# Russian Agricultural Bank Group

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

*30 September 2015*

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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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 2015, which comprise of the interim consolidated statement of financial position as at 30 September 2015 and the related interim consolidated statement of profit or loss and other comprehensive income for the nine and three months then ended, interim consolidated statements of changes in equity and of cash flows for the nine months 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

3 December 2015

Moscow, Russia

| *In millions of Russian Roubles* | Note | 30 September 2015 (unaudited) | 31 December 2014 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 158 013 | 105 009 |
| Mandatory cash balances with the Central Bank of the Russian Federation | | 7 252 | 9 373 |
| Trading securities | | 2 232 | 2 090 |
| Financial instruments designated at fair value through profit or loss | | 4 333 | 6 902 |
| Due from other banks | | 62 073 | 34 036 |
| Derivative financial instruments | 16 | 141 444 | 131 819 |
| Loans and advances to customers | 5 | 1 582 480 | 1 416 463 |
| Investment securities available for sale | | 111 881 | 113 638 |
| Investment securities held to maturity | | 11 510 | 11 568 |
| Investment securities pledged under repurchase agreements | 15 | 30 131 | 26 278 |
| Current income tax assets | | 901 | 450 |
| Deferred income tax asset | | 15 128 | 13 317 |
| Intangible assets | | 2 503 | 2 330 |
| Premises and equipment | | 23 463 | 24 314 |
| Other assets | | 25 303 | 17 819 |
| Assets held for sale | | 393 | 411 |
| **Total assets** | | **2 179 040** | **1 915 817** |
| **Liabilities** | | | |
| Derivative financial instruments | 16 | 631 | 1 207 |
| Due to other banks | 6 | 190 176 | 285 776 |
| Customer accounts | 7 | 1 110 536 | 761 595 |
| Promissory notes issued and deposit certificates | | 6 219 | 18 680 |
| Bonds issued | 8 | 580 705 | 554 568 |
| Current income tax liability | | 24 | 5 |
| Deferred income tax liability | | 1 224 | 1 245 |
| Other liabilities | | 10 421 | 10 481 |
| Subordinated debts | 9 | 130 727 | 84 261 |
| **Total liabilities** | | **2 030 663** | **1 717 818** |
| **Equity** | | | |
| Share capital | | 258 798 | 248 798 |
| Revaluation reserve for premises | | 1 174 | 1 194 |
| Revaluation reserve for investment securities available for sale | | (4 625) | (12 403) |
| Accumulated loss | | (107 670) | (39 922) |
| **Equity attributable to the Bank's shareholder** | | **147 677** | **197 667** |
| **Non-controlling interest** | | **700** | **332** |
| **Total equity** | | **148 377** | **197 999** |
| **Total liabilities and equity** | | **2 179 040** | **1 915 817** |

Approved for issue and signed on behalf of the Management Board on 03 December 2015.

«Российский Сельскохозяйственный банк» АО «Россельхозбанк»

D.N. Patrushev
Chairman of the Management Board

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

| *(Unaudited)* | | For the nine months ended 30 September | | For the three months ended 30 September | |
|---|---|---|---|---|---|
| *In millions of Russian Roubles* | **Note** | **2015** | **2014** | **2015** | **2014** |
| Interest income | 10 | 142 942 | 120 531 | 49 974 | 39 304 |
| Interest expense | 10 | (128 048) | (71 660) | (42 067) | (25 703) |
| **Net interest income** | | **14 894** | **48 871** | **7 907** | **13 601** |
| Provision for loan impairment | | (67 977) | (26 558) | (23 990) | (11 955) |
| **Net interest (expense)/income after provision for loan impairment** | | **(53 083)** | **22 313** | **(16 083)** | **1 646** |
| Fee and commission income | 11 | 9 465 | 6 948 | 3 766 | 2 614 |
| Fee and commission expense | 11 | (880) | (782) | (346) | (288) |
| (Losses net of gains)/gains less losses from trading securities | | (8) | (25) | 4 | (12) |
| Gains less losses/(losses net of gains) from financial instruments designated at fair value through profit or loss | | 627 | (533) | 17 | (185) |
| (Losses net of gains)/gains less losses from investment securities available for sale | | (825) | (930) | 245 | (214) |
| Losses from impairment of investment securities available for sale | | (581) | (226) | (745) | (226) |
| Foreign exchange translation losses net of gains | | (36 721) | (31 756) | (38 183) | (27 751) |
| Gains less losses from derivative financial instruments | | 39 637 | 27 660 | 39 014 | 23 740 |
| Gains less losses/(losses net of gains) from dealing in foreign currencies | | 1 417 | (655) | 451 | (222) |
| Provision for credit related commitments and other assets impairment | | (187) | (18) | (270) | (57) |
| (Losses net of gains)/gains less losses from early redemption of borrowed funds | | (2) | 32 | (123) | (160) |
| Gains from non-banking activities | | 5 295 | 3 788 | 1 932 | 1 482 |
| Losses from non-banking activities | | (5 927) | (6 437) | (1 892) | (1 743) |
| Gain on disposal of subsidiaries | | 147 | - | 528 | - |
| Other operating income | | 1 249 | 627 | 223 | 230 |
| Administrative and other operating expenses | | (30 996) | (29 764) | (10 235) | (10 071) |
| **Loss before tax** | | **(71 373)** | **(9 758)** | **(21 697)** | **(11 217)** |
| Income tax credit/(expense) | | 3 499 | 1 420 | (754) | 2 643 |
| **Loss for the period** | | **(67 874)** | **(8 338)** | **(22 451)** | **(8 574)** |
| **(Loss)/profit is attributable to:** | | | | | |
| Shareholder of the Bank | | (67 768) | (7 817) | (22 455) | (8 581) |
| Non-controlling interest | | (106) | (521) | 4 | 7 |
| **Loss for the period** | | **(67 874)** | **(8 338)** | **(22 451)** | **(8 574)** |
| **Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:** | | | | | |
| Securities available for sale: | | | | | |
| - Revaluation of securities at fair value | | 8 689 | (4 171) | 788 | (2 850) |
| - Realised revaluation reserve (at disposal) | | 825 | 930 | (245) | 214 |
| - Reclassification to profit or loss at impairment | | 208 | 226 | 208 | 226 |
| Income tax | | (1 944) | 603 | (150) | 482 |
| **Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods, net of tax** | | **7 778** | **(2 412)** | **601** | **(1 928)** |
| **Total other comprehensive income/(loss)** | | **7 778** | **(2 412)** | **601** | **(1 928)** |
| **Total comprehensive loss for the period** | | **(60 096)** | **(10 750)** | **(21 850)** | **(10 502)** |
| **Total comprehensive (loss)/income is attributable to:** | | | | | |
| Shareholder of the Bank | | (59 990) | (10 229) | (21 854) | (10 509) |
| Non-controlling interest | | (106) | (521) | 4 | 7 |
| **Total comprehensive loss for the period** | | **(60 096)** | **(10 750)** | **(21 850)** | **(10 502)** |

| | | Attributable to shareholder of the Bank | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *In millions of Russian Roubles* | **Note** | **Share capital** | **Revaluation reserve for premises** | **Revaluation reserve for securities available for sale** | **Retained earnings/ (accumulated loss)** | **Total** | **Non-controlling interest** | **Total equity** |
| **Balance at 31 December 2013** | | **218 798** | **1 232** | **(1 285)** | **7 863** | **226 608** | **1 175** | **227 783** |
| Loss for the period, net of tax | | - | - | - | (7 817) | **(7 817)** | (521) | **(8 338)** |
| Other comprehensive loss for the period, net of tax | | - | - | (2 412) | - | **(2 412)** | - | **(2 412)** |
| **Total comprehensive loss for the period, net of tax** | | **-** | **-** | **(2 412)** | **(7 817)** | **(10 229)** | **(521)** | **(10 750)** |
| Change in ownership interests | | - | - | - | (163) | **(163)** | (320) | **(483)** |
| Depreciation of revaluation reserve for premises | | - | (28) | - | 28 | **-** | - | **-** |
| Dividends declared | | - | - | - | (255) | **(255)** | - | **(255)** |
| **Balance at 30 September 2014 (unaudited)** | | **218 798** | **1 204** | **(3 697)** | **(344)** | **215 961** | **334** | **216 295** |
| **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 | 18 | 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** |

