

ROSBANK Group

**Interim condensed consolidated
financial statements**

*9 months ended 30 September 2016
(unaudited)*

ROSBANK Group

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ROSBANK Group

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 9 MONTHS ENDED 30 SEPTEMBER 2016

Management is responsible for the preparation of the interim condensed consolidated financial statements that present fairly the financial position of PJSC ROSBANK and its subsidiaries (the "Group") as at 30 September 2016, and the results of its operations for 9 and 3 months then ended, cash flows and changes in equity for 9 months then ended, in compliance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34").

In preparing the interim condensed consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Providing additional disclosures when compliance with the specific requirements in IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance
- Making an assessment of the Group's ability to continue as a going concern

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the condensed interim consolidated financial statements of the Group comply with IAS 34
- Maintaining statutory accounting records in compliance with the Russian Federation ("RF") legislation and accounting standards
- Taking such steps as are reasonably available to them to safeguard the assets of the Group and
- Preventing and detecting fraud and other irregularities

The interim condensed consolidated financial statements of the Group for 9 months ended 30 September 2016 were authorized for issue on 3 November 2016 by the Management Board of PJSC ROSBANK.

On behalf of the Board:


Chairman of the Management Board



3 November 2016
Moscow

ROSBANK Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2016 (UNAUDITED) (in millions of Russian Roubles)

	Notes	30 September 2016 (unaudited)	31 December 2015
ASSETS			
Cash and balances with the Central Bank of the Russian Federation	6	53,746	103,225
Financial assets at fair value through profit or loss	7, 9, 29	43,028	56,968
Due from banks	8, 29	89,090	92,867
Loans to customers	10, 29	601,763	634,534
Investments available-for-sale	11, 29	8,265	5,683
Investments held to maturity	12	73,930	79,582
Property and equipment		19,355	20,105
Intangible assets		2,030	2,144
Current income tax assets		444	435
Deferred income tax assets		3,280	3,363
Other assets	29	14,405	12,273
Total assets		909,336	1,011,179
LIABILITIES AND EQUITY			
LIABILITIES			
Financial liabilities at fair value through profit or loss	9, 13, 29	40,065	54,860
Due to the Central Bank of the Russian Federation	14	128	18,861
Due to banks	15, 29	44,339	68,684
Customer accounts	16, 29	492,304	516,707
Debt securities issued	17	149,036	159,795
Other provisions	21	1,761	1,315
Current income tax liabilities		204	120
Deferred income tax liabilities		1,369	1,548
Other liabilities	29	9,677	10,507
Subordinated debt	18, 29	49,871	58,281
Total liabilities		788,754	890,678
EQUITY			
Share capital	19	17,587	17,587
Share premium	19	59,707	59,707
Cumulative translation reserve		1,881	2,771
Property and equipment revaluation reserve		6,096	6,834
Investments available-for-sale fair value reserve		(1,365)	(1,616)
Cash flow hedge		(432)	(889)
Retained earnings		37,108	36,107
Total equity		120,582	120,501
TOTAL LIABILITIES AND EQUITY		909,336	1,011,179

On behalf of the Board:


Chairman of the Management Board



3 November 2016
Moscow

The notes on pages 9-41 form an integral part of these interim condensed consolidated financial statements.

ROSBANK Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR 9 AND 3 MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)

(in millions of Russian Roubles, except for earnings per share which are in Roubles)

	Notes	9 months ended 30 September (unaudited)		3 months ended 30 September (unaudited)	
		2016	2015	2016	2015
Interest income	20, 29	65,762	69,825	21,443	21,816
Interest expense	20, 29	(36,785)	(43,265)	(11,829)	(12,762)
Net interest income before provision for impairment losses on interest bearing assets		28,977	26,560	9,614	9,054
Provision for impairment losses on interest bearing assets	21, 29	(11,578)	(15,070)	(3,831)	(3,961)
Net interest income		17,399	11,490	5,783	5,093
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards	22, 29	(536)	(1,394)	(326)	(365)
Net gain/(loss) on foreign exchange operations	23, 29	1,138	794	442	537
Net gain/(loss) on precious metals operations		84	(98)	10	(101)
Fee and commission income	24, 29	8,000	9,014	2,734	3,328
Fee and commission expense	24, 29	(2,020)	(1,862)	(681)	(649)
Other provisions	21, 29	(727)	(684)	339	(526)
Dividend income		347	-	-	-
Other income		820	850	231	378
Net non-interest income		7,106	6,620	2,749	2,602
Operating income		24,505	18,110	8,532	7,695
Operating expenses	25, 29	(24,843)	(26,226)	(8,322)	(8,200)
Other non-operating income/(expense)		631	(293)	533	(127)
Profit/(loss) before income tax		293	(8,409)	743	(632)
Income tax credit/(expense)	26	(30)	715	(18)	(678)
Net profit/(loss) for the period		263	(7,694)	725	(1,310)
Earnings per share					
Basic and diluted (in RUB)	27	0.17	(4.96)	0.47	(0.84)

On behalf of the Board:


Chairman of the Management Board

3 November 2016
Moscow



The notes on pages 9-41 form an integral part of these interim condensed consolidated financial statements.

ROSBANK Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR 9 AND 3 MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED) (in millions of Russian Rubles)

	9 months ended 30 September (unaudited)		3 months ended 30 September (unaudited)	
	2016	2015	2016	2015
Net profit/(loss) for the period	<u>263</u>	<u>(7,694)</u>	<u>725</u>	<u>(1,310)</u>
Other comprehensive income/(expense) Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	(443)	552	(17)	400
Income tax on translating foreign operations	(447)	-	2	-
Cash flow hedge	573	(135)	108	(324)
Income tax on cash flow hedge	(116)	35	(19)	64
Net profit/(loss) resulting on revaluation of available-for-sale financial assets during period	135	368	41	19
Amounts recycled to profit and loss relating to available-for-sale financial assets	179	174	61	58
Income tax on available-for-sale financial assets during the period	<u>(63)</u>	<u>(108)</u>	<u>(21)</u>	<u>(15)</u>
Other comprehensive income/(expense) after income tax	<u>(182)</u>	<u>886</u>	<u>155</u>	<u>202</u>
Total comprehensive income/(expense)	<u><u>81</u></u>	<u><u>(6,808)</u></u>	<u><u>880</u></u>	<u><u>(1,108)</u></u>

On behalf of the Board:


Chairman of the Management Board

3 November 2016
Moscow



ROSBANK Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 9 MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED) (in millions of Russian Roubles)

Notes	Share capital	Share premium	Cumulative translation reserve	Property and equipment revaluation reserve	Investments available-for-sale fair value reserve	Cash flow hedge	Retained earnings	Total equity
31 December 2014	17,587	59,707	1,982	8,346	(2,176)	(677)	44,875	129,644
Net profit/(loss) for the period (unaudited)	-	-	-	-	-	-	(7,694)	(7,694)
Other comprehensive income/(expense) for the period (unaudited)	-	-	552	-	434	(100)	-	886
Total comprehensive income/(expense) for the period (unaudited)	-	-	552	-	434	(100)	(7,694)	(6,808)
Property and equipment disposal (net of deferred tax of RUB 78 million)	-	-	-	(314)	-	-	314	-
30 September 2015 (unaudited)	17,587	59,707	2,534	8,032	(1,742)	(777)	37,495	122,836
31 December 2015	17,587	59,707	2,771	6,834	(1,616)	(889)	36,107	120,501
Net profit/(loss) for the period (unaudited)	-	-	-	-	-	-	263	263
Other comprehensive income/(expense) for the period (unaudited)	-	-	(890)	-	251	457	-	(182)
Total comprehensive income/(expense) for the period (unaudited)	-	-	(890)	-	251	457	263	81
Property and equipment disposal (net of deferred tax of RUB 185 million)	-	-	-	(738)	-	-	738	-
30 September 2016 (unaudited)	17,587	59,707	1,881	6,096	(1,365)	(432)	37,108	120,582

On behalf of the Board:

Chairman of the Management Board:

3 November 2016
Moscow

The notes on pages 9-41 form an integral part of these interim condensed consolidated financial statements.

