Russian Agricultural Bank Group

Interim Condensed Consolidated Financial Statements with Independent Auditor's Report on Review of Interim Condensed Consolidated Financial Statements

30 September 2016

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Report on review of interim condensed consolidated financial statements

To the Shareholder and Supervisory Board of
Russian Agricultural Bank Group

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of JSC Russian Agricultural Bank and its subsidiaries (together the "Group") as at 30 September 2016, which comprise the interim consolidated statement of financial position as at 30 September 2016 and the related interim consolidated statements of profit or loss and other comprehensive income for the three-month and the nine-month periods then ended, interim consolidated statements of changes in equity and of cash flows for the nine months period then ended and selected explanatory notes.

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Ernst & Young LLC

25 November 2016

Moscow, Russia

In millions of Russian Roubles	Note	30 September 2016 (unaudited)	31 December 2015
Assets			
Cash and cash equivalents		218 875	168 232
Mandatory cash balances with the Central Bank of the Russian Federation		10 785	7 739
Trading securities		35 461	485
Financial instruments designated at fair value through profit or loss		2 293	5 069
Due from other banks		100 574	61 101
Derivative financial instruments	18	130 459	166 712
Loans and advances to customers	5	1 651 358	1 625 637
Investment securities available for sale		232 127	211 196
Investment securities held to maturity		33 770	28 758
Investment securities pledged under repurchase agreements	17	-	7 836
Current income tax assets		1 141	1 024
Deferred income tax asset		15 843	15 911
Intangible assets		2 883	2 613
Premises and equipment		18 313	23 624
Other assets		16 296	20 654
Assets of the disposal groups held for sale and assets held for sale		306	1 861
Total assets		**2 470 484**	**2 348 452**
Liabilities			
Derivative financial instruments	18	364	204
Due to other banks	7	69 715	97 256
Customer accounts	8	1 520 707	1 189 856
Promissory notes issued		13 162	14 637
Bonds issued	9	510 875	609 824
Current income tax liability		247	14
Deferred income tax liability		502	1 183
Other liabilities		12 239	12 795
Liabilities directly associated with disposal groups held for sale		-	1 769
Total liabilities before subordinated debts		**2 127 811**	**1 927 538**
Subordinated debts	10	159 648	225 109
Total liabilities		**2 287 459**	**2 152 647**
Equity			
Share capital		335 598	327 598
Perpetual bonds	11	10 000	-
Revaluation reserve for premises		1 171	1 213
Revaluation reserve for investment securities available for sale		4 737	279
Accumulated loss		(169 089)	(134 018)
Equity attributable to the Bank's shareholder		**182 417**	**195 072**
Non-controlling interest		**608**	**733**
Total equity		**183 025**	**195 805**
Total liabilities and equity		**2 470 484**	**2 348 452**

Approved for issue and signed on behalf of the Management Board on 25 November 2016.

Акционерное общество «Российский Сельскохозяйственный банк» АО «Россельхозбанк» ОГРН 1027700342890 МОСКВА

D.N. Patrushev
Chairman of the Management Board

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

The notes set out on pages 5 to 35 form an integral part of these interim condensed consolidated financial statements.

(Unaudited) *In millions of Russian Roubles*	Note	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015	For the three months ended 30 September 2016	For the three months ended 30 September 2015
Interest income	12	181 327	142 942	60 838	49 974
Interest expense	12	(138 572)	(128 048)	(45 134)	(42 067)
Net interest income		**42 755**	**14 894**	**15 704**	**7 907**
Provision for loan impairment		(59 210)	(69 352)	(17 988)	(24 683)
Net interest expense after provision for loan impairment		**(16 455)**	**(54 458)**	**(2 284)**	**(16 776)**
Fee and commission income	13	11 557	9 465	4 375	3 766
Fee and commission expense	13	(1 389)	(880)	(497)	(346)
(Losses net of gains)/gains less losses from trading securities		(45)	(8)	10	4
(Losses net of gains)/gains less losses from financial instruments designated at fair value through profit or loss		(72)	627	36	17
Gains less losses/(losses net of gains) from investment securities available for sale		2 149	(825)	546	245
Recovery of losses/(losses) from impairment of investment securities available for sale		26	(581)	8	(745)
Foreign exchange translation gains less losses/(losses net of gains)		32 679	(36 721)	4 000	(38 183)
(Losses net of gains)/gains less losses from derivative financial instruments		(27 958)	39 637	(4 628)	39 014
Gains less losses from dealing in foreign currencies		1 720	1 417	240	451
Provision for credit related commitments and other assets impairment		(231)	(187)	(26)	(270)
Losses net of gains from early redemption of borrowed funds		-	(2)	(3)	(123)
Gains from non-banking activities		6 641	5 295	2 135	1 932
Losses from non-banking activities		(9 935)	(5 927)	(3 164)	(1 892)
(Loss)/gain on disposal of subsidiaries		(253)	147	76	528
Other operating income		1 508	1 249	314	223
Administrative and other operating expenses		(34 197)	(29 621)	(11 016)	(9 542)
Loss before tax		**(34 255)**	**(71 373)**	**(9 878)**	**(21 697)**
Income tax (expense)/credit		(854)	3 499	30	(754)
Loss for the period		**(35 109)**	**(67 874)**	**(9 848)**	**(22 451)**
(Loss)/profit is attributable to:					
Shareholder of the Bank		(34 990)	(67 768)	(9 749)	(22 455)
Non-controlling interest		(119)	(106)	(99)	4
Loss for the period		**(35 109)**	**(67 874)**	**(9 848)**	**(22 451)**
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:					
Investment securities available for sale:					
- Revaluation of securities at fair value		7 721	8 689	514	788
- Realised revaluation reserve (at disposal)		(2 149)	825	(546)	(245)
- Reclassification to profit or loss at impairment		-	208	-	208
Income tax		(1 114)	(1 944)	7	(150)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods, net of tax		**4 458**	**7 778**	**(25)**	**601**
Total other comprehensive income/(loss)		**4 458**	**7 778**	**(25)**	**601**
Total comprehensive loss for the period		**(30 651)**	**(60 096)**	**(9 873)**	**(21 850)**
Total comprehensive (loss)/income is attributable to:					
Shareholder of the Bank		(30 532)	(59 990)	(9 774)	(21 854)
Non-controlling interest		(119)	(106)	(99)	4
Total comprehensive loss for the period		**(30 651)**	**(60 096)**	**(9 873)**	**(21 850)**