| *(Unaudited)* *In millions of Russian Roubles* | Note | For the nine months ended 30 September 2015 | 2014 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 142 268 | 107 553 |
| Interest paid | | (115 551) | (66 488) |
| Expenses incurred from trading in securities and financial instruments designated at fair value through profit or loss | | (728) | (1 778) |
| Income received from derivative financial instruments | | 29 436 | 724 |
| Income received/(expenses incurred) from dealing in foreign currencies | | 1 417 | (655) |
| Fees and commissions received | | 9 515 | 7 228 |
| Fees and commissions paid | | (1 590) | (782) |
| Other operating income received | | 699 | 574 |
| Net insurance income received | | 937 | 381 |
| Income received from non-banking activities | | 3 872 | 2 383 |
| Losses incurred from non-banking activities | | (3 801) | (2 766) |
| Administrative and other operating expenses paid | | (26 624) | (26 688) |
| Income tax paid | | (276) | (1 556) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **39 574** | **18 130** |
| **Changes in operating assets and liabilities** | | | |
| Net decrease/(increase) in mandatory cash balances with the Central Bank of the Russian Federation | | 2 121 | (293) |
| Net increase in trading securities | | (661) | (298) |
| Net decrease in financial instruments designated at fair value through profit or loss | | 4 334 | 7 075 |
| Net (increase)/decrease in due from other banks | | (23 175) | 9 888 |
| Net increase in loans and advances to customers | | (199 684) | (162 144) |
| Net increase in other assets | | (8 237) | (762) |
| Net (decrease)/increase in due to other banks | | (105 071) | 59 244 |
| Net increase in customer accounts | | 333 674 | 62 010 |
| Net decrease in promissory notes issued and deposit certificates | | (11 892) | (4 403) |
| Net decrease in other liabilities | | (346) | (3 205) |
| **Net cash from/(used in) operating activities** | | **30 637** | **(14 758)** |
| **Cash flows from investing activities** | | | |
| Acquisition of premises and equipment | | (1 641) | (1 994) |
| Proceeds from disposal of premises and equipment | | 387 | 212 |
| Acquisition of intangible assets | | (768) | (619) |
| Acquisition of investment securities available for sale | | (56 992) | (85 375) |
| Proceeds from disposal of investment securities available for sale | | 68 682 | 61 090 |
| Proceeds from redemption of investment securities held to maturity | | 660 | 8 888 |
| Acquisition of subsidiaries | | - | (482) |
| **Net cash from/(used in) investing activities** | | **10 328** | **(18 280)** |
| **Cash flows from financing activities** | | | |
| Issue of ordinary shares | 18 | 10 000 | - |
| Proceeds from bonds issued | 8 | 15 000 | 32 756 |
| Repayment of bonds issued | 8 | (38 981) | (59 130) |
| Proceeds from sale of previously bought back bonds issued | | 13 644 | 5 535 |
| Buy back of bonds issued | | (17 522) | (13 816) |
| Proceeds from subordinated debts | 9 | 30 000 | - |
| Dividends paid | | - | (255) |
| **Net cash from/(used in) financing activities** | | **12 141** | **(34 910)** |
| **Effect of exchange rate changes on cash and cash equivalents** | | **(102)** | **4 367** |
| **Net increase/(decrease) in cash and cash equivalents** | | **53 004** | **(63 581)** |
| Cash and cash equivalents at the beginning of the period | | 105 009 | 128 444 |
| **Cash and cash equivalents at the end of the period** | | **158 013** | **64 863** |

## 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 2015 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 (90.31% from total share capital (31 December 2014: 89.92% from total share capital)) and the Ministry of Finance of the Russian Federation which holds the Bank's issued and outstanding preference shares (9.69% from total share capital (31 December 2014: 10.08% 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 38 companies and funds operating in agricultural and other industries (ownership interest of the Bank is from 75% to 100%).

***Disposal of subsidiaries.*** In March 2015 as a result of insolvency procedures the Group lost the control over LLC Dominant and recognized loss from disposal of subsidiary in the amount of RR 381 million. In August 2015 as a result of insolvency procedures the Group lost the control over LLC Karlamansky Sakhar and recognized gain from disposal of subsidiary in the amount of RR 528 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 76 (31 December 2014:78) branches within the Russian Federation. To improve efficiency of the regional network, during nine months ended 30 September 2015 the Bank made acquisition of Evreyskiy regional branch by Khabarovskiy regional branch and acquisition of Astrakhanskiy regional branch by Volgogradskiy regional branch. 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 2015 was 31 846 (31 December 2014: 35 945).

***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 Federation is continuing economic reforms and the development of its legal, tax and regulatory frameworks as required by a market economy.

## 2 Operating Environment of the Group (Continued)

The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2015 the Russian economy continued to be negatively impacted by a significant drop in crude oil prices, devaluation of the Russian Rouble, ongoing political tension and international sanctions imposed against certain Russian companies and individuals. In July-September 2014, several countries imposed limited sectoral sanctions on state-owned Russian banks, including JSC Russian Agricultural Bank. Sanctions forbidden financing for the period exceeding 30 days with state-owned Russian banks. The Group considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Group's financial position and its financial performance.

The Rouble interest rates remained elevated after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015. During nine months ended 30 September 2015 the CBRF gradually decreased key interest rate from 17.0% p.a. to 11.0% p.a.

In January 2015 Russia's credit rating was downgraded by Fitch Ratings to BBB-, whilst Standard & Poor's cut it to BB+, putting it below investment grade. In February 2015 Moody's downgraded Russia's rating to Ba1 from Baa3, also putting it below investment grade. Fitch Ratings maintains Russia's credit rating at investment grade.

The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects.

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 2014, 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 2015 the principal rates of exchange used for translating foreign currency balances were USD 1 = RR 66.2367 (31 December 2014: USD 1 = RR 56.2584), EUR 1 = RR 74.5825 (31 December 2014: EUR 1 = RR 68.3427).

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 2014, except for the changes introduced due to implementation of new and/or revised standards and interpretations as at 1 January 2015 or as at the date indicated, noted below:

***Amendments to IAS 19 — Defined Benefit Plans: Employee Contributions (issued in November 2013 and effective for annual periods beginning 1 July 2014).*** The amendment allows entities to recognize employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. This amendment is not relevant to the Group, since none of the entities in the Group has defined benefit plans with contributions from employees or third parties.

***Annual Improvements to IFRSs 2010-2012 cycle (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below).*** The improvements consist of changes in seven standards:

- IFRS 2 *Share-based Payment* was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. These amendments had no impact on the Group's financial position.

**3 Summary of Significant Accounting Policies (Continued)**

- IFRS 3 *Business Combinations* was amended to clarify that

  1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and
  2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.

  Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

- IFRS 8 *Operating Segments* was amended to require

  1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and
  2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

  The Group has not applied the aggregation criteria in paragraph 12 IFRS 8. The Group has presented the reconciliation of segment assets to total assets in its annual consolidated financial statements. The Group ceased to present reconciliation of segment assets to total assets in these interim condensed consolidated financial statements as the reconciliation is not reported to the CODM for the purpose of decision making.

- IFRS 13 *Fair Value Measurement*. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. The Group did not record any revaluation adjustments during the current interim period.

- IAS 24 *Related Party Disclosures* was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. This amendment is not relevant for the Group as it does not receive any management services from other entities.