ROSBANK Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR 9 MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED) (in millions of Russian Roubles)

	Notes	9 months ended 30 September (unaudited)	
		2016	2015
Cash flows from operating activities			
Interest received		67,376	69,117
Interest paid		(36,366)	(45,927)
Fees and commissions received		7,938	9,411
Fees and commissions paid		(2,132)	(1,865)
Receipts from/(payment for) financial assets at fair value through profit or loss		(333)	(1,399)
Receipts from/(payment for) trading in foreign currencies		(4,042)	19,586
Other operating income received		820	850
Receipts from/(payment for) precious metals operations		143	(88)
Administrative and other operating expenses paid		(23,448)	(23,600)
Income tax received/(paid)		(677)	671
Cash flows from / (used in) operating activities before changes in operating assets and liabilities		9,279	26,756
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation		(1,213)	1,809
Net (increase)/decrease in financial assets at fair value through profit or loss		1,062	9,133
Net (increase)/decrease in due from banks		(15,229)	(14,511)
Net (increase)/decrease in loans to customers		1,586	67,216
Net (increase)/decrease in other assets		(537)	(2,518)
Net increase/(decrease) in financial liabilities at fair value through profit or loss		(300)	944
Net increase/(decrease) in due to the Central Bank of the Russian Federation		(18,720)	(19,763)
Net increase/(decrease) in due to banks		(21,494)	(61,500)
Net increase/(decrease) in customer accounts		2,245	(20,818)
Net increase/(decrease) in debt securities issued, other than bonds issued		(1,273)	(875)
Net increase/(decrease) in other liabilities		(1,757)	(1,033)
Net increase/(decrease) in other liabilities on law cases		(20)	(31)
Net cash from/(used in) operating activities		(46,371)	(15,191)
Cash flows from investing activities			
Purchase of available for sale financial assets		(3,436)	-
Proceeds from disposal and redemption of available for sale financial assets		830	-
Purchase of held to maturity investments		(11,788)	(3,326)
Proceeds from redemption of held to maturity financial assets		10,272	1,381
Purchase of property and equipment		(2,115)	(2,565)
Proceeds from disposal of property and equipment		1,685	709
Dividend income received		347	-
Net cash from/(used in) investing activities		(4,205)	(3,801)
Cash flows from financing activities			
Redemption of bonds issued by the Group		(32,180)	(21,244)
Issue of bonds		36,989	32,357
Proceeds from sale of previously bought back bonds issued		4,036	2,234
Buy back of bonds issued		(18,773)	(10,128)
Redemption of subordinated debt		(1,250)	-
Net cash from/(used in) financing activities		(11,178)	3,219
Effect of exchange rate changes on the balance of cash held in foreign currencies		(1,976)	5,596
Net increase/(decrease) in cash and cash equivalents		(63,730)	(10,177)
Cash and cash equivalents, beginning of the period	6	175,232	171,775
Cash and cash equivalents, end of the period	6	111,502	161,598

On behalf of the Board:

Chairman of the Management Board

3 November 2016
Moscow



ROSBANK Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 9 MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)

1. Organization

ROSBANK (initially named “Nezavisimost”) is a joint stock bank which was incorporated in the Russian Federation in 1993. Over the subsequent five years, ROSBANK customers were mainly comprised of medium-sized trade, finance and technology companies, for which it conducted a variety of activities, including corporate lending, settlement, government bond trading, foreign exchange and money market transactions. In 1998 ROSBANK was acquired by the Interros Group with the initial purpose of providing banking services to Interros Group companies. In 2000 ROSBANK acquired Uneximbank which was merged into ROSBANK and ceased to exist as a legal entity. In 2002 the businesses of ROSBANK and Commercial Bank “MFK Bank”, specializing in investment banking, were consolidated. In 2003 the Interros Group acquired OVK group – one of Russia’s largest retail banking institutions. The integration of OVK with ROSBANK has transformed ROSBANK into a financial institution capable of offering universal services.

Societe Generale became the owner of 20% minus 1 share of Rosbank in 2006. In February 2008 Societe Generale became the owner of Rosbank controlling stock interest by exercising the option for acquisition of 30% stocks. In March 2008 Societe Generale offered to buy the stakes of minority shareholders at 194.09 Roubles per share. Having performed the buy-out Societe Generale raised its interest in Rosbank to 57.57%. On 23 March 2009 ROSBANK issued 26,665,928 shares by way of public subscription. The issue was bought by Societe Generale and PHARANCO HOLDINGS CO. LIMITED in the proportion 60.6786% and 39.3214%, respectively. On 27 May 2009 Societe Generale increased its share in Rosbank by 7% after the purchase of this share from PHARANCO HOLDINGS CO. LIMITED.

In February 2010, Societe Generale with the consent of other shareholders of Rosbank Group took the decision to reorganize the legal structure of its Russian subsidiaries in order to build a major financial group.

The first step was achieved in January 2011 with the acquisition of 100% of the share capital of Rusfinance and Delta Credit. The two companies kept acting as separate entities, Rusfinance being mainly dedicated to consumer credit and Delta Credit to mortgages.

The second step was achieved in July 2011 with the merger of the two universal banks ROSBANK and BSGV into a single and unified company ultimately operating under a single brand. Benefiting from their differentiated positioning on both corporate and retail segments, the new structure aims at improving its financial performance by increasing revenues through cross-selling strategy and developing synergies in order to reduce operational costs.

During 2013, Societe Generale further consolidated its positions in Russian market by acquiring in December 2013 an additional 10% stake in ROSBANK equity from VTB Group, increasing it up to 92.4%. As part of the agreement ROSBANK sold to VTB Group certain Russian assets: shares listed on Moscow Exchange as well as some loans and real-estate assets.

In April 2014 Societe Generale acquired further 7% of ROSBANK’s share capital from Interros Group, raising its stake to 99.4%, in line with its strategy of building up the Group’s stake in ROSBANK.

ROSBANK is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under license number 2272. ROSBANK is engaged in a full range of banking activities, including commercial and investment banking and custodial services.

The registered office of ROSBANK is located at 34, Masha Poryvaeva Street, Moscow, 107078, Russian Federation.

As of 30 September 2016 and 31 December 2015 ROSBANK had 8 and 9 branches, respectively, operating in the Russian Federation.