In millions of Russian Roubles	Note	Attributable to shareholder of the Bank: Share capital	Perpetual bonds	Revaluation reserve for premises	Revaluation reserve for investment securities available for sale	(Accumulated loss)/ retained earnings	Total	Non-controlling interest	Total equity
Balance at 31 December 2014		**248 798**	**-**	**1 194**	**(12 403)**	**(39 922)**	**197 667**	**332**	**197 999**
Loss for the period, net of tax		-	-	-	-	(67 768)	**(67 768)**	(106)	**(67 874)**
Other comprehensive income for the period, net of tax		-	-	-	7 778	-	**7 778**	-	**7 778**
Total comprehensive income/(loss) for the period, net of tax		**-**	**-**	**-**	**7 778**	**(67 768)**	**(59 990)**	**(106)**	**(60 096)**
Share issue		10 000	-	-	-	-	**10 000**	-	**10 000**
Disposal of subsidiaries		-	-	-	-	-	**-**	474	**474**
Depreciation of revaluation reserve for premises		-	-	(20)	-	20	**-**	-	**-**
Balance at 30 September 2015 (unaudited)		**258 798**	**-**	**1 174**	**(4 625)**	**(107 670)**	**147 677**	**700**	**148 377**
Balance at 31 December 2015		**327 598**	**-**	**1 213**	**279**	**(134 018)**	**195 072**	**733**	**195 805**
Loss for the period, net of tax		-	-	-	-	(34 990)	**(34 990)**	(119)	**(35 109)**
Other comprehensive income for the period, net of tax		-	-	-	4 458	-	**4 458**	-	**4 458**
Total comprehensive income/(loss) for the period, net of tax		**-**	**-**	**-**	**4 458**	**(34 990)**	**(30 532)**	**(119)**	**(30 651)**
Share issue	20	8 000	-	-	-	-	**8 000**	-	**8 000**
Disposal of subsidiaries		-	-	-	-	-	**-**	(6)	**(6)**
Depreciation of revaluation reserve for premises		-	-	(42)	-	42	**-**	-	**-**
Perpetual bonds issue	11	-	10 000	-	-	-	**10 000**	-	**10 000**
Transaction costs on perpetual bonds issue		-	-	-	-	(154)	**(154)**	-	**(154)**
Tax effect recognized on perpetual bonds		-	-	-	-	31	**31**	-	**31**
Balance at 30 September 2016 (unaudited)		**335 598**	**10 000**	**1 171**	**4 737**	**(169 089)**	**182 417**	**608**	**183 025**

(Unaudited) In millions of Russian Roubles	Note	For the nine months ended 30 September 2016	2015
Cash flows from operating activities			
Interest received		190 521	142 268
Interest paid		(125 322)	(115 551)
Income received/(expenses incurred) from trading in securities and financial instruments designated at fair value through profit or loss		2 356	(728)
Income received from derivative financial instruments		8 455	29 436
Income received from dealing in foreign currencies		1 720	1 417
Fees and commissions received		11 936	9 515
Fees and commissions paid		(1 389)	(1 590)
Other operating income received		692	699
Net income received from insurance operations		617	937
Income received from non-banking activities		4 045	3 872
Losses incurred from non-banking activities		(6 359)	(3 801)
Administrative and other operating expenses paid		(29 317)	(26 624)
Income tax paid		(1 959)	(276)
Cash flows from operating activities before changes in operating assets and liabilities		**55 996**	**39 574**
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation		(3 046)	2 121
Net increase in trading securities		(32 851)	(661)
Net decrease in financial instruments designated at fair value through profit or loss		1 258	4 334
Net increase in due from other banks		(42 032)	(23 175)
Net increase in loans and advances to customers		(133 331)	(199 684)
Net decrease/(increase) in other assets		5 278	(8 237)
Net decrease in due to other banks		(25 976)	(105 071)
Net increase in customer accounts		334 309	333 674
Net decrease in promissory notes issued		(959)	(11 892)
Net decrease in other liabilities		(1 007)	(346)
Net cash from operating activities		**157 639**	**30 637**
Cash flows from investing activities			
Acquisition of premises and equipment		(1 063)	(1 641)
Proceeds from disposal of premises and equipment		186	387
Acquisition of intangible assets		(888)	(768)
Acquisition of investment securities available for sale		(219 897)	(56 992)
Proceeds from disposal of investment securities available for sale		200 118	68 682
Proceeds from redemption of investment securities held to maturity		3 034	660
Proceeds from sale of subsidiaries		440	-
Net cash (used in)/from investing activities		**(18 070)**	**10 328**
Cash flows from financing activities			
Issue of ordinary shares	20	8 000	10 000
Proceeds from bonds issued		-	15 000
Repayment of bonds issued	9	(44 438)	(38 981)
Proceeds from sale of previously bought back bonds issued on domestic market	9	27 575	10 723
Buy back of bonds issued at or prior to put option date	9	(40 294)	(14 298)
Proceeds from sale of previously bought back Eurobonds issued		14 566	2 921
Buy back of Eurobonds issued		(14 010)	(3 224)
Proceeds from sale of previously bought back subordinated debts		16 713	-
Buy back of subordinated debts		(8 553)	-
Repayment of subordinated debts	10	(51 340)	-
Proceeds from subordinated debts		-	30 000
Perpetual bonds issue less transaction costs	11	9 846	-
Net cash (used in)/from financing activities		**(81 935)**	**12 141**
Effect of exchange rate changes on cash and cash equivalents		**(6 991)**	**(102)**
Net increase in cash and cash equivalents		**50 643**	**53 004**
Cash and cash equivalents at the beginning of the period		168 232	105 009
Cash and cash equivalents at the end of the period		**218 875**	**158 013**

1 Introduction

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) for the nine and three months ended 30 September 2016 for Joint Stock Company Russian Agricultural Bank (the “Bank”) and its subsidiaries (together referred to as the “Group”).

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

The Bank’s only shareholder is the Russian Federation acting through the Federal Agency for Managing State Property which holds the Bank’s issued and outstanding ordinary shares (71.99% from total share capital (31 December 2015: 71.3% from total share capital)), the Ministry of Finance of the Russian Federation which holds the Bank’s issued and outstanding preference shares (7.47% from total share capital (31 December 2015: 7.65% from total share capital)) and the State Corporation “Deposit Insurance Agency” which holds the Bank’s issued and outstanding preference shares (20.54% from total share capital (31 December 2015: 21.05% from total share capital)).

The Group’s structure comprises of the Bank and its subsidiaries. Principal subsidiaries of the Bank are Closed Joint Stock Company RSHB Insurance (ownership interest of the Bank is 100%), RSHB Capital S.A. (structured entity incorporated for Eurobonds issue for the Bank), Limited Liability Company RSHB Asset Management (ownership interest of the Bank is 100%) and 34 companies and funds operating in agricultural and other industries (ownership interest of the Bank is from 13% to 100%).

In February 2016 as a result of insolvency procedures the Group lost control over two its subsidiaries in Tula Region (CJSC “Khomyakovsky khladokombinat” and LLC “Optovie tekhnologii”) and recognized loss from disposal of subsidiaries in the amount of RR 329 million.

In July 2016 the Group lost control over the following subsidiaries due to their disposal: OJSC “Beloglinskiy elevator”, OJSC “Eyanskiy elevator”, OJSC “Krylovskiy elevator”, OJSC “Ladozhskiy elevator”, OJSC “Malorossiyskiy elevator”, OJSC “Rovnenskiy elevator” and OJSC “Umanskiy elevator”. The gain from disposal of subsidiaries was RR 76 million.

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

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

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

The Bank has 74 (31 December 2015: 76) branches within the Russian Federation. The Bank’s registered address is 119034 Russia, Moscow, Gagarinsky Pereulok, 3. The Bank’s principal place of business is 119019 Russia, Moscow, Arbat, 1.

The number of the Group’s employees as at 30 September 2016 was 30 386 (31 December 2015: 31 817).

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

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation.

The Russian economy continues to show recessionary trend. The first nine months of 2016 economic indicators reflect maintaining the main negative factors for economic development. The duration and depth of the recession were largely caused by such factors as unfavourable raw material market conjuncture, particularly, significant drop in crude oil prices, devaluation of the Russian Rouble, the effect of international sanctions imposed against certain Russian companies and individuals, reduction of investments and decline in the household consumption.

During the nine months ended 30 September 2016, the following were the key changes in selected macro-economic indicators:

- the CBRF exchange rate appreciated from RR 72.8827 to RR 63.1581 per US Dollar;
- the CBRF key rate decreased from 11.0% p.a. to 10.0% p.a.;
- the RTS stock exchange index increased from 757.0 to 990.9.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

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

3 Summary of Significant Accounting Policies

Basis of preparation. These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2015, which have been prepared in accordance with IFRS.