***Annual improvements to IFRSs 2011-2013 Cycle (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).*** The improvements consist of changes in four standards:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption, a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

- IFRS 3 *Business Combinations* was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11 *Joint Arrangements*. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The Group is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

- IFRS 13 *Fair Value Measurement*. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*. The Group does not apply the portfolio exception in IFRS 13.

## 3 Summary of Significant Accounting Policies (Continued)

- IAS 40 *Investment Property* was amended to clarify that IAS 40 and IFRS 3 *Business Combinations* are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy 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 2014.

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 amortized 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.

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

***Deferred income tax asset recognition.*** The recognized deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the interim consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances and approved by the management of the Bank. 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 2015 the Group guarantees all obligations of the consolidated structured entity represented by Eurobonds issued in the amount of RR 402 987 million and subordinated debts in the amount of RR 87 246 million (31 December 2014: Eurobonds issued in the amount of RR 379 609 million and subordinated debts in the amount of RR 72 827 million). During nine months ended 30 September 2015 and the year 2014 the Group did not provide any other financial support to the consolidated structured entity. The Group has no other current obligation or intention neither to provide financial or other support to the consolidated structured entity nor to assist it in obtaining financial support.

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

## 5 Loans and Advances to Customers

| *In millions of Russian Roubles* | **30 September 2015 (unaudited)** | **31 December 2014** |
|---|---|---|
| Loans to legal entities | | |
| - Loans to corporates | 1 454 397 | 1 261 960 |
| - Lending for food interventions | 13 448 | 10 097 |
| - Deals with securities purchased under “reverse-repo agreements” | 6 763 | 425 |
| - Investments in agricultural cooperatives | 392 | 395 |
| Loans to individuals | 283 472 | 281 065 |
| **Total loans and advances to customers (before impairment)** | **1 758 472** | **1 553 942** |
| Less: Provision for loan impairment | (175 992) | (137 479) |
| **Total loans and advances to customers** | **1 582 480** | **1 416 463** |

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

As at 30 September 2015, the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 302 500 million (before impairment), or 17% of total loans and advances to customers (before impairment) (31 December 2014: the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 243 100 million (before impairment), or 16% 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:

| | For the nine months ended 30 September 2015 | | | | For the nine months ended 30 September 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| ***(Unaudited)*** *In millions of Russian Roubles* | **Loans to corpo-rates** | **Invest-ments in agricultu-ral coope-ratives** | **Loans to indivi-duals** | **Total** | **Loans to corpo-rates** | **Invest-ments in agricultu-ral coope-ratives** | **Loans to indivi-duals** | **Total** |
| **Provision for loan impairment at 1 January** | **129 678** | **26** | **7 775** | **137 479** | **108 964** | **26** | **5 403** | **114 393** |
| Provision/(recovery of provision) for loan impairment during the period | 64 927 | 24 | 3 026 | **67 977** | 27 179 | (4) | (682) | **26 493** |
| Recovery of provision for loans sold during the period | (6 395) | - | (87) | **(6 482)** | (16 179) | - | - | **(16 179)** |
| Loans and advances to customers written off during the period as uncollectible | (24 519) | - | (25) | **(24 544)** | (3 638) | - | (21) | **(3 659)** |
| Provision for loans previously written off sold during the period | 1 403 | - | - | **1 403** | - | - | - | **-** |
| Redemption of loans previously written off | 159 | - | - | **159** | - | - | - | **-** |
| **Provision for loan impairment at 30 September** | **165 253** | **50** | **10 689** | **175 992** | **116 326** | **22** | **4 700** | **121 048** |

No provision for “Lending for food interventions” and “Reverse repo agreements” was recorded as at 30 September 2015 and 31 December 2014.

During nine months ended 30 September 2015 the Group disposed loans to customers under cession agreements with the carrying value of RR 9 169 million for consideration received of RR 7 794 million (nine months ended 30 September 2014: the Group disposed loans to customers under cession agreements with the carrying value of RR 939 million for consideration received of RR 407 million). Losses net of gains from sale of loans during nine months ended 30 September 2015 recognized in the interim consolidated statement of profit or loss and other comprehensive income amount to RR 1 375 million (nine months ended 30 September 2014: losses net of gains amount to RR 532 million) and is recorded within Administrative and other operating expenses.

The Group transferred to the third parties all contractual rights for cash flows, as well as all risks and rewards related to loans sold under cession agreements, and have neither intentions nor rights or commitments to buy back these loans.

Refer to Note 17 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 18.

## 6 Due to Other Banks

| *In millions of Russian Roubles* | **30 September 2015 (unaudited)** | **31 December 2014** |
|---|---|---|
| Correspondent accounts and overnight placements of other banks | 10 207 | 17 415 |
| Borrowings from other banks with term to maturity: | | |
| - sale and repurchase agreements less than 30 days | 5 417 | 5 107 |
| - sale and repurchase agreements from 31 to 180 days | 8 424 | - |
| - sale and repurchase agreements from 181 days to 1 year | - | 14 902 |
| - less than 30 days | 11 070 | 8 780 |
| - from 31 to 180 days | 1 351 | 7 701 |
| - from 181 days to 1 year | 423 | 1 183 |
| - from 1 year to 3 years | 29 327 | 25 214 |
| - more than 3 years | 3 452 | 1 742 |
| Borrowings from the CBRF with term to maturity: | | |
| - sale and repurchase agreements less than 30 days | 13 021 | - |
| - less than 30 days | 29 540 | 17 440 |
| - from 31 to 180 days | 40 594 | 127 830 |
| - from 181 days to 1 year | - | 10 000 |
| - from 1 year to 3 years | 37 350 | 48 462 |
| **Total due to other banks** | **190 176** | **285 776** |

Refer to Note 17 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 18.

## 7 Customer Accounts

| *In millions of Russian Roubles* | **30 September 2015 (unaudited)** | **31 December 2014** |
|---|---|---|
| State and public organisations | | |
| - Current/settlement accounts | 9 842 | 15 421 |
| - Term deposits | 271 094 | 85 837 |
| Other legal entities | | |
| - Current/settlement accounts | 98 287 | 65 796 |
| - Term deposits | 309 441 | 287 768 |
| - Sale and repurchase agreements with securities | - | 15 |
| Individuals | | |
| - Current/demand accounts | 29 713 | 32 395 |
| - Term deposits | 392 159 | 274 363 |
| **Total customer accounts** | **1 110 536** | **761 595** |

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

## 7 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

| | 30 September 2015 (unaudited) | | 31 December 2014 | |
|---|---|---|---|---|
| *In millions of Russian Roubles* | **Amount** | **%** | **Amount** | **%** |
| Individuals | 421 872 | 38 | 306 758 | 40 |
| State and public organisations | 280 936 | 25 | 101 258 | 13 |
| Financial services and pension funds | 123 175 | 11 | 93 468 | 12 |
| Manufacturing | 69 627 | 6 | 60 105 | 8 |
| Agriculture | 57 767 | 5 | 46 234 | 6 |
| Construction | 45 476 | 4 | 58 996 | 8 |
| Insurance | 37 055 | 3 | 31 552 | 4 |
| Trading | 32 607 | 3 | 29 232 | 4 |
| Telecommunication | 358 | 1 | 2 316 | 1 |
| Other | 41 663 | 4 | 31 676 | 4 |
| **Total customer accounts** | **1 110 536** | **100** | **761 595** | **100** |

Refer to Note 17 for the disclosure of the fair value and fair value hierarchy for customer accounts. The information on related party transactions is disclosed in Note 18.