ROSBANK Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 9 MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)

ROSBANK (“the Bank”) is the parent company of a banking group (the “Group”) which consists of the following material enterprises as of 30 September 2016, 31 December 2015 and 30 September 2015:

Name	Country of incorporation	Group’s ownership interest / voting rights, %			Type of operations
		30 September 2016	31 December 2015	30 September 2015	
Delta Credit Bank JSC (previous name – Delta Credit Bank CJSC)	Russia	100/100	100/100	100/100	Banking
Rusfinance Bank LLC	Russia	100/100	100/100	100/100	Banking
Rusfinance LLC	Russia	100/100	100/100	100/100	Issue of loans to individuals
Red and Black Prime Russia MBS No. 1 Limited LLC	Ireland	Liquidated	0/100	0/100	Issue of notes
BSGV Leasing LLC	Russia	Merged	Merged	100/100	Leasing
RB Factoring LLC	Russia	100/100	100/100	100/100	Factoring
Rosbank (Switzerland) SA	Switzerland	100/100	100/100	100/100	Banking
Processing Company NICKEL LLC	Russia	Liquidated	Liquidated	100/100	Processing of card operations
RB LEASING LLC	Russia	100/100	100/100	100/100	Leasing
INKAHRAN JSC (previous name – INKAHRAN OJSC)	Russia	Sold	Sold	100/100	Cash collection services
ORS JSC (previous name – ORS OJSC)	Russia	100/100	100/100	100/100	Processing
AVTO LLC	Russia	Liquidated	100/100	100/100	Transportation services
RB Specialized Depository LLC (previous name – RB Securities LLC)	Russia	100/100	100/100	100/100	Operations with securities
Inkahran Service LLC	Russia	Sold	Sold	99.60/100	Transportation services
Valmont LLC	Russia	100/100	100/100	100/100	Asset holding company
RB Service LLC (previous name – RBS Avto LLC)	Russia	100/100	100/100	100/100	Financial services
Telsikom CJSC	Russia	100/100	100/100	100/100	Telecommunication services

On 14 July 2010 the Group took decision to close its foreign subsidiary in Switzerland – Rosbank (Switzerland) SA. The liquidation process is subject to authorisation by Swiss banking authorities. The Group does not anticipate any substantial impact on its financial results nor its financial position as a result of the aforementioned liquidation.

In February 2016 Red and Black Prime Russia MBS No. 1 Limited LLC was liquidated.

In May 2016 AVTO LLC was liquidated.

ROSBANK Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 9 MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)

As of 30 September 2016 and 31 December 2015, the following shareholders owned the issued shares of ROSBANK:

Shareholder	30 September 2016 %	31 December 2015 %
Societe Generale S.A.	99.49	99.49
Others	0.51	0.51
Total	100.00	100.00

These interim condensed consolidated financial statements were authorized for issue on 3 November 2016 by the Management Board of ROSBANK.

2. Going concern

These interim condensed consolidated financial statements have been prepared on the going concern basis. The Group has no intention or need to reduce substantially its business operations.

The management and shareholders have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. Management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

3. Basis of presentation

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual financial statements. Additionally, the Group has provided disclosures where significant events have occurred subsequent to the issuance of the Group's annual consolidated financial statements for 2015 prepared in accordance with IFRS. Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the information presented not misleading if these financial statements are read in conjunction with the Group's annual consolidated financial statements for 2015 prepared in accordance with IFRS. In the opinion of management, these financial statements reflect all adjustments necessary to present fairly the Group's financial position, results of operations, statements of changes in equity and cash flows for the interim reporting periods.

Since the results of the Group's operations closely relate to and depend on changing market conditions, the results of the Group's operations for the interim period are not necessarily indicative of the results for the full year.

Other basis of presentation criteria

These interim condensed consolidated financial statements have been prepared assuming that the Group is a going concern and will continue operation for the foreseeable future.

These interim condensed consolidated financial statements are presented in millions of Russian Roubles ("mRUB"), unless otherwise indicated.

These interim condensed consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that are measured at fair values, and certain land and buildings that are measured at revalued amounts according to International Accounting Standard 16 *Property, Plant and Equipment* ("IAS 16"). Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 9 MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these interim condensed consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly and
- Level 3 inputs are unobservable inputs for the asset or liability

The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (RAS), foreign consolidated companies of the Bank maintain their accounting records in accordance with the law of the countries, in which they operate. These interim condensed consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the parent of the Group is the Russian Rouble (RUB). The presentation currency of the interim condensed consolidated financial statements of the Group is the RUB. All values are rounded to the nearest million RUB, except when otherwise indicated.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the interim condensed consolidated statement of financial position only when there is a currently legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expense is not offset in the interim condensed consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation permitted by any IFRS, and as specifically disclosed in the accounting policies of the Group.

4. Significant accounting policies

The same accounting policies, presentation and methods of computation have been followed in these interim condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2015, except for the accounting policies and impact of the adoption of the Standards and Interpretations described below.

Rates of exchange and commodity prices

The exchange rates and commodity prices at period-end used by the Group in the preparation of the interim condensed consolidated financial statements are as follows:

	30 September 2016	31 December 2015
RUB/1 US Dollar	63.1581	72.8827
RUB/1 Euro	70.8823	79.6972
RUB/Gold (1 ounce)	83,526.59	77,419.65
RUB/Platinum (1 ounce)	65,305.48	63,553.71
RUB/Palladium (1 ounce)	45,600.15	39,866.84
RUB/Silver (1 ounce)	1,222.11	1,007.24

Critical accounting judgements and key sources of estimation uncertainty

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group's annual consolidated financial statements for 2015 prepared in accordance with IFRS.

The Group adopted new Standards effective as of 1 January 2016 as described below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

5. Application of new and revised International Financial Reporting Standards (IFRS)

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2016, they do not have a material effect on the consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below:

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 9 MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its noncurrent assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture*. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group's consolidated financial statements.

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group.

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Amendments to IAS 1 Disclosure Initiative

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

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

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

6. Cash and balances with the Central Bank of the Russian Federation

	30 September 2016 mRUB (unaudited)	31 December 2015 mRUB
Cash	13,153	26,942
Balances with the Central Bank of the Russian Federation	<u>40,593</u>	<u>76,283</u>
Total cash and balances with the Central Bank of the Russian Federation	<u>53,746</u>	<u>103,225</u>

As of 30 September 2016 and 31 December 2015 included in the balances with the Central Bank of the Russian Federation are RUB 5,112 million and RUB 3,899 million, respectively, which represent the minimum reserve deposits calculated as a percentage of customers accounts balance required by the Central Bank of the Russian Federation. The Group is required to maintain the reserve balances with Central Bank of the Russian Federation at all times.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 9 MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)

Cash and cash equivalents for the purposes of the interim condensed consolidated statement of cash flows are comprised of the following:

	30 September 2016 mRUB (unaudited)	31 December 2015 mRUB	30 September 2015 mRUB (unaudited)
Cash and balances with the Central Bank of the Russian Federation	53,746	103,225	59,393
Due from banks with original maturity within 90 days	62,868	75,906	105,971
	116,614	179,131	165,364
Less minimum reserve deposits	(5,112)	(3,899)	(3,766)
Total cash and cash equivalents	111,502	175,232	161,598

7. Financial assets at fair value through profit or loss

	30 September 2016 mRUB (unaudited)	31 December 2015 mRUB
Debt securities	3,606	3,528
Derivative financial instruments (Note 9)	39,422	53,440
Total financial assets at fair value through profit or loss	43,028	56,968

The debt securities included in financial assets at fair value through profit or loss relate entirely to financial assets held-for-trading.