The functional currency of the Bank and its subsidiaries, and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles. As at 30 September 2016 the principal rates of exchange used for translating foreign currency balances were USD 1 = RR 63.1581 (31 December 2015: USD 1 = RR 72.8827), EUR 1 = RR 70.8823 (31 December 2015: EUR 1 = RR 79.6972).

The accounting policies applied in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the changes introduced due to implementation of new and/or revised standards and interpretations as at 1 January 2016 or as at the date indicated, noted below:

IFRS 14 Regulatory Deferral Accounts. IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

Amendments to IFRS 11 — Accounting for Acquisitions of Interests in Joint Arrangements. The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

3 Summary of Significant Accounting Policies (Continued)

Amendments to IAS 16 and IAS 38 — Clarification of Acceptable Methods of Depreciation and Amortisation. The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. These amendments do not have any impact on the Group's consolidated financial statements given that the Group does not use a revenue-based method to depreciate its noncurrent assets.

Amendments to IAS 16 and IAS 41 — Agriculture: Bearer Plants. The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IAS 27 — Equity Method in Separate Financial Statements. The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. These amendments do not have any impact on the Group's consolidated financial statements.

Disclosure Initiative Amendments to IAS 1. The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. These amendments do not have any impact on the Group's consolidated financial statements.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (these amendments must be applied retrospectively). The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments do not have any impact on the Group's consolidated financial statements as the Group does not apply the consolidation exception.

3 Summary of Significant Accounting Policies (Continued)

Annual improvements to IFRSs 2012-2014 Cycle. The improvements consist of changes in the following standards:

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* — changes in methods of disposal. Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- *IFRS 7 Financial Instruments: Disclosures* — servicing contracts. IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- *IFRS 7 Financial Instruments: Disclosures* — applicability of the offsetting disclosures to condensed interim financial statements. In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that “An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report. The amendment removes the phrase ’and interim periods within those annual periods’, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report.
- *IAS 19 Employee Benefits* — regional market issue regarding discount rate. The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *IAS 34 Interim Financial Reporting* — disclosure of information ‘elsewhere in the interim financial report’. The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively.

The above mentioned amended standards effective for the Group from 1 January 2016 does not have any material impact on the accounting policies, financial position or performances of the Group.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in a particular group.

Management determined loan impairment provisions using the “incurred loss” model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 5.

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

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

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values. Refer to Note 18.

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

Structured entities. The Group considers RSHB Capital S.A. incorporated for Eurobonds issue for the Bank as consolidated structured entity under IFRS 12 requirements. As at 30 September 2016 the Group guarantees all obligations of the consolidated structured entity represented by Eurobonds issued in the amount of RR 339 445 million and subordinated debts in the amount of RR 32 667 million (31 December 2015: Eurobonds issued in the amount of RR 425 485 million and subordinated debts in the amount of RR 85 735 million). During nine months ended 30 September 2016 and the year 2015 the Group did not provide any other financial support to the consolidated structured entity. The Group has no other current obligation or intention neither to provide financial or other support to the consolidated structured entity nor to assist it in obtaining financial support.

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

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

Changes in presentation. Started from 30 June 2016, the Group presents gains net of losses from sale of loans to customers within provision for loan impairment. The reclassification and its impact on comparative period information for the nine months ended 30 September 2015 and three months ended 30 September 2015 in the interim consolidated statement of profit or loss and other comprehensive income are as follows:

(Unaudited) *In millions of Russian Roubles*	**Nine months ended 30 September 2015** As previously reported	Reclassifi-cation	As adjusted	**Three months ended 30 September 2015** As previously reported	Reclassifi-cation	As adjusted
Administrative expenses	(30 996)	1 375	(29 621)	(10 235)	693	(9 542)
Provision for loan impairment	(67 977)	(1 375)	(69 352)	(23 990)	(693)	(24 683)

The reclassification within interim consolidated statement of profit or loss and other comprehensive income for period of the nine months ended 30 September 2015 impacted on comparative information in Note 5, data before and after reclassification is presented below:

(Unaudited) *In millions of Russian Roubles*	**For the nine months ended 30 September 2015** As previously reported	Reclassifi-cation	As adjusted
Analysis of the movements in the provision for loan impairment			
Provision/(recovery of provision) for loan impairment during the period	67 977	1 375	69 352
Provision for loans sold during the period	(6 482)	(1 375)	(7 857)

5 Loans and Advances to Customers

In millions of Russian Roubles	**30 September 2016 (unaudited)**	**31 December 2015**
Loans to legal entities		
- Loans to corporates	1 474 514	1 480 739
- Lending for food interventions	29 847	16 020
- Deals with securities purchased under “reverse repo agreements”	-	10 913
- Investments in agricultural cooperatives	400	391
Loans to individuals	320 810	296 798
Total loans and advances to customers (before impairment)	**1 825 571**	**1 804 861**
Less: provision for loan impairment	(174 213)	(179 224)
Total loans and advances to customers	**1 651 358**	**1 625 637**

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

As at 30 September 2016, the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 387 555 million (before impairment), or 21% of total loans and advances to customers (before impairment) (31 December 2015: the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 342 726 million (before impairment), or 19% of total loans and advances to customers (before impairment).

5 Loans and Advances to Customers (Continued)

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

(Unaudited) *In millions of Russian Roubles*	For the nine months ended 30 September 2016 Loans to corporates	Investments in agricultural cooperatives	Loans to individuals	Total	For the nine months ended 30 September 2015 Loans to corporates	Investments in agricultural cooperatives	Loans to individuals	Total
Provision for loan impairment at 1 January	**166 293**	**63**	**12 868**	**179 224**	**129 678**	**26**	**7 775**	**137 479**
Provision/(recovery of provision) for loan impairment during the period	53 259	(33)	5 960	**59 186**	66 302	24	3 026	**69 352**
Provision for loans sold during the period	(37 382)	-	(4 157)	**(41 539)**	(7 770)	-	(87)	**(7 857)**
Loans and advances to customers written off during the period as uncollectible	(23 795)	-	(25)	**(23 820)**	(24 519)	-	(25)	**(24 544)**
Recovery of loans previously written off sold during the period	440	-	-	**440**	1 403	-	-	**1 403**
Recovery of loans previously written off	722	-	-	**722**	159	-	-	**159**
Provision for loan impairment at 30 September	**159 537**	**30**	**14 646**	**174 213**	**165 253**	**50**	**10 689**	**175 992**

No provision for “Lending for food interventions” and “Reverse repo agreements” was recorded as at 30 September 2016 and 31 December 2015.

Refer to Note 19 for the disclosure of fair value of each class of loans and advances to customers and fair value hierarchy for loans and advances to customers. The information on related party transactions is disclosed in Note 20.

6 Reclassification from Investment Securities Available for Sale

During nine months ended 30 September 2016 the Group reclassified certain financial assets from the available-for-sale category as a result of reassessment of its intention to hold these investments till maturity.