## 8 Bonds Issued

| *In millions of Russian Roubles* | 30 September 2015 (unaudited) | 31 December 2014 |
|---|---|---|
| Eurobonds issued | 402 987 | 379 609 |
| Bonds issued on domestic market | 177 718 | 174 959 |
| **Total bonds issued** | **580 705** | **554 568** |

As at 30 September 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. As at 31 December 2014, bonds issued consisted of US Dollars, Russian Roubles, Swiss Francs 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 February 2015 the Group issued RR 10 000 million bonds (placed at par) maturing in January 2025 with quarterly payments of coupon at 15.0% p.a. for the first twenty quarterly interest periods. The Group has a right to change the interest rate and determine the number of subsequent interest periods on a new interest rate, while bondholders have a right to require the Group to repurchase the bonds.

In February 2015 the Group issued RR 5 000 million bonds (placed at par) maturing in February 2025 with quarterly payments of coupon at 15.25% p.a. for the first four quarterly interest periods. The Group has a right to change the interest rate and determine the number of subsequent interest periods on a new interest rate, while bondholders have a right to require the Group to repurchase the bonds.

In February 2015, the Group repaid at the maturity date bonds denominated in RR issued in February 2012 on the domestic market in the amount of RR 10 000 million.

In May 2015, the Group repaid bonds denominated in RR issued on the domestic market in the amount of RR 195 million at the put option date.

In May and June 2015, the Group re-issued on the domestic market RR 195 million of previously bought back bonds maturing in November 2019, with semi-annual payments of coupon at 13.0% p.a.

In June 2015, the Group repaid bonds denominated in RR issued on the domestic market in the amount of RR 1 657 million at the put option date.

## 8. Bonds Issued (Continued)

In July 2015, the Group repaid bonds denominated in RR issued on the domestic market in the amount of RR 3 985 million at the put option date.

In July 2015, the Group re-issued on the domestic market RR 1 707 million of previously bought back bonds maturing in July 2021, with semi-annual payments of coupon at 12.4% p.a.

In July and August 2015, the Group re-issued on the domestic market RR 172 million of previously bought back bonds maturing in June 2017, with semi-annual payments of coupon at 12.5% p.a.

In August 2015, the Group re-issued on the domestic market RR 1 996 million of previously bought back bonds maturing in July 2023, with semi-annual payments of coupon at 12.1% p.a.

In August 2015, the Group repaid bonds denominated in RR issued on the domestic market in the amount of RR 3 478 million at the put option date.

In August 2015, the Group re-issued on the domestic market RR 500 million of previously bought back bonds maturing in February 2018, with semi-annual payments of coupon at 11.9% p.a.

In August 2015, the Group repaid Eurobonds (loan participation notes) (placed at par) denominated in Swiss Francs in the amount of CHF 450 million, equivalent to RR 28 981 million as at maturity date, issued in August 2012.

In September 2015, the Group re-issued on the domestic market RR 100 million of previously bought back bonds maturing in June 2017, with semi-annual payments of coupon at 12.5% p.a.

In September 2015, the Group re-issued on the domestic market RR 1 000 million of previously bought back bonds maturing in February 2018, with semi-annual payments of coupon at 11.9% p.a.

In September 2015, the Group re-issued on the domestic market RR 70 million of previously bought back bonds maturing in July 2023, with semi-annual payments of coupon at 12.1% p.a.

Refer to Note 17 for the disclosure of the fair value and fair value hierarchy for bonds issued. Refer to Note 19 for information on issues/redemptions after the end of the reporting period.

## 9 Subordinated debts

As at 30 September 2015, the Group's subordinated debts equals to RR 130 727 million (31 December 2014: RR 84 261 million).

In July 2015, the Group issued RR 30 000 million subordinated bonds (placed at par) maturing in July 2025 with quarterly payments of coupon at 13.1% p.a. for the first interest period and at CBRF key rate plus 1.6% p.a. for the next interest periods.

Refer to Note 17 for the disclosure of the fair value and fair value hierarchy for subordinated debts. The information on related party transactions is disclosed in Note 18.

## 10 Interest Income and Expense

| *(Unaudited)* *In millions of Russian Roubles* | For the nine months ended 30 September 2015 | 2014 | For the three months ended 30 September 2015 | 2014 |
|---|---|---|---|---|
| **Interest income on financial instruments carried at fair value through profit or loss** | | | | |
| Financial instruments designated at fair value through profit or loss | 356 | 505 | 86 | 108 |
| Trading securities | 338 | 263 | 92 | 98 |
| **Total interest income on financial instruments carried at fair value through profit or loss** | **694** | **768** | **178** | **206** |
| **Interest income on other financial instruments** | | | | |
| Loans and advances to legal entities | 94 776 | 81 309 | 33 824 | 25 412 |
| Loans and advances to individuals | 29 948 | 28 207 | 10 324 | 9 803 |
| Investment securities available for sale including pledged under repurchase agreements | 8 864 | 5 985 | 2 816 | 2 249 |
| Cash equivalents | 3 834 | 907 | 961 | 303 |
| Due from other banks | 2 947 | 1 279 | 1 344 | 632 |
| Investment securities held to maturity including pledged under repurchase agreements | 1 879 | 2 076 | 527 | 699 |
| **Total interest income on other financial instruments** | **142 248** | **119 763** | **49 796** | **39 098** |
| **Total interest income** | **142 942** | **120 531** | **49 974** | **39 304** |
| **Interest expense** | | | | |
| Term deposits of legal entities | (49 099) | (22 829) | (17 023) | (8 692) |
| Bonds issued | (30 880) | (23 497) | (9 858) | (7 785) |
| Term deposits of individuals | (26 321) | (12 895) | (10 187) | (4 719) |
| Term deposits of the CBRF | (9 642) | (2 683) | (1 230) | (1 071) |
| Subordinated debts | (5 110) | (3 796) | (2 289) | (1 304) |
| Term deposits of other banks | (4 409) | (3 809) | (1 055) | (1 468) |
| Current/settlement accounts | (1 325) | (687) | (333) | (207) |
| Promissory notes issued and deposit certificates | (1 262) | (1 464) | (92) | (457) |
| **Total interest expense** | **(128 048)** | **(71 660)** | **(42 067)** | **(25 703)** |
| **Net interest income** | **14 894** | **48 871** | **7 907** | **13 601** |

The information on related party transactions is disclosed in Note 18.

## 11 Fee and Commission Income and Expense

| *(Unaudited)* *In millions of Russian Roubles* | For the nine months ended 30 September 2015 | 2014 | For the three months ended 30 September 2015 | 2014 |
|---|---|---|---|---|
| **Fee and commission income** | | | | |
| Commission on cash and settlements transactions | 5 372 | 4 251 | 2 080 | 1 568 |
| Fees for sale of insurance contracts | 1 805 | 1 469 | 932 | 585 |
| Commission on guarantees issued | 1 493 | 552 | 489 | 216 |
| Commission on banking cards | 346 | 325 | 131 | 115 |
| Fees for currency control | 121 | 115 | 46 | 43 |
| Other | 328 | 236 | 88 | 87 |
| **Total fee and commission income** | **9 465** | **6 948** | **3 766** | **2 614** |
| **Fee and commission expense** | | | | |
| Commission on settlement transactions | (431) | (341) | (161) | (120) |
| Commission on cash collection | (375) | (367) | (146) | (139) |
| Other | (74) | (74) | (39) | (29) |
| **Total fee and commission expense** | **(880)** | **(782)** | **(346)** | **(288)** |
| **Net fee and commission income** | **8 585** | **6 166** | **3 420** | **2 326** |

## 12 (Losses Net of Gains)/Gains net of Losses from Non-banking Activities

| *(Unaudited)* *In millions of Russian Roubles* | For the nine months ended 30 September 2015 | 2014 | For the three months ended 30 September 2015 | 2014 |
|---|---|---|---|---|
| Sales of goods | 3 406 | 2 401 | 1 327 | 943 |
| Cost of goods sold | (3 234) | (2 522) | (1 184) | (860) |
| (Provision)/recovery of provision for impairment for trade receivables and prepayments | (50) | 28 | 123 | 131 |
| Net income from insurance operations | 407 | 415 | 121 | 134 |
| Other non-banking income | 838 | 502 | 255 | 237 |
| Other non-banking expenses | (1 999) | (3 473) | (602) | (846) |
| **Total (losses net of gains)/gains net of losses from non-banking activities** | **(632)** | **(2 649)** | **40** | **(261)** |