	30 September 2016 (unaudited)		31 December 2015	
	Nominal interest rate	Amount mRUB	Nominal interest rate	Amount mRUB
Debt securities				
Debt securities of the Russian Federation	6.4 - 8.5 %	401	6.0-14.4%	1,738
Debt securities of foreign central governments	-	-	0.5-1.3%	1,073
Debt securities of Russian banks	9.95 - 10.75 %	931	11.3-11.9%	64
Debt securities of Russian companies	5.63 - 12.75 %	2,274	11.6-12.5%	653
		3,606		3,528

8. Due from banks

	30 September 2016 mRUB (unaudited)	31 December 2015 mRUB
Demand deposits in banks	23,096	19,218
Term deposits in banks	42,317	65,396
Loans under reverse repurchase agreements	23,677	8,253
Total due from banks	89,090	92,867

As of 30 September 2016 the Group had balances placed with one bank totaling RUB 24,653 million, which individually exceeded 10% of the Group's equity.

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As of 31 December 2015 the Group had balances placed with two banks totaling RUB 39,636 million, which individually exceeded 10% of the Group's equity.

Fair value of assets pledged and carrying value of loans under the reverse repurchase agreements as at 30 September 2016 and 31 December 2015 comprise:

	30 September 2016 mRUB (unaudited)		31 December 2015 mRUB	
	Carrying value of loan	Fair value of collateral	Carrying value of loan	Fair value of collateral
Bonds of the Russian banks	1,475	1,890	-	-
Shares of Russian companies	3,783	5,394	-	-
Bonds of Russian companies	14,400	18,124	6,165	8,685
Bonds of the Russian Federation	4,019	4,499	2,088	2,359
Total loans under reverse repurchase agreements	23,677	29,907	8,253	11,044

9. Derivative financial instruments

Derivative financial instruments comprise:

	Nominal value mRUB	30 September 2016 (unaudited) Fair value mRUB		Nominal value	31 December 2015 Fair value mRUB	
		Assets	Liabilities		Assets	Liabilities
Derivative financial instruments						
Foreign exchange contracts						
Swaps	48,370	1,340	(2,936)	22,041	3,349	(3,391)
Forwards	20,377	972	(38)	13,558	354	(1,137)
IRS/CIRS	286,272	36,137	(34,978)	386,919	44,338	(43,648)
Cash flow and NIFE hedge	3,519	105	(8)	6,554	22	(179)
Fair value hedge	2,450	-	(164)	2,450	239	-
Foreign exchange options	853	6	(9)	45,874	1,108	(1,109)
Total foreign exchange contracts		38,560	(38,133)		49,410	(49,464)
Contracts on precious metals and commodities						
Forwards	2,893	135	(135)	3,956	339	(339)
Swaps	617	1	(5)	612	1	(1)
Options	48,993	726	(726)	85,148	3,690	(3,690)
Total contracts on precious metals and commodities		862	(866)		4,030	(4,030)
Total		39,422	(38,999)		53,440	(53,494)

Cash flow hedge and hedge of net investment in foreign entity (NIFE)

As of 30 September 2016 the Group's cash flow hedge was related to its exposure to the variability in the anticipated future cash flows on its financial liabilities related to Société Générale Group share-based payment program announced in April 2016 for the total amount equivalent to 60,185 shares to be paid during 2016-2019 subject to the satisfaction of certain underlying conditions.

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As of 31 December 2015 the Group's cash flow hedge was related to its exposure to the variability in the anticipated future cash flows on its financial liabilities related to Société Générale Group share-based payment program for the total amount equivalent to 203,009 shares to be paid during 2016 subject to the satisfaction of certain underlying conditions. As of 30 September 2016 financial liabilities of the Group under this program were settled in full.

The Group measures the fair value of its derivative financial instruments based on quoted prices or valuations derived from observable market prices.

To hedge against the variability in the cash flows on financial liabilities due to the share price risk, as of 30 September 2016 the Group used forward contracts at a fixed price of EUR 32.9154 per share (as of 31 December 2015 – 42.1 per share). As such the Group minimizes the effect of changes in market prices for SG shares on its future cash flows.

Another part of the Cash flow hedge is related to the swap (hedging instrument), which enables the Group to protect itself against negative variations in future cash flows on the variable-rate loans to customers due to a fall in interest rates. This part of the Group's cash flow hedge is related to variable-rate loans to customers for the principal as at 30 September 2016 and 31 December 2015 of RUB 654 million and RUB 2,932 million, respectively.

The Group's hedge of Net Investment in Foreign Entity is related to the variability of the net assets of its subsidiary (Rosbank (Switzerland) SA) nominated in CHF.

Fair value hedge

The Group's fair value hedge is related to its exposure to the variability in changes of fair value of available-for-sale securities for the nominal amount as of 30 September 2016 and as of 31 December 2015 of RUB 2,500 million and RUB 2,500 million, respectively.

The Group measures the fair value of its derivative financial instruments based on quoted prices or valuations derived from observable market prices.

Embedded derivatives

The Group issued structural bonds with embedded derivatives included in financial assets at fair value through profit and loss in amount RUB 467 million as at 30 September 2016 and RUB 1,010 million as at 31 December 2015, respectively. Simultaneously the Group entered into interest rate swap contracts to compensate future cash flows to be paid on structural bonds issued. The fair value of interest rate swaps included in financial liabilities at fair value through profit and loss amounted to RUB 90 million as at 30 September 2016 and RUB 1,803 million as at 31 December 2015, respectively.

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10. Loans to customers

	30 September 2016 mRUB (unaudited)	31 December 2015 mRUB
Loans to legal entities	261,276	266,338
Loans to individuals	383,377	418,100
Net investments in finance lease	13,206	11,699
Loans under reverse repurchase agreements	214	-
Account receivable from RF Government debtors on financed loans	2,928	1,885
Total loans to customers before impairment	661,001	698,022
Less allowance for impairment losses	(59,238)	(63,488)
Total loans to customers	601,763	634,534

As of 30 September 2016 the Group had loans to five groups of customers which individually exceeded 10% of the Group's equity.

As of 31 December 2015 the Group had loans to two groups of customers which individually exceeded 10% of the Group's equity.

Fair value of assets pledged and carrying value of loans under the reverse repurchase agreements as at 30 September 2016 comprise:

	30 September 2016 mRUB (unaudited)	30 September 2016 mRUB (unaudited)
	Carrying value of loan	Fair value of collateral
Shares of Russian companies	214	312
Total loans under reverse repurchase agreements	214	312

As at 30 September 2016 and 31 December 2015 non-financial assets received by the Group as a repayment on loans in the amount of RUB 5,926 million and RUB 4,495 million, respectively are included in other assets.

Group is running the car loan program using financing from RF Government, under which RF Government is financing interest income on car loans in the amount of 2/3 of CBR key rate. RF Government financing is accounted in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. As of 30 September 2016 the amount receivable from RF Government on the financed car loan program amounted to RUB 2,752 million. As of 31 December 2015 the amount receivable from RF Government on the financed car loan program amounted to RUB 1,745 million.

Group participated in the RF Government program for mortgage lending supporting, under which the Group originated loans at decreased interest rate. Government grant receivable represents governments subsidy of the estimated interest income receivable due to the excess of the government interest rate over the contractual interest rate. As of 30 September 2016 the amount receivable from RF Government on the financed mortgage program amounted to RUB 176 million. As of 31 December 2015 the amount receivable from RF Government on the financed mortgage program amounted to RUB 140 million.