As at 30 September 2016, the amount of all investment securities that have been reclassified from investment securities available for sale during nine months ended 30 September 2016 and which were not yet repaid, were as follows:

(Unaudited) *In millions of Russian Roubles*	Amount reclassified	Undiscounted cash flows expected to be recovered	Effective interest rate (%)
Corporate bonds	3 901	5 171	10.0-11.1
Municipal bonds	2 023	1 950	10.2-10.6
Total investment securities that have been reclassified from available-for-sale category to held-to-maturity category	**5 924**	**7 121**	

7 Due to Other Banks

In millions of Russian Roubles	**30 September 2016 (unaudited)**	**31 December 2015**
Correspondent accounts and overnight placements of other banks	3 216	525
Borrowings from other banks with term to maturity		
- sale and repurchase agreements less than 30 days	1 275	7 139
- less than 30 days	6 141	10 046
- from 31 to 180 days	137	647
- from 181 days to 1 year	17 839	267
- from 1 year to 3 years	934	18 374
- more than 3 years	16 348	18 533
Borrowings from the CBRF with term to maturity		
- less than 30 days	57	119
- from 31 to 180 days	1 664	-
- from 181 days to 1 year	2 666	-
- from 1 year to 3 years	19 438	41 606
Total due to other banks	**69 715**	**97 256**

As at 30 September 2016, sale and repurchase agreements less than 30 days are represented by amounts due for operations with securities received without recognition under reverse repurchase agreements transferred under direct repurchase agreements (federal loan bonds (OFZ) in the amount of RR 958 million and corporate Eurobonds in the amount of RR 317 million (31 December 2015: sale and repurchase agreements less than 30 days are represented by amounts due for securities transferred without derecognition under direct repurchase agreements). Refer to Note 17.

Refer to Note 19 for the disclosure of the fair value and fair value hierarchy for due to other banks. The information on related party transactions is disclosed in Note 20.

8 Customer Accounts

In millions of Russian Roubles	**30 September 2016 (unaudited)**	**31 December 2015**
State and public organisations		
- Current/settlement accounts	10 458	7 372
- Term deposits	434 255	234 678
Other legal entities		
- Current/settlement accounts	109 115	103 546
- Term deposits	396 792	357 732
Individuals		
- Current/demand accounts	41 293	36 903
- Term deposits	528 794	449 625
Total customer accounts	**1 520 707**	**1 189 856**

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

8 Customer Accounts (continued)

Economic sector concentrations within customer accounts are as follows:

In millions of Russian Roubles	**30 September 2016 (unaudited)**		**31 December 2015**	
	Amount	**%**	**Amount**	**%**
Individuals	570 087	37	486 528	41
State and public organisations	444 713	29	242 050	20
Financial services and pension funds	134 317	9	135 805	11
Manufacturing	70 918	5	62 944	5
Agriculture	65 441	4	67 023	6
Construction	55 024	4	64 830	5
Insurance	45 248	3	36 972	3
Trading	37 765	2	35 763	3
Other	97 194	7	57 941	6
Total customer accounts	**1 520 707**	**100**	**1 189 856**	**100**

Refer to Note 19 for the disclosure of the fair value and fair value hierarchy for customer accounts. The information on related party transactions is disclosed in Note 20.

9 Bonds Issued

In millions of Russian Roubles	**30 September 2016 (unaudited)**	**31 December 2015**
Eurobonds issued	339 445	425 485
Bonds issued on domestic market	171 430	184 339
Total bonds issued	**510 875**	**609 824**

As at 30 September 2016 bonds issued consist of US Dollars and Russian Roubles denominated Eurobonds (31 December 2015: bonds issued consist of US Dollars, Russian Roubles and Chinese Yuan denominated Eurobonds) issued by the Group through its structured entity RSHB Capital S.A. as well as Russian Roubles denominated bonds issued on domestic market.

In January 2016, the Group repaid Eurobonds (loan participation notes) (placed at par) denominated in Chinese yuan in the amount of CNY 1 000 million, equivalent to RR 12 438 million as at maturity date, issued in February 2013.

In February 2016, the Group repurchased bonds denominated in RR issued on the domestic market in the amount of RR 10 000 million prior to put option date by agreement with bonds holders.

In March 2016, the Group repaid at the maturity date Eurobonds (loan participation notes) denominated in RR in the amount of RR 20 000 million issued in March 2011.

In March 2016, the Group repaid at the maturity date Eurobonds (loan participation notes) denominated in RR in the amount of RR 12 000 million issued in April 2011.

During nine months ended 30 September 2016, the Group repurchased bonds denominated in RR issued on the domestic market in the amount of RR 30 294 million at the put option date.

During nine months ended 30 September 2016 the Group re-issued on the domestic market RR 27 575 million of previously bought back bonds maturing from February 2017 to February 2025 with coupon from 9.9% to 12.15% p.a.

Refer to Note 19 for the disclosure of the fair value and fair value hierarchy for bonds issued. Refer to Note 21 for information on issues/redemptions after the end of the reporting period.

10 Subordinated Debts

As at 30 September 2016, the Group's subordinated debts equal to RR 159 648 million (31 December 2015: RR 225 109 million).

In July 2016, the Group early repaid subordinated debt (placed at par) denominated in US Dollar in the amount of USD 800 million, equivalent to RR 51 340 million at the put option date, issued in June 2011.

Refer to Note 19 for the disclosure of the fair value and fair value hierarchy for subordinated debts.

11 Perpetual Bonds

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

Due to undefined maturity and optional non-cumulative cancellation of coupon payments, the Group accounts for perpetual bonds as an equity instrument and as a Tier I eligible instrument for the purpose of Basel Capital Adequacy Ratio calculation. CBRF approved the inclusion of these subordinated bonds in the regulatory capital calculation of the Bank.

Transaction costs in the amount of RR 154 million were also recorded in retained earnings. As at 30 September 2016, the carrying amount of perpetual bonds is RR 10 000 million.

Refer to Note 21 for information on issues after the end of the reporting period.

12 Interest Income and Expense

(Unaudited) *In millions of Russian Roubles*	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015	For the three months ended 30 September 2016	For the three months ended 30 September 2015
Interest income on financial instruments carried at fair value through profit or loss				
Trading securities	972	338	735	92
Financial instruments designated at fair value through profit or loss	166	356	95	86
Total interest income on financial instruments carried at fair value through profit or loss	**1 138**	**694**	**830**	**178**
Interest income on other financial instruments				
Loans and advances to legal entities	112 853	94 776	36 371	33 824
Loans and advances to individuals	34 506	29 948	12 993	10 324
Investment securities available for sale including pledged under repurchase agreements	17 733	8 864	5 722	2 816
Due from other banks	8 414	2 947	3 437	1 344
Cash equivalents	4 726	3 834	838	961
Investment securities held to maturity including pledged under repurchase agreements	1 957	1 879	647	527
Total interest income on other financial instruments	**180 189**	**142 248**	**60 008**	**49 796**
Total interest income	**181 327**	**142 942**	**60 838**	**49 974**
Interest expense				
Term deposits of legal entities	(55 823)	(49 099)	(18 829)	(17 023)
Bonds issued	(34 025)	(30 880)	(10 983)	(9 858)
Term deposits of individuals	(31 827)	(26 321)	(10 428)	(10 187)
Subordinated debts	(10 752)	(5 110)	(3 104)	(2 289)
Term deposits of the CBRF	(2 571)	(9 642)	(514)	(1 230)
Current/settlement accounts	(1 383)	(1 325)	(538)	(333)
Term deposits of other banks	(1 236)	(4 409)	(565)	(1 055)
Promissory notes issued	(955)	(1 262)	(173)	(92)
Total interest expense	**(138 572)**	**(128 048)**	**(45 134)**	**(42 067)**
Net interest income	**42 755**	**14 894**	**15 704**	**7 907**

The information on related party transactions is disclosed in Note 20.