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

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

Net income from insurance operations is as follows:

| ***(Unaudited)*** *In millions of Russian Roubles* | **For the nine months ended 30 September** **2015** | **2014** | **For the three months ended 30 September** **2015** | **2014** |
|---|---|---|---|---|
| **Insurance premiums** | | | | |
| Premium earned | 2 028 | 1 641 | 751 | 631 |
| Reinsurers share in premiums earned | (977) | (756) | (401) | (329) |
| **Net insurance premiums earned** | **1 051** | **885** | **350** | **302** |
| **Insurance benefits and claims** | | | | |
| Claims incurred during the period | (544) | (774) | (130) | (490) |
| Acquisition costs | (331) | (200) | (146) | (64) |
| Reinsurers share in claims incurred during the period | 231 | 504 | 47 | 386 |
| **Net insurance benefits and claims** | **(644)** | **(470)** | **(229)** | **(168)** |
| **Net income from insurance operations** | **407** | **415** | **121** | **134** |

## 13 Significant Risk Concentrations

As at 30 September 2015 correspondent accounts and deposits with other banks with original maturities less than one month within cash and cash equivalents included the balances with one OECD banking group individually above 10% of the Group’s equity with rating with rating A+ (S&P) in the amount of RR 48 693 million, or 31% of total cash and cash equivalents. As at 31 December 2014, cash and cash equivalents included no balances with other banks each above 10% of the Group's equity. As at 31 December 2014, correspondent accounts and deposits with other banks with original maturities less than one month included the balances with five counterparties (four counterparties with rating not less than BB- (S&P) and one non-rated counterparty) in the amount of RR 23 638 million, or 23% of total cash and cash equivalents, in aggregate above 10% of the Group’s equity.

As at 30 September 2015, cash and cash equivalents included the balances with CBRF in the total amount of RR 29 617 million, or 19% of total cash and cash equivalents (31 December 2014: RR 37 930 million, or 36% of total cash and cash equivalents).

As at 30 September 2015 due from other banks included balances with one counterparty individually above 10% of the Group’s equity with rating Ba3 (Moody’s) in the amount of RR 16 864 million, or 27% of total due from other banks. As at 31 December 2014, due from other banks included no balances with other banks each above 10% of the Group’s equity. As at 31 December 2014, due from other banks included the balances with two counterparties with rating Ba3 (Moody’s) in the amount of RR 20 599 million, or 61% of total due from other banks, in aggregate above 10% of the Group’s equity.

As at 30 September 2015, due to other banks included balances with CBRF above 10% of the Group's equity in the amount of RR 120 505 million, or 63% of total due to other banks (31 December 2014: due to other banks included balances with CBRF above 10% of the Group's equity in the amount of RR 203 732 million, or 71% of total due to other banks).

As at 30 September 2015, due to other banks included the balances with one OECD banking group individually above 10% of the Group's equity with rating A+ (S&P) in the amount of RR 16 653 million, or 9% of total due to other banks. As at 31 December 2014, due to banks included no balances with other banks each above 10% of the Group's equity. As at 31 December 2014, due to banks included the balances with two counterparties with rating not less than Ba1 (Moody’s) in the amount of RR 28 053 million, or 10% of total due to other banks, in aggregate above 10% of the Group’s equity.

As at 30 September 2015, customer accounts included balances with eight customers each above 10% of the Group’s equity (31 December 2014: balances with five customers each above 10% of the Group’s equity). The aggregate balance of these customers was RR 328 218 million, or 30% of total customer accounts (31 December 2014: RR 131 328 million, or 17% of total customer accounts).

## 14 Segment Analysis

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

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

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

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

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

As at 30 September 2015 Krasnodar branch does not meet criteria of defining it as a separate reportable segment. CODM does not treat Krasnodar branch as separate reportable segment, therefore it was included in Southern federal district. The presentation of the comparative figures for the nine and three months ended 30 September 2014 has been adjusted to be consistent with the new presentation.

## 14 Segment Analysis (Continued)

Segment reporting of the Group's revenue and profit/(loss) for the nine months ended 30 September 2015 and for the nine months ended 30 September 2014 and segment reporting of the Group's assets at 30 September 2015 and 31 December 2014 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 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)** |

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

## 14 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 2014 (unaudited)** | | | | | | | | | | |
| **Revenue from external customers:** | **12 543** | **30 130** | **4 959** | **28 513** | **7 372** | **8 873** | **14 228** | **4 463** | **14 609** | **125 690** |
| - Interest income from loans and advances to customers, due from other banks and other placed funds | 12 182 | 27 219 | 4 454 | 26 454 | 6 473 | 8 129 | 12 981 | 4 091 | 13 674 | **115 657** |
| - Net fee and commission income from credit related operations | 361 | 2 911 | 505 | 2 059 | 899 | 744 | 1 247 | 372 | 935 | **10 033** |
| (Losses net of gains)/gains less losses arising from securities, derivative financial instruments and foreign currency | (5 100) | 2 003 | 657 | (1 377) | (762) | (1 380) | (87) | 416 | 43 | **(5 587)** |
| Interest expenses from due to other banks, customer accounts and bonds issued | (49 826) | (6 621) | (1 404) | (5 354) | (2 977) | (718) | (2 175) | (874) | (1 571) | **(71 520)** |
| (Provision)/recovery of provision for impairment | (1 159) | (8 492) | (983) | (5 331) | (4 199) | (6 021) | (1 411) | (322) | 1 055 | **(26 863)** |
| Administrative and maintenance expense | (20 593) | (1 525) | (475) | (1 365) | (491) | (553) | (932) | (316) | (605) | **(26 855)** |
| - Including depreciation charge | (213) | (171) | (36) | (139) | (54) | (72) | (97) | (23) | (62) | **(867)** |
| (Other expenses less other income)/other income less other expenses | (1 524) | (205) | 15 | 151 | (69) | (26) | 239 | (27) | (3 693) | **(5 139)** |
| Current income tax expense | (262) | - | - | - | - | - | - | - | - | **(262)** |
| Deferred income tax credit | 11 646 | - | - | - | - | - | - | - | - | **11 646** |
| **Intersegment income/(expense)*** | **73 902** | **(21 383)** | **(3 484)** | **(15 910)** | **(3 607)** | **(5 062)** | **(9 458)** | **(2 823)** | **(12 175)** | **-** |
| **(Loss)/profit of reportable segments** | **(54 275)** | **15 290** | **2 769** | **15 237** | **(1 126)** | **175** | **9 862** | **3 340** | **9 838** | **1 110** |
| **Total assets** | | | | | | | | | | |
| 30 September 2015 (unaudited) | 1 498 993 | 553 274 | 80 636 | 355 510 | 159 733 | 119 523 | 170 173 | 72 525 | 239 883 | **3 250 250** |
| 31 December 2014 | 1 864 277 | 677 014 | 81 092 | 387 803 | 184 891 | 144 581 | 194 953 | 102 318 | 253 131 | **3 890 060** |

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

## 14 Segment Analysis (Continued)

Segment reporting of the Group's revenue and profit/(loss) for the three months ended 30 September 2015 and for the three months ended 30 September 2014 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 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.