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The movements in allowance for impairment losses on loans to customers were as follows:

	Total mRUB
31 December 2014	57,223
Net allocations	14,842
Forex effect on provision revaluation	1,240
Sales and write-offs of loans	(9,352)
	<u>63,953</u>
30 September 2015 (unaudited)	63,953
31 December 2015	63,488
Net allocations	10,199
Forex effect on provision revaluation	(1,281)
Sales and write-offs of loans	(13,168)
	<u>59,238</u>
30 September 2016 (unaudited)	59,238

11. Investments available-for-sale

	30 September 2016 mRUB (unaudited)	31 December 2015 mRUB
Debt securities	8,060	5,551
Equity investments	205	132
	<u>8,265</u>	<u>5,683</u>
Total investments available-for-sale	8,265	5,683

	30 September 2016 (unaudited)		31 December 2015	
	Nominal interest rate	Amount mRUB	Nominal interest rate	Amount mRUB
Debt securities				
Bonds of the Russian Federation	6.5% - 7.5%	5,669	6.5-7.5%	5,551
Eurobonds of Russian companies	3.15% - 6.7%	2,391	-	-
		<u>8,060</u>		<u>5,551</u>

	30 September 2016 (unaudited) Amount mRUB	31 December 2015 Amount mRUB
Equity investments		
Shares of Russian companies	204	131
Shares of international clearing companies	1	1
	<u>205</u>	<u>132</u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 9 MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)

12. Investments held to maturity

	30 September 2016 (unaudited)		31 December 2015	
	Nominal annual interest rate	Amount mRUB	Nominal annual interest rate	Amount mRUB
Eurobonds of the Russian Federation	3.5 -11.0%	44,578	4.5-7.5%	46,194
Bonds of the Russian Federation	7.0 -7.6%	22,884	6.9-7.6%	30,259
Eurobonds of Russian companies	3.37 -6.38%	6,468	3.4-8.3%	3,129
Total investments held to maturity		73,930		79,582

13. Financial liabilities at fair value through profit or loss

	30 September 2016 mRUB (unaudited)	31 December 2015 mRUB
Derivative financial instruments	38,999	53,494
Short position on securities purchased	1,066	1,366
Total financial liabilities at fair value through profit or loss	40,065	54,860

Derivative financial instruments are disclosed in Note 9.

14. Due to the Central Bank of the Russian Federation

As of 30 September 2016 and 31 December 2015 due to the Central Bank of the Russian Federation consisted of the following:

	30 September 2016 mRUB (unaudited)	31 December 2015 mRUB
Term deposits	128	18,861
Total due to the Central Bank of the Russian Federation	128	18,861

As of 30 September 2016 and 31 December 2015 included in term deposits are RUB 127 million and RUB 500 million, respectively, secured with guarantees from Russian banks.

15. Due to banks

	30 September 2016 mRUB (unaudited)	31 December 2015 mRUB
Time deposits	16,459	33,760
Demand accounts	24,707	33,980
Loans under repurchase agreements	3,173	944
Total due to banks	44,339	68,684

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The Group is obligated to comply with financial covenants in relation to certain balances deposits by banks disclosed above. These covenants include various financial performance ratios. As of 30 September 2016 and 31 December 2015 the Group has not breached any of these covenants.

As at 30 September 2016 and 31 December 2015 included in due to banks are RUB 17,759 million and RUB 24,248 million (15% and 20% of total balances due to banks), respectively, that were due to two and three banks respectively.

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 30 September 2016 and 31 December 2015 comprise:

	30 September 2016 (unaudited)		31 December 2015	
	Carrying value of loans mRUB	Fair value of collateral mRUB	Carrying value of loans mRUB	Fair value of collateral mRUB
Bonds of the Russian Federation	3,173	3,173	944	953
Total	3,173	3,173	944	953

16. Customer accounts

	30 September 2016 mRUB (unaudited)	31 December 2015 mRUB
Corporate		
Time deposits	126,862	175,804
Repayable on demand	165,257	140,454
Total corporate	292,119	316,258
Individuals		
Time deposits	149,212	157,078
Repayable on demand	50,973	43,371
Total individuals	200,185	200,449
Total customer accounts	492,304	516,707

As of 30 September 2016 and 31 December 2015 customer accounts amounting to RUB 124 million and RUB 229 million, respectively, were held as security against letters of credit issued and other transaction related contingent obligations. As of 30 September 2016 and 31 December 2015 customer accounts amounting to RUB 47 million and RUB 77 million, respectively, were held as security against guarantees issued (Note 28).

17. Debt securities issued

	Annual coupon rates	30 September 2016 mRUB (unaudited)	Annual coupon rates	31 December 2015 mRUB
Bonds of Delta Credit Bank due in 2016-2026	8.00%-12.50%	73,100	8.40-12.50%	73,454
Bonds of Rosbank due in 2016-2026	9.35%-11.60%	27,948	8.55-11.80%	40,988
Bonds of Rusfinance Bank due in 2018-2026	9.95%-13.90%	35,378	8.30-13.90%	29,193
Exchange structural bonds of Rosbank due in 2016-2025	9.31%-14.32%	11,450	9.31-14.32%	13,750
Discount bearing promissory notes	0.00%-11.22%	1,160	0.00-11.89%	2,410
Total debt securities issued		149,036		159,795

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During the period January-September 2016 new bonds were issued:

Issuer	Issue date	Maturity date	Debt volume, mRUB	Annual coupon rate, %
Delta Credit Bank	30.03.2016	30.03.2019	5,000	10.57
Rusfinance Bank	26.02.2016	26.02.2021	5,000	11.65
Delta Credit Bank	18.05.2016	18.05.2026	5,000	11.00
Rosbank	27.05.2016	27.05.2026	10,000	10.40
Delta Credit Bank	21.07.2016	21.07.2026	7,000	10.30
Rusfinance Bank	12.08.2016	12.08.2026	4,000	10.00
Delta Credit Bank	29.09.2016	29.09.2026	7,000	9.85

During the period January-September 2016 bonds were redeemed:

Issuer	Issue date	Maturity date	Debt volume, mRUB	Annual coupon rate, %
Rosbank	15.01.2013	15.01.2016	1,300	10.16
Rosbank	30.01.2013	30.01.2016	4,918	8.80
Rosbank	31.01.2013	31.01.2016	4,987	8.80
Rosbank	01.03.2013	01.03.2016	9,975	8.55
Delta Credit Bank	02.04.2013	02.04.2016	5,000	8.50
Rosbank	04.04.2013	04.04.2016	1,000	9.42
Delta Credit Bank	22.06.2011	15.06.2016	5,000	9.90

Changes in the balances for 9 months ended 30 September 2016, were also due to a partly buyback of the bonds and operations with the bonds issued by its subsidiaries.

18. Subordinated debt

	Currency	Interest rate	30 September 2016 mRUB (unaudited)	Interest rate	31 December 2015 mRUB
Societe Generale S.A. due in 2020-2023	USD	6.5 - 9.3%	37,486	6.5-9.3%	43,409
Societe Generale S.A. due in 2016-2017	RUB	8.00 - 8.5%	3,604	8.0-11.3%	4,927
GENEBANQUE S.A. due in 2022	USD	6.6%	5,161	6.6%	5,957
Societe Generale S.A. due in 2020	EUR	8.0%	3,620	8%	3,988
Total subordinated debt			49,871		58,281

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

In May 2016 the Group redeemed subordinated debt in amount RUB 1,250 million received from Societe Generale S.A.

