of the issue is RUB 5 billion.

In July 2017 the Group paid out the 6th coupon in the amount of RUB 831.1 million or RUB 59.51 per bond on domestic bonds series BO-11. The issue was originally placed on 10 July 2014 with a maturity of 5 years. The nominal value of the issue is RUB 15 billion.

In July 2017 the Group acquired 5 665 181 domestic exchange bonds series BO-11 from the holders based on a put option at the price 100% of par value. The issue was originally placed on 10 July 2014 with a maturity of 5 years. The nominal value of the issue is RUB 15 billion.

In August 2017 the Group paid out the 1st coupon in the amount of USD 15.5 million on perpetual subordinated Loan Participation Notes. The issue was originally placed in May 2017. The nominal value of the issue is USD 700 million.

In August 2017 the Group paid out the 9th coupon in the amount of USD 19.2 million on Loan Participation Notes. The issue was originally placed in February 2013 with a maturity of 5 years. The nominal value of the issue is USD 500 million.

Chairman of the Management Board



Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass

18 August 2017