## 14 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 2014 (unaudited)** | | | | | | | | | | |
| **Revenue from external customers:** | **4 480** | **10 667** | **1 684** | **9 685** | **2 642** | **2 877** | **5 256** | **1 571** | **4 608** | **43 470** |
| - Interest income from loans and advances to customers, due from other banks and other placed funds | 4 441 | 9 513 | 1 496 | 8 962 | 2 215 | 2 603 | 4 792 | 1 438 | 4 230 | **39 690** |
| - Net fee and commission income from credit related operations | 39 | 1 154 | 188 | 723 | 427 | 274 | 464 | 133 | 378 | **3 780** |
| (Losses net of gains)/gains less losses arising from securities, derivative financial instruments and foreign currency | (33) | 1 857 | 550 | (1 438) | (852) | (1 333) | (142) | 225 | (160) | **(1 326)** |
| Interest expenses from due to other banks, customer accounts and bonds issued | (17 697) | (2 246) | (495) | (1 914) | (1 276) | (270) | (788) | (348) | (564) | **(25 598)** |
| (Provision)/recovery of provision for impairment | (198) | (1 231) | (361) | (1 864) | (1 590) | (1 347) | (731) | (65) | 127 | **(7 260)** |
| Administrative and maintenance expense | (7 141) | (531) | (166) | (479) | (170) | (203) | (322) | (111) | (208) | **(9 331)** |
| - Including depreciation charge | (80) | (60) | (13) | (48) | (19) | (25) | (34) | (9) | (20) | **(308)** |
| (Other expenses less other income)/other income less other expenses | (1 094) | (96) | 12 | 14 | 10 | 18 | 19 | 3 | (818) | **(1 932)** |
| Current income tax credit | 251 | - | - | - | - | - | - | - | - | **251** |
| Deferred income tax credit | 1 822 | - | - | - | - | - | - | - | - | **1 822** |
| **Intersegment income/(expense)*** | **24 276** | **(8 635)** | **(1 488)** | **(4 587)** | **(506)** | **(805)** | **(3 116)** | **(1 070)** | **(4 069)** | **-** |
| **(Loss)/profit of reportable segments** | **(19 610)** | **8 420** | **1 224** | **4 004** | **(1 236)** | **(258)** | **3 292** | **1 275** | **2 985** | **96** |

* 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 the Bank changed its approach to intersegment income and expense calculation that resulted in changes in expenses allocation to operating segments. Intersegment income and expense were adjusted to include 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 nine and three months ended 30 September 2014 and for the six months ended 30 June 2015 has been adjusted to be consistent with the new presentation.

## 14 Segment Analysis (Continued)

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

| ***(Unaudited)*** *In millions of Russian Roubles* | **For the nine months ended 30 September 2015** | **2014** | **For the three months ended 30 September 2015** | **2014** |
|---|---|---|---|---|
| **Total (loss)/profit of reportable segments (after tax)** | **(30 763)** | **1 110** | **(14 490)** | **96** |
| Adjustments of provision for impairment | (37 577) | 5 634 | (7 157) | (1 522) |
| Results of non-reportable segments, including the effect of consolidation* | 351 | (846) | 3 950 | 1 952 |
| Accounting for financial instruments at fair value | 3 966 | (1 421) | (1 187) | (3 955) |
| Adjustment of deferred tax | 2 355 | (9 680) | (1 193) | 1 213 |
| Gains less losses/(losses less gains) from revaluation of financial instruments designated at fair value through profit or loss | 627 | (533) | 17 | (185) |
| Adjustment of accrued staff costs | (282) | (675) | 547 | 415 |
| Adjustments of financial assets and liabilities carried at amortized cost | (6 084) | (1 766) | (3 039) | (6 193) |
| Other | (467) | (161) | 101 | (395) |
| **The Group's loss under IFRS (after tax)** | **(67 874)** | **(8 338)** | **(22 451)** | **(8 574)** |

* 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 16. 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 amortized 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 (mainly related to unused vacations provision) under RAR compared to IFRS and regulatory requirements of tax-filing date. Deferred tax accounting in RAR for credit organizations was introduced from 1 April 2014.

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

## 15 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 2015, 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 provision for cover of such losses has been made in these interim condensed consolidated financial statements (31 December 2014: Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in annual consolidated financial statements).

## 15 Contingencies and Commitments (Continued)

***Tax contingencies.*** Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation allows the Russian tax authorities to apply transfer pricing adjustments and impose additional profits tax and VAT liabilities if the transaction price in the “controlled” transaction differs from the market level of prices determined for tax purposes. The list of “controlled” transactions includes transactions performed with related parties and certain types of cross-border transactions. Special transfer pricing rules apply to transactions with securities and derivatives.

Due to the uncertainty and absence of the stable practice of the interpretation and application of the current Russian transfer pricing legislation, the Russian tax authorities may challenge the level of prices applied by the Russian entities of the Group under the “controlled” transactions and accrue additional tax liabilities in respect of such transactions, unless the Russian entities of the Group are able to demonstrate the use of the market prices with respect to the “controlled” transactions supported by the appropriate available transfer pricing documentation. It may not be possible to reliably estimate the consequences of any challenge by the Russian tax authorities of the prices applied by the Russian entities of the Group for tax purposes; these consequences however may have an impact on the financial conditions and/or the overall operations of the Group.

Management believes that the Group complies with the Russian transfer pricing legislation requirements in respect of all “controlled” transactions in all relevant aspects, including in terms of transfer pricing documentation confirming the application for tax purposes of the market prices by the Group with respect to its “controlled” transactions.

Starting from 1 January 2015 the concept of beneficial ownership was introduced in the Russian tax legislation which may have bearing upon withholding tax obligations of the Group. No assurance can be given as to how this concept will be applied in practice and how it can impact the Group. Management cannot preclude the possibility of the Russian tax authorities applying this concept retrospectively.

***Capital expenditure commitments.*** As at 30 September 2015, the Group has contractual capital expenditure commitments of RR 106 million (31 December 2014: RR 266 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 2015 (unaudited)** | **31 December 2014** |
|---|---|---|
| Not later than 1 year | 4 655 | 4 351 |
| Later than 1 year and not later than 5 years | 8 955 | 10 365 |
| Later than 5 years | 1 843 | 2 266 |
| **Total operating lease commitments** | **15 453** | **16 982** |

***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.

## 15 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 2015 (unaudited)** | **31 December 2014** |
|---|---|---|
| Financial guarantees issued | 92 580 | 150 415 |
| Undrawn credit lines | 52 760 | 37 506 |
| Letters of credit | 13 668 | 18 542 |
| **Total credit related commitments** | **159 008** | **206 463** |

As at 30 September 2015, credit related commitments included no financial guarantees issued to the CBRF for Russian banks individually above 10% of the Group's equity (31 December 2014: credit related commitments included commitments for one Russian bank individually above 10% of the Group's equity in the amount of RR 22 554 million, or 11% of total credit related commitments). As at 30 September 2015, the amount of financial guarantees issued to the CBRF for other Russian banks was RR 531 million, or less than 1% of total credit related commitments (31 December 2014: the amount of financial guarantees issued to the CBRF for Russian banks was RR 61 264 million, or 30% of total credit related commitments).

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 2015 and 31 December 2014, 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 2015 (unaudited)** | **31 December 2014** |
|---|---|---|
| Russian Roubles | 131 538 | 175 201 |
| Euros | 22 087 | 25 167 |
| US Dollars | 4 779 | 6 080 |
| Other currencies | 604 | 15 |
| **Total credit related commitments** | **159 008** | **206 463** |

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

| *In millions of Russian Roubles* | **30 September 2015 (unaudited)** | **31 December 2014** |
|---|---|---|
| Assets pledged under loan agreements with banks (including CBRF) | 148 319 | 237 396 |
| Security deposit under the lease agreement | 202 | 202 |

As at 30 September 2015, mandatory cash balances with the CBRF of RR 7 252 million (31 December 2014: RR 9 373 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 30 September 2015 and 31 December 2014 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.

## 15 Contingencies and Commitments (Continued)

### *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. As at 30 September 2015, the associated liabilities of these agreements in the current amount of RR 26 862 million are included in due to other banks (31 December 2014: RR 20 009 million were included in due to other banks and RR 15 million were included in customer accounts).