13 Fee and Commission Income and Expense

(Unaudited) *In millions of Russian Roubles*	**For the nine months ended 30 September** **2016**	**2015**	**For the three months ended 30 September** **2016**	**2015**
Fee and commission income				
Commission on cash and settlements transactions	6 194	5 372	2 226	2 080
Fees for sale of insurance contracts	2 525	1 805	1 079	932
Commission on guarantees issued	1 621	1 493	598	489
Commission on banking cards	505	346	189	131
Fees for currency control	152	121	51	46
Other	560	328	232	88
Total fee and commission income	**11 557**	**9 465**	**4 375**	**3 766**
Fee and commission expense				
Commission on settlement transactions	(621)	(431)	(223)	(161)
Commission on cash collection	(333)	(375)	(126)	(146)
Other	(435)	(74)	(148)	(39)
Total fee and commission expense	**(1 389)**	**(880)**	**(497)**	**(346)**
Net fee and commission income	**10 168**	**8 585**	**3 878**	**3 420**

14 Losses Net of Gains from Non-banking Activities

(Unaudited) *In millions of Russian Roubles*	**For the nine months ended 30 September** **2016**	**2015**	**For the three months ended 30 September** **2016**	**2015**
Sales of goods	4 526	3 406	1 439	1 327
Cost of goods sold	(4 223)	(3 234)	(1 322)	(1 184)
Impairment of premises and equipment	(2 746)	-	(426)	-
(Provision)/recovery of provision for impairment for trade receivables and prepayments	(265)	(50)	(171)	123
Net income from insurance operations	715	407	69	121
Other non-banking income	688	838	218	255
Other non-banking expenses	(1 989)	(1 999)	(836)	(602)
Total (losses net of gains)/gains less losses from non-banking activities	**(3 294)**	**(632)**	**(1 029)**	**40**

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

14 Losses Net of Gains from Non-banking Activities (Continued)

Net income from insurance operations is as follows:

(Unaudited)	For the nine months ended 30 September		For the three months ended 30 September	
In millions of Russian Roubles	**2016**	**2015**	**2016**	**2015**
Insurance premiums				
Premium earned	2 751	2 028	1 069	751
Reinsurers share in premiums earned	(1 324)	(977)	(591)	(401)
Net insurance premiums earned	**1 427**	**1 051**	**478**	**350**
Insurance benefits and claims				
Net claims incurred during the period	(629)	(544)	(451)	(130)
Acquisition costs	(458)	(331)	(153)	(146)
Reinsurers share in claims incurred during the period	375	231	195	47
Net insurance benefits and claims	**(712)**	**(644)**	**(409)**	**(229)**
Net income from insurance operations	**715**	**407**	**69**	**121**

15 Significant Risk Concentrations

As at 30 September 2016, correspondent accounts and deposits with other banks with original maturities less than one month within cash and cash equivalents included no balances individually above 10% of the Group's equity. As at 30 September 2016, correspondent accounts and deposits with other banks with original maturities less than one month within cash and cash equivalents included balances with one OECD banking group with rating of the parent bank at BB+ (S&P) and one Russian banking group with rating of the parent bank at Ba2 (Moody's) in the amount of RR 31 022 million, or 14% of total cash and cash equivalents, in aggregate above 10% of the Group’s equity (31 December 2015: balances with one Russian banking group individually above 10% of the Group’s equity with rating of the parent bank at Ba2 (Moody`s) in the amount of RR 44 331 million, or 26% of total cash and cash equivalents).

As at 30 September 2016, cash and cash equivalents included the balances with CBRF in the total amount of RR 96 697 million, or 44% of total cash and cash equivalents (31 December 2015: RR 38 424 million, or 23% of total cash and cash equivalents).

As at 30 September 2016, due from other banks included balances with two counterparties individually above 10% of the Group’s equity with rating Ba2 and Ba3 (Moody's) in the amount of RR 71 898 million, or 71% of total due from other banks. As at 31 December 2015, due from other banks included no balances with other banks individually above 10% of the Group’s equity. As at 31 December 2015, due from other banks included the balances with two counterparties with rating Ba3 and Caa2 (Moody's) in the amount of RR 26 057 million, or 43% of total due from other banks), in aggregate above 10% of the Group’s equity.

As at 30 September 2016, due to other banks included balances with CBRF above 10% of the Group's equity in the amount of RR 23 825 million, or 34% of total due to other banks (31 December 2015: due to other banks included balances with CBRF above 10% of the Group's equity in the amount of RR 41 725 million, or 43% of total due to other banks).

As at 30 September 2016, due to other banks included the balances with one OECD banking group individually above 10% of the Group’s equity with rating of the parent bank at A+ (S&P) in the amount of RR 17 718 million, or 25% of total due to other banks. As at 31 December 2015, due to other banks included no balances with other banks individually above 10% of the Group’s equity. As at 31 December 2015, due to other banks included the balances with two OECD banking groups with ratings of parent banks at A+ and A- (S&P) in the amount of RR 30 942 million, or 32% of total due to other banks, in aggregate above 10% of the Group’s equity.

As at 30 September 2016, customer accounts included balances with five customers each above 10% of the Group’s equity (31 December 2015: balances with four customers each above 10% of the Group’s equity). The aggregate balance of these customers was RR 453 913 million, or 30% of total customer accounts (31 December 2015: RR 245 211 million, or 21% of total customer accounts).

16 Segment Analysis

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

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

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

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

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

16 Segment Analysis (Continued)

Segment reporting of the Group's revenue and profit/(loss) for the nine months ended 30 September 2016 and for the nine months ended 30 September 2015 and segment reporting of the Group's assets at 30 September 2016 and 31 December 2015 are as follows:

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

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

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

16 Segment Analysis (Continued)

In millions of Russian Roubles	Head office	Central federal district	Far-Eastern federal district	Volga federal district	North-West federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Southern federal district	Total
For the nine months ended 30 September 2015 (unaudited)										
Revenue from external customers	**18 855**	**42 462**	**5 526**	**31 911**	**11 690**	**8 369**	**15 078**	**5 942**	**17 490**	**157 323**
- Interest income from loans and advances to customers, due from other banks and other placed funds	21 750	38 357	4 952	29 639	10 780	7 506	13 675	5 550	16 420	**148 629**
- Net fee and commission (expense)/income from credit related operations	(2 895)	4 105	574	2 272	910	863	1 403	392	1 070	**8 694**
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and foreign currency	(21 196)	18 781	463	(21)	73	(317)	65	3 691	1 109	**2 648**
Interest expenses from due to other banks, customer accounts and bonds issued	(76 099)	(16 647)	(3 660)	(10 585)	(8 365)	(1 708)	(4 864)	(2 672)	(4 783)	**(129 383)**
(Provision)/recovery of provision for impairment	(6 694)	(2 257)	(351)	(2 637)	(3 841)	(5 073)	(1 144)	(45)	2 571	**(19 471)**
Administrative and maintenance expense	(20 649)	(1 718)	(476)	(1 369)	(545)	(588)	(968)	(342)	(605)	**(27 260)**
- Including depreciation charge	(371)	(205)	(47)	(165)	(64)	(90)	(125)	(32)	(68)	**(1 167)**
Other expenses less other income	(2 063)	(2 984)	(27)	(1 569)	(588)	(89)	(131)	(545)	(9 790)	**(17 786)**
Current income tax expense	(245)	-	-	-	-	-	-	-	-	**(245)**
Deferred income tax credit	3 411	-	-	-	-	-	-	-	-	**3 411**
Intersegment income/(expense)*	**82 123**	**(33 474)**	**(1 123)**	**(14 713)**	**(2 082)**	**(5 306)**	**(7 557)**	**(5 290)**	**(12 578)**	**-**
(Loss)/profit of reportable segments	**(104 680)**	**37 637**	**1 475**	**15 730**	**(1 576)**	**594**	**8 036**	**6 029**	**5 992**	**(30 763)**
Total assets										
30 September 2016 (unaudited)	1 690 217	639 064	93 108	371 971	207 295	120 724	177 011	74 771	258 074	**3 632 235**
31 December 2015	2 300 371	911 213	103 367	423 395	219 174	155 456	200 201	121 395	306 724	**4 741 296**

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

In the third quarter 2015 and in the first quarter 2016 the Bank changed its approach to intersegment income and expense calculation that resulted in changes in income and expenses allocation to operating segments. Intersegment income and expense were adjusted to include income and expenses related to customers significant at the federal level and gains less losses/(losses net of gains) arising from currency, in addition to transfer income and expenses, insurance premiums earned and staff costs. The presentation of the comparative figures for the six months ended 30 June 2015 has been adjusted to be consistent with the new presentation.