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19. Share capital

As of 30 September 2016 and 31 December 2015 the nominal share capital totaling RUB 17,587 million issued and fully paid comprised 1,551,401,853 ordinary shares with par value of RUB 10 each. All shares are ranked equally and carry one vote. The hyperinflation effect has been recorded in the amount of RUB 2,073 million.

As of 30 September 2016 and 31 December 2015 share premium totaling RUB 59,707 million represents an excess of contributions received in share capital over the nominal value of shares issued.

As of 30 September 2016 and 31 December 2015 the Bank's share capital comprised the following number of shares of RUB 10 each:

	Share capital authorized	Share capital authorized but not issued	Share capital repurchased	Share capital issued and paid in
Number of ordinary shares	1,846,461,466	295,059,613	–	1,551,401,853

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20. Net interest income before provision for impairment losses on interest bearing assets

	9 months ended 30 September mRUB (unaudited)		3 months ended 30 September mRUB (unaudited)	
	2016	2015	2016	2015
Interest income comprises				
Interest income on financial assets recorded at amortized cost	65,044	68,933	21,244	21,583
Interest income on financial assets recorded at fair value	718	892	199	233
Total interest income	65,762	69,825	21,443	21,816
Interest income on financial assets recorded at amortized cost comprises				
Interest on loans to individuals	40,760	46,054	13,397	14,481
Interest on loans to corporate customers	18,198	15,874	5,965	5,196
Interest on due from banks	2,780	4,062	849	886
Interest on investments held to maturity	3,306	2,943	1,033	1,020
Total interest income on financial assets recorded at amortized cost	65,044	68,933	21,244	21,583
Interest income on financial assets recorded at fair value comprises				
Interest income on investments available-for-sale	350	334	120	113
Interest income on financial assets at fair value through profit and loss	368	558	79	120
Total interest income on financial assets recorded at fair value	718	892	199	233
Interest expense comprises				
Interest expense on financial liabilities recorded at amortized cost	36,785	43,265	11,829	12,762
Total interest expense	36,785	43,265	11,829	12,762
Interest expense on financial liabilities recorded at amortized cost comprise				
Interest expense on corporate customer accounts	11,514	15,978	3,477	4,437
Interest expense on debt securities issued	11,153	9,877	3,918	3,245
Interest expense on deposits from individuals	7,988	8,566	2,593	2,635
Interest expense on deposits from banks	2,601	4,406	797	1,250
Interest expense on subordinated debt	3,123	2,733	988	1,000
Interest expense on deposits of the Central Bank of the Russian Federation	406	1,705	56	195
Total interest expense on financial liabilities recorded at amortized cost	36,785	43,265	11,829	12,762
Net interest income before provision for impairment losses on interest bearing assets	28,977	26,560	9,614	9,054

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 9 MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)

21. Allowance for impairment losses and other provisions

For 9 months and for 3 months ended 30 September 2016 and 2015 the amount of provision for impairment losses on interest bearing assets in the interim condensed consolidated statement of profit or loss comprises:

	9 months ended 30 September		3 months ended 30 September	
	2016	mRUB (unaudited) 2015	2016	mRUB (unaudited) 2015
Net allocations	10,199	14,842	3,652	3,731
Recoveries of loans written off	(99)	(2)	(53)	-
Write offs not covered by provisions	1,478	230	232	230
Provision for impairment losses on interest bearing assets	11,578	15,070	3,831	3,961

As of 30 September 2016 and 31 December 2015 allowance for impairment losses on interest-bearing assets includes provision only for loans to customers.

Part of write-offs not covered by provision in the amount of RUB 1,478 million and RUB 230 million for 9 months ended 30 September 2016 and 2015, respectively, represent losses incurred by the Group from refinancing of US Dollar denominated mortgage loans to individuals and accounted within "Provision for impairment losses on interest bearing assets" in interim condensed consolidated statement of profit or loss.

For 9 and for 3 months ended 30 September 2016 and 2015 the amount of other provision comprises:

	9 months ended 30 September		3 months ended 30 September	
	2016	mRUB (unaudited) 2015	2016	mRUB (unaudited) 2015
Net allocations	725	684	(286)	526
Recoveries of loans written off	(87)	-	(87)	-
Write offs not covered by provisions	89	-	34	-
Other provisions	727	684	(339)	526

The movements in other provisions were as follows:

	Other assets mRUB	Provisions for financial guarantees issued, claims and other commitments mRUB	Total mRUB
31 December 2014	2,333	1,289	3,622
Provision	420	264	684
Write-offs	(635)	(36)	(671)
30 September 2015 (unaudited)	2,118	1,517	3,635
31 December 2015	2,088	1,315	3,403
Provision	199	526	725
Write-offs	(207)	(20)	(227)
Forex effect on provision revaluation	-	(60)	(60)
30 September 2016 (unaudited)	2,080	1,761	3,841

The information about other provision of the Group disclosed in Note 28.

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Allowance for impairment losses on assets are deducted from the respective assets. Allowance for impairment losses on financial guarantees issued, claims and other commitments are presented in liabilities.

22. Net gain/(loss) on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards

Net loss on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards comprises:

	9 months ended 30 September		3 months ended 30 September	
	2016	mRUB (unaudited) 2015	2016	mRUB (unaudited) 2015
Net gain/(loss) on operations with financial assets and liabilities held-for-trading comprise:				
Realized gain/(loss) on trading operations	186	2	40	(148)
Unrealized revaluation of securities at fair value through profit or loss	(27)	146	(52)	32
Net gain/(loss) on operations with derivative financial instruments, except forex swaps and forwards	(695)	(1,542)	(314)	(249)
Total net gain/(loss) on operations with financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards	(536)	(1,394)	(326)	(365)

23. Net gain/(loss) on foreign exchange operations

	9 months ended 30 September		3 months ended 30 September	
	2016	mRUB (unaudited) 2015	2016	mRUB (unaudited) 2015
Net gain/(loss) on foreign exchange operations	2,012	2,943	673	930
Exchange differences	111	205	96	244
Effect of foreign currency swap instruments	(985)	(2,354)	(327)	(637)
Total net gain/(loss) on foreign exchange operations	1,138	794	442	537

During 9 months ended 30 September 2016 and 2015, the Bank used foreign currency swaps to manage its liquidity between currencies.