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

| *In millions of Russian Roubles* | 30 September 2015 (unaudited) Carrying amount assets | 30 September 2015 (unaudited) Carrying amount associated liabilities | 31 December 2014 Carrying amount assets | 31 December 2014 Carrying amount associated liabilities |
|---|---|---|---|---|
| **Repurchase agreements** | | | | |
| Corporate Eurobonds | 17 307 | 15 100 | 20 396 | 15 019 |
| Corporate bonds | 6 961 | 6 346 | 3 034 | 2 729 |
| Federal loan bonds (OFZ) | 5 747 | 5 306 | 1 362 | 1 116 |
| Municipal and subfederal bonds | 116 | 110 | 1 486 | 1 160 |
| **Total** | **30 131** | **26 862** | **26 278** | **20 024** |

## 16 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).

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

Part of these agreements contain special procedures for counterparties upon the occurrence of a credit event or an event of default (for example bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring external unsubordinated public liabilities, providing incorrect or misleading representation). The subjects of such events are the Group, and in some instances, the counterparty of the agreement, and/or the Russian Federation. Some of the agreements provide that no further mutual payment obligation between the parties is due, if a credit event or default event happens. Some agreements 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 2015, international credit ratings of these counterparties were not less than BB- (S&P) (31 December 2014: not less than BB- (S&P)).

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

## 16 Derivative Financial Instruments (Continued)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 30 September 2015 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* | 303 936 | (163 124) | 141 443 | (631) |
| *- Precious metals* | 30 | (29) | 1 | - |
| **Options** | 188 | (188) | - | - |
| **Total** | **304 154** | **(163 341)** | **141 444** | **(631)** |

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 December 2014 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* | 258 636 | (140 614) | 119 132 | (1 110) |
| *- Interest rate* | 30 484 | (17 894) | 12 590 | - |
| **Options** | 892 | (892) | 97 | (97) |
| **Total** | **290 012** | **(159 400)** | **131 819** | **(1 207)** |

As at 30 September 2015, the Group had 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 (31 December 2014: one foreign exchange swap with one foreign bank with rating not lower than BB- (S&P) with fair value above 10% of the Group's equity). As at 30 September 2015, receivables and payables on settlement of these foreign exchange swaps amounted to RR 179 256 million and RR 73 487 million, respectively, or 74% of total receivables or 72% of total payables on settlement of foreign exchange swaps (31 December 2014: RR 80 334 million and RR 36 234 million, respectively, or 36% of total receivables or 34% of total payables on settlement of foreign exchange swaps).

Refer to Note 17 for the disclosure of fair value hierarchy for derivative financial instruments. The information on related party transactions is disclosed in Note 18.

## 17 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.

## 17 Fair Value of Financial Instruments (Continued)

***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 amortized cost which approximates current fair value.

***Loans and receivables carried at amortized 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 amortized 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 amortized 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.

## 17 Fair Value of Financial Instruments (Continued)

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

| *In millions of Russian Roubles* | 30 September 2015 (unaudited) Carrying amount | 30 September 2015 (unaudited) Fair value | 31 December 2014 Carrying amount | 31 December 2014 Fair value |
|---|---|---|---|---|
| **Financial assets carried at amortised cost** | | | | |
| Cash and cash equivalents | 158 013 | 158 013 | 105 009 | 105 009 |
| Mandatory cash balances with the Central Bank of the Russian Federation | 7 252 | 7 252 | 9 373 | 9 373 |
| Due from other banks | 62 073 | 61 772 | 34 036 | 31 790 |
| Loans and advances to customers | | | | |
| - Loans to corporates | 1 289 144 | 1 239 596 | 1 132 282 | 1 078 121 |
| - Lending for food interventions | 13 448 | 13 448 | 10 097 | 10 097 |
| - Reverse repo agreements | 6 763 | 6 763 | 425 | 425 |
| - Investments in agricultural cooperatives | 342 | 342 | 369 | 369 |
| - Loans to individuals | 272 783 | 256 791 | 273 290 | 252 732 |
| Investment securities held to maturity including pledged under repurchase agreements | | | | |
| - Corporate bonds | 8 589 | 7 983 | 8 920 | 7 430 |
| - Municipal and subfederal bonds | 76 | 74 | 325 | 317 |
| - Federal Loan bonds (OFZ) | 2 210 | 1 673 | 2 323 | 1 681 |
| - Corporate Eurobonds | 20 660 | 20 555 | 20 396 | 19 785 |
| Other financial assets | 12 143 | 12 143 | 5 161 | 5 161 |
| **Total financial assets carried at amortised cost** | **1 853 496** | **1 786 405** | **1 602 006** | **1 522 290** |
| **Financial assets carried at fair value** | **269 996** | **269 996** | **260 331** | **260 331** |
| **Total financial assets** | **2 123 492** | **2 056 401** | **1 862 337** | **1 782 621** |
| **Financial liabilities carried at amortised cost** | | | | |
| Due to other banks | | | | |
| - Term borrowings from other banks | 59 464 | 61 575 | 64 629 | 63 804 |
| - Term borrowings from the CBRF | 120 505 | 120 505 | 203 732 | 203 732 |
| - Correspondent accounts and overnight placements of other banks | 10 207 | 10 207 | 17 415 | 17 415 |
| Customer accounts | | | | |
| - State and public organisations | 280 936 | 281 495 | 101 258 | 100 362 |
| - Other legal entities | 407 728 | 417 231 | 353 579 | 349 516 |
| - Individuals | 421 872 | 422 516 | 306 758 | 302 146 |
| Promissory notes issued and deposit certificates | 6 219 | 6 219 | 18 680 | 18 680 |
| Bonds issued | | | | |
| - Eurobonds issued | 402 987 | 401 922 | 379 609 | 337 719 |
| - Bonds issued on domestic market | 177 718 | 179 065 | 174 959 | 169 641 |
| Other financial liabilities | 1 659 | 1 659 | 2 651 | 2 651 |
| Subordinated debts | 130 727 | 119 850 | 84 261 | 62 393 |
| **Total financial liabilities carried at amortised cost** | **2 020 022** | **2 022 244** | **1 707 531** | **1 628 059** |
| **Financial liabilities carried at fair value** | **631** | **631** | **1 207** | **1 207** |
| **Total financial liabilities** | **2 020 653** | **2 022 875** | **1 708 738** | **1 629 266** |

## 17 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 2015 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, including securities pledged under repurchase agreements | 2 409 | 351 | - | **2 760** |
| Financial instruments designated at fair value through profit or loss | - | 4 333 | - | **4 333** |
| Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements | 107 464 | 13 995 | - | **121 459** |
| Derivative financial instruments | - | 141 444 | - | **141 444** |
| Office premises | - | - | 8 378 | **8 378** |
| **Assets for which fair values are disclosed** | | | | |
| Cash and cash equivalents | - | 158 013 | - | **158 013** |
| Mandatory cash balances with the Central Bank of the Russian Federation | - | - | 7 252 | **7 252** |
| Due from other banks | - | 61 772 | - | **61 772** |
| Loans and advances to customers | - | - | 1 516 940 | **1 516 940** |
| Investment securities held to maturity, including securities held to maturity pledged under repurchase agreements | 9 206 | 21 079 | - | **30 285** |
| Other financial assets carried at amortised cost | - | - | 12 143 | **12 143** |
| **Total financial and non-financial assets** | **119 079** | **400 987** | **1 544 713** | **2 064 779** |
| **Liabilities measured at fair value** | | | | |
| Derivative financial instruments | - | 631 | - | **631** |
| **Liabilities for which fair values are disclosed** | | | | |
| Due to other banks | - | 192 287 | - | **192 287** |
| Customer accounts | - | - | 1 121 242 | **1 121 242** |
| Promissory notes issued and deposit certificates | - | - | 6 219 | **6 219** |
| Bonds issued | | | | |
| - Eurobonds issued | 381 362 | 20 560 | - | **401 922** |
| - Bonds issued on domestic market | 143 610 | 35 455 | - | **179 065** |
| Other financial liabilities | - | - | 1 659 | **1 659** |
| Subordinated debts | 88 578 | 31 272 | - | **119 850** |
| **Total financial liabilities** | **613 550** | **280 205** | **1 129 120** | **2 022 875** |