16 Segment Analysis (Continued)

Segment reporting of the Group's revenue and profit/(loss) for the three months ended 30 September 2016 and for the three months ended 30 September 2015 are as follows:

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

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

16 Segment Analysis (Continued)

In millions of Russian Roubles	Head office	Central federal district	Far-Eastern federal district	Volga federal district	North-West federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Southern federal district	Total
For the three months ended 30 September 2015 (unaudited)										
Revenue from external customers	**7 121**	**15 822**	**1 926**	**11 282**	**4 399**	**2 894**	**5 255**	**2 076**	**6 952**	**57 727**
- Interest income from loans and advances to customers, due from other banks and other placed funds	7 720	14 231	1 693	10 418	4 044	2 550	4 693	1 932	6 505	**53 786**
- Net fee and commission (expense)/income from credit related operations	(599)	1 591	233	864	355	344	562	144	447	**3 941**
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and foreign currency	(22 889)	20 189	390	10	54	(507)	62	3 902	1 503	**2 714**
Interest expenses from due to other banks, customer accounts and bonds issued	(26 143)	(5 620)	(1 347)	(3 616)	(2 642)	(663)	(1 573)	(790)	(1 427)	**(43 821)**
(Provision)/recovery of provision for impairment	(3 420)	(1 250)	(160)	(1 883)	(4 059)	(4 046)	(657)	(38)	7 793	**(7 720)**
Administrative and maintenance expense	(7 174)	(589)	(166)	(459)	(185)	(205)	(323)	(102)	(195)	**(9 398)**
- Including depreciation charge	(126)	(71)	(15)	(55)	(23)	(32)	(43)	(11)	(23)	**(399)**
(Other expenses less other income)/other income less other expenses	(1 951)	(2 795)	14	135	54	(127)	27	(410)	(10 123)	**(15 176)**
Current income tax expense	(92)	-	-	-	-	-	-	-	-	**(92)**
Deferred income tax credit	1 276	-	-	-	-	-	-	-	-	**1 276**
Intersegment income/(expense)*	**47 624**	**(26 076)**	**(556)**	**(5 302)**	**(1 257)**	**(1 395)**	**(2 786)**	**(4 606)**	**(5 646)**	**-**
(Loss)/profit of reportable segments	**(53 272)**	**25 757**	**657**	**5 469**	**(2 379)**	**(2 654)**	**2 791**	**4 638**	**4 503**	**(14 490)**

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

16 Segment Analysis (Continued)

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

(Unaudited) *In millions of Russian Roubles*	**For the nine months ended 30 September 2016**	**For the nine months ended 30 September 2015**	**For the three months ended 30 September 2016**	**For the three months ended 30 September 2015**
Total profit/(loss) of reportable segments (after tax)	**116**	**(30 763)**	**(755)**	**(14 490)**
Adjustments of provision for impairment	(24 356)	(38 952)	(5 804)	(7 850)
Results of non-reportable segments, including the effect of consolidation*	(5 088)	351	693	3 950
Accounting for financial instruments at fair value	2 341	3 966	(1 027)	(1 187)
Adjustment of deferred tax	726	2 355	(129)	(1 193)
(Losses less gains)/gains less losses from revaluation of other financial instruments at fair value through profit or loss	(253)	627	39	17
Adjustment of accrued staff costs	(867)	(282)	469	547
Adjustments of financial assets and liabilities carried at amortised cost	(6 626)	(6 084)	(3 225)	(3 039)
Other	(1 102)	908	(109)	794
The Group's loss under IFRS (after tax)	**(35 109)**	**(67 874)**	**(9 848)**	**(22 451)**

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

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

Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR foreign exchange swaps are recognized as back-to-back deposits, whereas in IFRS financial statements such transactions are recognized at fair value. Refer to Note 18. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.

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

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

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

17 Contingencies and Commitments

Legal proceedings. From time to time in the normal course of business, claims against the Group are received. As at 30 September 2016, based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no material provision for cover of such losses has been made in these interim condensed consolidated financial statements (31 December 2015: Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no material provision for cover of such losses has been made in annual consolidated financial statements).

17 Contingencies and Commitments (Continued)

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

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

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

During nine months ended 30 September 2016, the Group determined its tax liabilities arising from the “controlled” transactions using actual transaction prices.

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

As at 30 September 2016, the Management of the Group believes that its interpretation of the applicable legislation is reasonable and will be sustained.

Capital expenditure commitments. As at 30 September 2016, the Group has contractual capital expenditure commitments of RR 610 million (31 December 2015: RR 27 million).

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

In millions of Russian Roubles	**30 September 2016 (unaudited)**	**31 December 2015**
Not later than 1 year	4 938	4 912
Later than 1 year and not later than 5 years	5 605	9 389
Later than 5 years	1 136	2 009
Total operating lease commitments	**11 679**	**16 310**

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

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

17 Contingencies and Commitments (Continued)

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

Outstanding credit related commitments are as follows:

In millions of Russian Roubles	**30 September 2016 (unaudited)**	**31 December 2015**
Financial guarantees issued	108 542	109 336
Undrawn credit lines	123 566	129 693
Letters of credit	7 291	10 966
Less: provision for impairment	(44)	(100)
Total credit related commitments	**239 355**	**249 895**

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

(Unaudited) *In millions of Russian Roubles*	**For the nine months ended 30 September 2016**	**For the nine months ended 30 September 2015**
Provision for impairment at 1 January	**100**	**-**
Recovery of provision for impairment for credit related commitments during the period	(56)	-
Provision for impairment at 30 September	**44**	**-**

Undrawn credit lines are represented by revocable credit lines. The Group has the right to revoke unused portion of credit line in response to a material adverse change of the borrower. As at 30 September 2016 and 31 December 2015, there were no grounds for cancellation of disclosed amount of unused credit lines.

The total outstanding contractual amount of revocable undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles	**30 September 2016 (unaudited)**	**31 December 2015**
Russian Roubles	220 376	224 862
Euros	12 667	17 610
US Dollars	6 312	6 926
Other currencies	-	497
Total credit related commitments	**239 355**	**249 895**

17 Contingencies and Commitments (Continued)

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

In millions of Russian Roubles	**30 September 2016 (unaudited)**	**31 December 2015**
Assets pledged under loan agreements with banks (including CBRF)	26 002	68 778
Security deposit under the lease agreement	202	202

As at 30 September 2016, mandatory cash balances with the CBRF of RR 10 785 million (31 December 2015: RR 7 739 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 30 September 2016 and 31 December 2015, assets pledged under loan agreements with banks (including CBRF) mainly include loans and advances to customers pledged to CBRF under loan agreements in accordance with the CBRF Act # 312-P *On the Procedures of Granting Loans Secured by Assets or Guarantees by CBRF to Credit Organisations* dated 12 November 2007.