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24. Fee and commission income and expense

	9 months ended 30 September		3 months ended 30 September	
	2016	mRUB (unaudited) 2015	2016	mRUB (unaudited) 2015
Fee and commission income				
Plastic cards operations	2,325	2,780	824	1,078
Settlements	1,704	1,799	505	657
Agency operations	1,691	1,218	662	519
Documentary operations	768	564	247	231
Cash operations	616	1,783	218	532
Other operations	896	870	278	311
Total fee and commission income	8,000	9,014	2,734	3,328
Fee and commission expense				
Plastic cards operations	968	730	349	281
Cash operations	405	169	130	51
Settlements	291	471	97	172
Documentary operations	118	182	31	61
Other operations	238	310	74	84
Total fee and commission expense	2,020	1,862	681	649

25. Operating expenses

	9 months ended 30 September		3 months ended 30 September	
	2016	mRUB (unaudited) 2015	2016	mRUB (unaudited) 2015
Salary and bonuses	11,726	12,121	3,819	3,732
Unified social tax contribution	2,742	2,831	842	826
Operating lease expense	1,914	2,166	639	709
Depreciation charge on property and equipment	1,814	1,975	599	729
Repairs and maintenance expense	1,556	1,711	518	508
Professional services	915	867	448	390
Communications	600	695	214	262
Deposit insurance charge	587	570	198	173
Advertising and marketing expenses	526	428	190	144
Security	252	377	81	119
Transportation expenses	206	864	74	120
Other	2,005	1,621	700	488
Total operating expenses	24,843	26,226	8,322	8,200

26. Income tax

The Group measures and records its current income tax payable in its assets and liabilities in accordance with the tax regulations of RF and countries where the Group and its subsidiaries operate, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 30 September 2016 and 31 December 2015 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

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The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits (as defined) under tax law in that jurisdiction.

Based on semi-annual tax business planning exercise, the Group believes that it will generate sufficient taxable profits to recover the deferred tax assets recognized as of 30 September 2016 in the horizon of 10 years from the date the loss was recorded.

Income tax (credit)/expense for 9 and for 3 months ended 30 September 2016 and 2015 comprise:

	9 months ended 30 September mRUB (unaudited)		3 months ended 30 September mRUB (unaudited)	
	2016	2015	2016	2015
Current tax charge	751	320	378	110
Deferred tax (credit)/ charge-origination and reversal of temporary differences and tax loss carried forward	(96)	(961)	(324)	520
Less: deferred tax recognized directly in other comprehensive income	(625)	(74)	(36)	48
Income tax (credit)/expense	30	(715)	18	678

27. Earnings per share attributable to equity holders of the parent

	9 months ended 30 September mRUB (unaudited)		3 months ended 30 September mRUB (unaudited)	
	2016	2015	2016	2015
Profit/(loss)				
Net profit/(loss) attributable to equity holders of the parent for the period (mRUB)	263	(7,694)	725	(1,310)
Weighted average number of ordinary shares				
For basic and diluted earnings per share	1,551,401,853	1,551,401,853	1,551,401,853	1,551,401,853
Earnings per share – basic and diluted (RUB)	0.17	(4.96)	0.47	(0.84)

28. Commitments and contingencies

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

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The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations. Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

	30 September 2016 (unaudited) mRUB	31 December 2015 mRUB
Litigations and other provisions	303	675
Provision for losses on letters of credit and guarantees	1,458	640
Total other provisions	1,761	1,315

As of 30 September 2016 and 31 December 2015, the nominal or contract amounts were:

	30 September 2016 (unaudited) Nominal amount mRUB	31 December 2015 Nominal amount mRUB
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	85,158	89,439
Letters of credit and other transaction related contingent obligations	8,858	8,723
Commitments on loans and unused credit lines	68,881	72,482
Total contingent liabilities and credit commitments	162,897	170,644

The Group has commitments to provide funds under credit lines facilities. However, the Group has a right not to exercise such commitments due to certain conditions.

Commitments on lease activities – As of 30 September 2016 and 31 December 2015 the Group has commitments for capital expenditure on finance lease outstanding amounting to RUB 193 million and RUB 83 million, respectively.

Operating lease commitments – where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases of buildings and equipment are as follows:

	30 September 2016 (unaudited) mRUB	31 December 2015 mRUB
Not later than 1 year	1,898	2,000
Later than 1 year and not later than 5 years	3,121	2,574
Later than 5 years	2,407	2,132
Total operating lease commitments	7,426	6,706

Legal proceedings – from time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 9 MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)

Taxation – the Russian laws and regulations affecting business continue to change rapidly. The implementation of Russian tax laws and regulations is often unclear or inconsistent. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in the continual changes to the tax legislation, some of which applies retroactively and occur with little notice and also in interpretation of the existing laws and regulations by various authorities. Management’s interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the Russian tax authorities are taking a more assertive position in their interpretation of the legislation and, as a result, transactions and activities that have not been challenged in the past may be challenged in future tax audits.

Russian transfer pricing rules introduced additional reporting and documentation requirements. The Russian tax authorities may assess additional tax charges in respect of all controlled transactions (both domestic and cross-border), including but not limited to transactions with related parties, if they consider transactions to be priced not at arm’s length. Special transfer pricing rules apply to transactions with securities and derivatives.

In light of the uncertainty and absence of extensive practice of application of the Russian transfer pricing legislation it cannot be fully excluded that the Russian tax authorities may try to challenge the level of prices applied by the Group under the “controlled” transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the “controlled” transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation. The impact of the potential challenge of the Group’s transfer pricing positions by the tax authorities cannot be reliably estimated. However, taking into account that loans represent one of the major parts of transactions between the companies of the Group the Management believes that changes incorporated into the Russian Tax Code starting 1 January 2015 related to introduction of safe harbor rules on interest income and expenses significantly reduce the impact of the potential challenge of the Group’s transfer pricing positions on loans.

The amendments introduced into the Russian Tax Code by Federal Law No. 376-FZ dated 24 November 2014, as further amended and supplemented (the “Anti-Offshore Law”), came into force on 1 January 2015. The Anti-Offshore Law introduced into the Russian Tax Code, inter alia, “controlled foreign companies” and beneficial ownership concept. In this respect in 2015 the Group introduced a procedure under which it started to obtain from its clients “beneficial ownership” confirmations in writing. Implementation of these new rules and concepts by the Anti-Offshore Law is likely to impose additional administrative and, in some cases, could increase the tax burden on the Group.

The Group has strict policies about “controlled foreign companies”. Therefore, the Management believes that Anti-Offshore Law in respect of “controlled foreign companies” rules should have a limited effect on the Group.

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The introduction of these laws, as well as the interpretation of certain provisions of the Russian tax legislation in combination with the latest trends in law enforcement indicate the potential possibility of increasing the amount of taxes paid and the amount of penalties, including due to the fact that the Russian tax authorities and courts may be taking a more assertive position in their application of the legislation and assessments. At the same time the potential impact cannot be reliably estimated, as well as the probability of an unfavorable outcome in the case of claims of the Russian tax authorities. Tax inspections may cover three calendar years immediately preceding the year of review. The longer periods may be subjected under certain conditions tested. As such, additional taxes, penalties and late payment interest may be assessed by the relevant authorities.

Management believes that as at 30 September 2016 the provisions of the tax laws applicable to the Group, interpreted them correctly.

Operating environment – emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014 and 2015. Management is unable to reliably estimate the effects of any further price fluctuations on the Group's financial position.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. Russia's sovereign debt was downgraded to lowest investment-grade levels by international rating agencies, and further on downgraded to below investment-grade levels during the first quarter 2015, with a negative outlook. The exchange rate of the Russian Rouble depreciated significantly. These developments may result in reduced access of the Russian businesses to international capital and export markets, capital flight, further weakening of the Rouble and other negative economic consequences.

The impact of further political and economic developments in Russia on future operations and financial position of the Group is at this stage difficult to determine.