## 17 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 2014 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 | 391 | 1 699 | - | **2 090** |
| Financial instruments designated at fair value through profit or loss | - | 6 902 | - | **6 902** |
| Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements | 115 371 | 4 149 | - | **119 520** |
| Derivative financial instruments | - | 131 819 | - | **131 819** |
| Office premises | - | - | 8 636 | **8 636** |
| **Assets for which fair values are disclosed** | | | | |
| Cash and cash equivalents | - | 105 009 | - | **105 009** |
| Mandatory cash balances with the Central Bank of the Russian Federation | - | - | 9 373 | **9 373** |
| Due from other banks | - | 31 790 | - | **31 790** |
| Loans and advances to customers | - | - | 1 341 744 | **1 341 744** |
| Investment securities held to maturity, including securities held to maturity pledged under repurchase agreements | 9 428 | 19 785 | - | **29 213** |
| Other financial assets carried at amortised cost | - | - | 5 161 | **5 161** |
| **Total financial and non-financial assets** | **125 190** | **301 153** | **1 364 914** | **1 791 257** |
| **Liabilities measured at fair value** | | | | |
| Derivative financial instruments | - | 1 207 | - | **1 207** |
| **Liabilities for which fair values are disclosed** | | | | |
| Due to other banks | - | 284 951 | - | **284 951** |
| Customer accounts | - | - | 752 024 | **752 024** |
| Promissory notes issued and deposit certificates | - | - | 18 680 | **18 680** |
| Bonds issued | | | | |
| - Eurobonds issued | 317 929 | 19 790 | - | **337 719** |
| - Bonds issued on domestic market | 160 720 | 8 921 | - | **169 641** |
| Other financial liabilities | - | - | 2 651 | **2 651** |
| Subordinated debts | 51 641 | 10 752 | - | **62 393** |
| **Total financial liabilities** | **530 290** | **325 621** | **773 355** | **1 629 266** |

There were no financial instruments carried at fair value based on a valuation technique with non-observable inputs (Level 3) as at 30 September 2015 (31 December 2014: none).

## 17 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 2015:

| ***(Unaudited)*** | **Transfers between Level 1 and Level 2** | |
|---|---|---|
| *In millions of Russian Roubles* | **From Level 1 to Level 2** | **From Level 2 to Level 1** |
| **Financial Instruments** | | |
| Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements | 7 448 | 2 064 |
| **Total transfers of financial assets** | **7 448** | **2 064** |

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during during the year ended 31 December 2014:

| ***(Unaudited)*** | **Transfers between Level 1 and Level 2** | |
|---|---|---|
| *In millions of Russian Roubles* | **From Level 1 to Level 2** | **From Level 2 to Level 1** |
| **Financial Instruments** | | |
| Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements | 3 613 | - |
| **Total transfers of financial assets** | **3 613** | **-** |

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 2015 and during the year ended 31 December 2014.

## 18 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 and the Ministry of Finance of the Russian Federation. 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 2015 (unaudited)** | **31 December 2014** |
|---|---|---|
| **Cash and cash equivalents** | | |
| CBRF | 29 617 | 37 930 |
| Other banks | 31 002 | 15 199 |
| **Loans and advances to customers** | | |
| Loans and advances to customers (before impairment) | 122 243 | 60 580 |
| Less: provision for loan impairment | (2 017) | (2 453) |
| Derivative financial instruments — assets | 19 631 | 27 658 |
| **Securities** | | |
| Securities issued by Russian Federation | 26 086 | 23 623 |
| Securities of entities and banks | 55 251 | 52 924 |
| Due from other banks | 17 376 | 1 903 |
| **Other assets** | | |
| State Corporation Deposit Insurance Agency | 6 574 | 1 239 |
| **Customer accounts** | | |
| Entities | 362 302 | 170 898 |
| Key management and their family members | 1 210 | 956 |
| **Due to other banks** | | |
| CBRF | 120 505 | 203 732 |
| Other banks | 26 449 | 33 210 |
| Derivative financial instruments — liabilities | 434 | 246 |
| **Credit related commitments** | | |
| Undrawn credit lines | 16 981 | 7 222 |
| Financial guarantees issued | 2 002 | 41 449 |
| Financial guarantees received | 15 539 | 16 860 |

## 18 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 2015** | **2014** | **For the three months ended 30 September 2015** | **2014** |
|---|---|---|---|---|
| **Interest income on cash and cash equivalents** | | | | |
| CBRF | 339 | 34 | 84 | 7 |
| Other banks | 1 609 | 407 | 578 | 179 |
| Interest income on due from other banks | 366 | 308 | 139 | 282 |
| Interest income on loans and advances to customers | 7 622 | 3 165 | 3 324 | 1 261 |
| **Interest income on securities** | | | | |
| Securities issued by Russian Federation | 1 621 | 1 799 | 571 | 648 |
| Securities of entities and banks | 4 188 | 2 563 | 1 657 | 1 234 |
| **(Losses net of gains)/gains less losses from securities** | | | | |
| Securities issued by Russian Federation | (722) | (564) | 346 | (179) |
| Securities of entities and banks | (77) | (1 058) | 79 | (988) |
| Gains less losses from derivative financial instruments | 5 305 | 2 633 | 5 151 | 4 625 |
| **Interest expense on customer accounts** | | | | |
| Entities | (26 156) | (14 763) | (9 989) | (6 484) |
| Key management and their family members | (52) | (11) | (19) | (4) |
| Interest expense on subordinated debts | - | (1 215) | - | (409) |
| **Interest expense on due to other banks** | | | | |
| CBRF | (9 642) | (2 683) | (1 230) | (1 071) |
| Other banks | (1 953) | (1 675) | (899) | (1 402) |
| **Administrative and other operating expenses** | | | | |
| Payments to the Deposit Insurance Fund (SC DIA) | (1 004) | (752) | (364) | (267) |

During nine months ended 30 September 2015, the only transactions with the shareholder were share capital increase and taxes paid (nine months ended 30 September 2014: taxes and dividends paid).

During nine months ended 30 September 2015 the Bank increased its share capital by issuing 10 000 ordinary shares with the total nominal amount of RR 10 000 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 2015 total remuneration of the key management amounted to RR 168 million (for the nine months ended 30 September 2014: RR 264 million), for the three months ended 30 September 2015: RR 64 million (for the three months ended 30 September 2014: RR 76 million).

## 19 Events after the End of the Reporting Period

In October 2015, the Group issued RR 10 000 million bonds (placed at par) maturing in October 2025 with quarterly payments of coupon at 11.7% p.a. for the first eight quarterly interest period. The Group has a right to change the interest rate and determine the number of subsequent interest periods on a new interest rate, while bondholders have a right to require the Group to repurchase the bonds.

In October 2015, the Group attracted subordinated deposit in the amount of 1 150 million US Dollars equivalent to RR 73 025 million at interest rate 4.9% p.a. maturing in October 2021.

In November 2015, the Group completed a private placement of 6 880 type A preference shares with nominal value of RR 10 million per share. The State Corporation “Deposit Insurance Agency” (SC DIA) acquired all of these preference shares at their nominal value for RR 68 800 million. As a payment for the preference shares, the SC DIA provided the Group with state bonds (OFZ) which were previously issued to the SC DIA by the Government of the Russian Federation based on the Federal Law of the Russian Federation #448-FZ approved on 26 December 2014 and related regulations. The newly issued preference shares will be included in Tier I capital of the Group.