Financial assets transferred without derecognition. Transferred financial assets that are not derecognized in their entirety are represented by securities transferred without derecognition and pledged under repurchase agreements.

The following table provides a summary of financial assets transferred without derecognition:

	30 September 2016 (unaudited)		**31 December 2015**	
In millions of Russian Roubles	**Carrying amount assets**	**Carrying amount associated liabilities**	**Carrying amount assets**	**Carrying amount associated liabilities**
Direct repurchase agreements				
Corporate bonds	-	-	6 616	6 023
Municipal and subfederal bonds	-	-	1 220	1 116
Total financial assets transferred without derecognition	**-**	**-**	**7 836**	**7 139**

18 Derivative Financial Instruments

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

As at 30 September 2016, in the aggregate amount of foreign exchange swaps with original settlement dates of more than 30 working days prevails swaps structured as loans issued by the Group in US Dollars and Japanese yens (31 December 2015: in US Dollars, Chinese Yuans and Japanese yens) to six large OECD banks and one Russian banking group with maturities from May 2017 to May 2023, and deposits in Russian Roubles received from the same counterparties with the same maturities ("back-to-back loans"). These transactions are aimed at economically hedging the currency exposure of the Group.

18 Derivative Financial Instruments (Continued)

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

As at 30 September 2016, international credit ratings of these counterparties were not less than BB- (S&P) (31 December 2015: not less than BB- (S&P)).

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

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 30 September 2016 and covers the contracts with settlement dates after the respective end of the reporting period:

(Unaudited) *In millions of Russian Roubles*	**Principal or agreed amount at fair value of assets receivable**	**Principal or agreed amount at fair value of assets payable**	**Positive fair value**	**Negative fair value**
Forwards and swaps				
- Currency	263 321	(133 267)	130 254	(200)
- Securities	3 427	(3 431)	3	(7)
- Precious metals	1 162	(1 160)	7	(5)
- Interest rate	1 097	(1 056)	173	(132)
Options	5 722	(5 694)	22	(20)
Futures on commodities	10	(10)	-	-
Total derivative financial instruments	**274 739**	**(144 618)**	**130 459**	**(364)**

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 December 2015 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	**Principal or agreed amount at fair value of assets receivable**	**Principal or agreed amount at fair value of assets payable**	**Positive fair value**	**Negative fair value**
Forwards and swaps				
- Currency	317 453	(150 945)	166 712	(204)
Total derivative financial instruments	**317 453**	**(150 945)**	**166 712**	**(204)**

As at 30 September 2016, the Group had two foreign exchange swaps with two foreign banks with rating not lower than BB- (S&P) with fair value each individually above 10% of the Group's equity (31 December 2015: three foreign exchange swaps with two foreign banks and one Russian bank with rating not lower than BB- (S&P) with fair value each individually above 10% of the Group's equity). As at 30 September 2016, receivables and payables on settlement of these foreign exchange swaps amounted to RR 129 484 million and RR 52 783 million, respectively, or 55% of total receivables or 50% of total payables on settlement of foreign exchange swaps (31 December 2015: RR 198 339 million and RR 74 209 million, respectively, or 73% of total receivables or 71% of total payables on settlement of foreign exchange swaps).

Refer to Note 19 for the disclosure of fair value hierarchy for derivative financial instruments. The information on related party transactions is disclosed in Note 20.

19 Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

19 Fair Value of Financial Instruments (Continued)

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

	30 September 2016 (unaudited)		**31 December 2015**	
In millions of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets carried at amortised cost				
Cash and cash equivalents	218 875	218 875	168 232	168 232
Mandatory cash balances with the CBRF	10 785	10 785	7 739	7 739
Due from other banks	100 574	100 535	61 101	60 203
Loans and advances to customers				
- Loans to corporates	1 314 977	1 293 980	1 314 446	1 270 805
- Lending for food interventions	29 847	29 847	16 020	16 020
- Reverse repo agreements	-	-	10 913	10 913
- Investments in agricultural cooperatives	370	370	328	328
- Loans to individuals	306 164	305 161	283 930	278 653
Investment securities held to maturity including pledged under repurchase agreements				
- Corporate bonds	9 409	9 225	8 269	7 817
- Municipal and subfederal bonds	1 714	1 725	-	-
- Federal Loan bonds (OFZ)	2 119	1 939	2 245	1 856
- Corporate Eurobonds	20 528	20 836	20 266	20 017
Other financial assets	5 036	5 036	11 504	11 504
Total financial assets carried at amortised cost	**2 020 398**	**1 998 314**	**1 904 993**	**1 854 087**
Financial assets carried at fair value	**400 340**	**400 340**	**389 276**	**389 276**
Total financial assets	**2 420 738**	**2 398 654**	**2 294 269**	**2 243 363**
Financial liabilities carried at amortised cost				
Due to other banks				
- Term borrowings from other banks	42 674	45 857	55 006	57 899
- Term borrowings from the CBRF	23 825	23 443	41 725	41 032
- Correspondent accounts and overnight placements of other banks	3 216	3 216	525	525
Customer accounts				
- State and public organisations	444 713	445 059	242 050	242 527
- Other legal entities	505 907	507 880	461 278	465 732
- Individuals	570 087	570 507	486 528	485 566
Promissory notes issued	13 162	13 162	14 637	14 637
Bonds issued				
- Eurobonds issued	339 445	350 367	425 485	429 526
- Bonds issued on domestic market	171 430	176 078	184 339	186 098
Other financial liabilities	2 289	2 289	3 218	3 218
Total financial liabilities carried at amortised cost before subordinated debts	**2 116 748**	**2 137 858**	**1 914 791**	**1 926 760**
Subordinated debts	159 648	165 291	225 109	219 298
Total financial liabilities carried at amortised cost	**2 276 396**	**2 303 149**	**2 139 900**	**2 146 058**
Financial liabilities carried at fair value	**364**	**364**	**204**	**204**
Total financial liabilities	**2 276 760**	**2 303 513**	**2 140 104**	**2 146 262**

19 Fair Value of Financial Instruments (Continued)

(b) Analysis by fair value hierarchy of financial instruments

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

(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

(iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

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

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

Analysis of financial and non-financial instruments as at 30 September 2016 is as follows:

(Unaudited) *In millions of Russian Roubles*	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with non-observable inputs (Level 3)**	**Total**
Assets measured at fair value				
Trading securities	35 452	9	-	**35 461**
Financial instruments designated at fair value through profit or loss	-	2 293	-	**2 293**
Investment securities available for sale	142 900	89 227	-	**232 127**
Derivative financial instruments	-	130 459	-	**130 459**
Office premises	-	-	7 652	**7 652**
Assets for which fair values are disclosed				
Cash and cash equivalents	-	218 875	-	**218 875**
Mandatory cash balances with the CBRF	-	-	10 785	**10 785**
Due from other banks	-	100 535	-	**100 535**
Loans and advances to customers	-	-	1 629 358	**1 629 358**
Investment securities held to maturity	10 036	23 689	-	**33 725**
Other financial assets carried at amortised cost	-	-	5 036	**5 036**
Total financial and non-financial assets	**188 388**	**565 087**	**1 652 831**	**2 406 306**
Liabilities measured at fair value				
Derivative financial instruments	-	364	-	**364**
Liabilities for which fair values are disclosed				
Due to other banks	-	72 516	-	**72 516**
Customer accounts	-	-	1 523 446	**1 523 446**
Promissory notes issued	-	-	13 162	**13 162**
Bonds issued				
- Eurobonds issued	350 367	-	-	**350 367**
- Bonds issued on domestic market	159 260	16 818	-	**176 078**
Other financial liabilities	-	-	2 289	**2 289**
Total financial liabilities before subordinated debts	**509 627**	**89 698**	**1 538 897**	**2 138 222**
Subordinated debts	36 181	129 110	-	**165 291**
Total financial liabilities	**545 808**	**218 808**	**1 538 897**	**2 303 513**

19 Fair Value of Financial Instruments (Continued)

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

Analysis of financial and non-financial instruments as at 31 December 2015 is as follows:

In millions of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with non-observable inputs (Level 3)**	**Total**
Assets measured at fair value				
Trading securities	-	485	-	**485**
Financial instruments designated at fair value through profit or loss	-	5 069	-	**5 069**
Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements	138 247	78 763	-	**217 010**
Derivative financial instruments	-	166 712	-	**166 712**
Office premises	-	-	7 827	**7 827**
Assets for which fair values are disclosed				
Cash and cash equivalents	-	168 232	-	**168 232**
Mandatory cash balances with the CBRF	-	-	7 739	**7 739**
Due from other banks	-	60 203	-	**60 203**
Loans and advances to customers	-	-	1 576 719	**1 576 719**
Investment securities held to maturity, including securities held to maturity pledged under repurchase agreements	9 673	20 017	-	**29 690**
Other financial assets carried at amortised cost	-	-	11 504	**11 504**
Total financial and non-financial assets	**147 920**	**499 481**	**1 603 789**	**2 251 190**
Liabilities measured at fair value				
Derivative financial instruments	-	204	-	**204**
Liabilities for which fair values are disclosed				
Due to other banks	-	99 456	-	**99 456**
Customer accounts	-	-	1 193 825	**1 193 825**
Promissory notes issued	-	-	14 637	**14 637**
Bonds issued				
- Eurobonds issued	377 294	52 232	-	**429 526**
- Bonds issued on domestic market	164 793	21 305	-	**186 098**
Other financial liabilities	-	-	3 218	**3 218**
Total financial liabilities before subordinated debts	**542 087**	**173 197**	**1 211 680**	**1 926 964**
Subordinated debts	82 032	137 266	-	**219 298**
Total financial liabilities	**624 119**	**310 463**	**1 211 680**	**2 146 262**

There were no financial instruments carried at fair value based on a valuation technique with non-observable inputs (Level 3) as at 30 September 2016 (31 December 2015: none).

19 Fair Value of Financial Instruments (Continued)

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

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during nine months ended 30 September 2016:

(Unaudited) *In millions of Russian Roubles*	**Transfers between Level 1 and Level 2** **From Level 1 to Level 2**	 **From Level 2 to Level 1**
Financial assets		
Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements	3 471	1 411
Total transfers of financial assets	**3 471**	**1 411**

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during 2015:

In millions of Russian Roubles	**Transfers between Level 1 and Level 2** **From Level 1 to Level 2**	 **From Level 2 to Level 1**
Financial assets		
Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements	2 257	927
Total transfers of financial assets	**2 257**	**927**

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

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

There were no other transfers between levels of the fair value hierarchy during nine months ended 30 September 2016 and during the year ended 31 December 2015.

The following table shows the quantitative information as at 30 September 2016 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

Assets	**Fair value,** *in millions of Russian Roubles*	**Valuation technique**	**Inputs used** **Input**	 **Min**	 **Max**
Office premises (based on valuation at 31 December 2015, fair value of new objects acquired in 2016 equals to current value)	7 652	Comparative method	Trade discount	8.0%	20.0%

The following table shows the quantitative information as at 31 December 2015 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

Assets	**Fair value,** *in millions of Russian Roubles*	**Valuation technique**	**Inputs used** **Input**	 **Min**	 **Max**
Office premises	7 827	Comparative method	Trade discount	8.0%	20.0%

20 Related Party Transactions

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

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

The outstanding balances with related parties were as follows:

In millions of Russian Roubles	**30 September 2016 (unaudited)**	**31 December 2015**
Cash and cash equivalents		
CBRF	96 697	38 424
Other banks	44 498	55 640
Loans and advances to customers		
Loans and advances to customers (before impairment)	91 601	91 363
Less: provision for loan impairment	(3 060)	(3 294)
Derivative financial instruments — assets	17 954	23 538
Securities		
Securities issued by Russian Federation	154 076	97 479
Securities of entities and banks	56 708	47 365
Due from other banks	53 692	2 334
Other assets		
State Corporation Deposit Insurance Agency	1 508	5 308
Accrued subsidies under the government program to subsidize mortgage and car loans	346	387
Customer accounts		
Entities	532 723	335 091
Key management and their family members	1 497	1 493
Due to other banks		
CBRF	23 825	41 725
Other banks	4 353	12 529
Derivative financial instruments — liabilities	255	204
Subordinated debts	74 330	84 776
Credit related commitments		
Undrawn credit lines	73 555	74 145
Financial guarantees issued	9 564	12 478
Financial guarantees received	17 840	20 729

20 Related Party Transactions (Continued)

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

(Unaudited) *In millions of Russian Roubles*	**For the nine months ended 30 September 2016**	**For the nine months ended 30 September 2015**	**For the three months ended 30 September 2016**	**For the three months ended 30 September 2015**
Interest income on cash and cash equivalents				
CBRF	748	339	200	84
Other banks	6 203	1 609	3 812	578
Interest income on due from other banks	820	366	17	139
Interest income on loans and advances to customers	8 063	7 622	2 319	3 324
Interest income on securities				
Securities issued by Russian Federation	10 681	1 621	3 980	571
Securities of entities and banks	2 894	4 188	1 175	1 657
Gains less losses/(losses net of gains) from securities				
Securities issued by Russian Federation	1 053	(722)	144	346
Securities of entities and banks	400	(77)	149	79
(Losses less gains)/gains less losses from derivative financial instruments	(3 454)	5 305	(1 666)	5 151
Interest expense on customer accounts				
Entities	(34 313)	(26 156)	(13 022)	(9 989)
Key management and their family members	(68)	(52)	(24)	(19)
Interest expense on subordinated debts	(3 045)	-	(911)	-
Interest expense on due to other banks				
CBRF	(2 571)	(9 642)	(514)	(1 230)
Other banks	(1 014)	(1 953)	(731)	(899)
Other operating income				
Subsidies under the government program to subsidize mortgage and car loans	361	140	(8)	140
Administrative and other operating expenses				
Payments to the Deposit Insurance Fund (SC DIA)	(1 526)	(1 004)	(551)	(364)

During nine months ended 30 September 2016 and 30 September 2015, transactions with the shareholder included share capital increase, taxes paid and subsidies received under the government program to subsidize mortgage and car loans.

20 Related Party Transactions (Continued)

During nine months ended 30 September 2016 the Bank increased its share capital by issuing 8 000 ordinary shares with the total nominal amount of RR 8 000 million. All shares were purchased by the Bank's only shareholder — the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

Key management of the Group represents members of the Supervisory Board, the Management Board and Chief Accountant of the Bank. For the nine months ended 30 September 2016 total remuneration of the key management amounted to RR 248 million (for the nine months ended 30 September 2015: RR 168 million), for the three months ended 30 September 2016: RR 33 million (for the three months ended 30 September 2015: RR 64 million).

21 Events after the End of the Reporting Period

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

In October and November 2016, the Group repurchased bonds denominated in RR issued on the domestic market in the amount of RR 14 338 million at the put option date.

In October and November 2016, the Group re-issued on the domestic market RR 3 955 million of previously bought back bonds maturing from February 2018 to September 2024 with coupon from 9.9% to 11.1% p.a.