Share-based payments – the Group engages in cash settled share-based payment transactions in respect of services received from certain employees. The fair value of the services received is measured by reference to the fair value of the shares initially on the date of the grant and then subsequently at each reporting date. The cost of the employee services received in respect of the shares granted is recognized in the interim condensed consolidated statement of profit or loss within administrative expenses, over the period that the services are received, which is the vesting period. A liability equal to the portion of the goods and services received is recognized at the current fair value determined at each balance sheet date for cash settled payments.

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29. Transactions with related parties

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	30 September 2016 mRUB (unaudited)		31 December 2015 mRUB	
	Related party transactions	Total category as per financial statement caption	Related party transactions	Total category as per financial statement caption
Financial assets at fair value through profit or loss				
- shareholders	21,110	43,028	35,129	56,968
- related parties under common control with the Group	-		-	
Due from banks	19,870	89,090	45,953	92,867
- shareholders	15,820		16,999	
- related parties under common control with the Group	4,050		28,954	
Loans to customers, gross	1,430	661,001	2,770	698,022
- key management personnel of the Group	15		50	
- related parties under common control with the Group	1,415		2,720	
Allowance for impairment losses on loans to customers	-	(59,238)	(51)	(63,488)
- related parties under common control with the Group	-		(51)	
Investments available-for-sale	79	8,265	117	5,683
- related parties under common control with the Group	79		117	
Other assets	48	14,405	231	12,273
- shareholders	6		212	
- related parties under common control with the Group	42		19	
Financial liabilities at fair value through profit or loss				
- shareholders	21,906	40,065	27,947	54,860
- related parties under common control with the Group	21,906		27,947	
Due to banks	9,358	44,339	6,003	68,684
- shareholders	7,918		5,017	
- related parties under common control with the Group	1,440		986	
Customer accounts	4,520	492,304	5,616	516,707
- key management personnel of the Group	295		195	
- related parties under common control with the Group	4,225		5,421	
Other liabilities	875	9,677	868	10,507
- shareholders	875		868	
- related parties under common control with the Group	-		-	

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	30 September 2016 mRUB (unaudited)		31 December 2015 mRUB	
	Related party transactions	Total category as per financial statement caption	Related party transactions	Total category as per financial statement caption
Subordinated debt	49,870	49,871	58,281	58,281
- shareholders	44,709		52,324	
- related parties under common control with the Group	5,161		5,957	
Guarantees issued and similar commitments	1,808	85,158	2,020	89,439
- shareholders	1,804		2,015	
- related parties under common control with the Group	4		5	
Commitments on loans and unused credit lines	10,230	68,881	7,819	72,482
- shareholders	122		5,000	
- key management personnel of the Group	8		1	
- related parties under common control with the Group	10,100		2,818	
Guarantees received	16,823	298,627	12,618	303,883
- shareholders	16,376		12,308	
- related parties under common control with the Group	447		310	

Included in the interim condensed consolidated statements of profit or loss for 9 months ended 30 September 2016 and 2015 are the following amounts which arose due to transactions with related parties:

	9 months ended 30 September 2016 mRUB (unaudited)		9 months ended 30 September 2015 mRUB (unaudited)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	258	65,762	2,612	69,825
- shareholders	197		2,479	
- key management personnel of the Group	2		2	
- related parties controlled by, or under common control with the Group	59		132	
Interest expense	(3,741)	(36,785)	(4,249)	(43,265)
- shareholders	(3,282)		(3,736)	
- key management personnel of the Group	(7)		(3)	
- related parties under common control with the Group	(452)		(511)	

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	9 months ended 30 September 2016 mRUB (unaudited)		9 months ended 30 September 2015 mRUB (unaudited)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Provision for impairment losses on interest bearing assets	51	(11,578)	(28)	(15,070)
- related parties under common control with the Group	51		(28)	
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards	(821)	(536)	1,820	(1,394)
- shareholders	(821)		1,820	
Net gain/(loss) on foreign exchange operations and on precious metals operations	524	1,222	(12,415)	696
- shareholders	537		(12,456)	
- related parties under common control with the Group	(13)		41	
Fee and commission income	1,203	8,000	634	9,014
- shareholders	208		98	
- key management personnel of the Group	-		-	
- related parties under common control with the Group	995		536	
Fee and commission expense	(123)	(2,020)	(195)	(1,862)
- shareholders	(121)		(191)	
- related parties under common control with the Group	(2)		(4)	
Other income	41	820	33	850
- shareholders	17		9	
- related parties under common control with the Group	24		24	
Operating expense (other than compensation)	(426)	(10,375)	(302)	(11,258)
- shareholders	(413)		(291)	
- related parties under common control with the Group	(13)		(11)	
Dividend income	347	347	-	-
- related parties under common control with the Group	347		-	

For the 9 months ended 30 September 2016 and 2015 total remuneration of the key management amounted to RUB 709 million and RUB 539 million, respectively.

30. Fair value of financial instruments

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 13 *Fair Value Measurement*. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes)
- Unquoted equities and debt securities classified as available-for-sale are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity
- For loans and advances to banks and customers and deposits by banks and customers and promissory notes issued at variable rates management believes that carrying rate may be assumed to be fair value
- For loans and advances to banks and customers and deposits by banks and customers and promissory notes issued at fixed rates fair value has been estimated by reference to the market rates available at the balance sheet date for similar instruments of maturity equal to the remaining fixed period
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates

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The fair value of financial assets and liabilities compared with the corresponding carrying amount in the interim condensed consolidated statement of financial position of the Group is presented below:

	30 September 2016 (unaudited)		31 December 2015	
	Carrying value, mRUB	Fair value, mRUB	Carrying value, mRUB	Fair value, mRUB
Cash and balances with the Central Bank of the Russian Federation	53,746	53,746	103,225	103,225
Financial assets at fair value through profit or loss				
- <i>Derivative financial instruments</i>	39,422	39,422	53,440	53,440
- <i>Debt securities</i>	3,606	3,606	3,528	3,528
Due from banks	89,090	89,167	92,867	92,867
Loans to customers	601,763	588,248	634,534	607,663
Investments available-for-sale	8,265	8,265	5,683	5,683
Investments held to maturity	73,930	77,789	79,582	80,687
Other financial assets	1,723	1,723	2,101	2,101
Financial liabilities at fair value through profit or loss	40,065	40,065	54,860	54,860
Due to the Central Bank of the Russian Federation	128	128	18,861	18,861
Due to banks	44,339	46,413	68,684	69,501
Customer accounts	492,304	493,719	516,707	518,336
Debt securities issued	149,036	153,160	159,795	159,621
Other financial liabilities	6,817	6,817	8,507	8,507
Subordinated debt	49,871	49,948	58,281	57,833

Assets and liabilities for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts.

Fair value measurements recognised in the consolidated statement of financial position

For the purpose of fair value hierarchy disclosure as at 30 September 2016 and 31 December 2015, the Group has categorized classes of assets and liabilities at fair value into Level 1 to 3 based on the degree to which their fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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Balance Sheet Category	30 September 2016 mRUB (unaudited)			31 December 2015 mRUB		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss						
- <i>Derivative financial instruments</i>	-	39,422	-	-	53,440	-
- <i>Debt securities</i>	3,606	-	-	3,528	-	-
Investments available-for-sale	8,060	205	-	5,551	132	-
Financial liabilities at fair value through profit or loss						
	1,066	38,999	-	1,366	53,494	-

There were no transfers between Level 1, 2 and 3 during 9 months ended 30 September 2016.

Possibility of transfer from Level 1 to Level 2 category is assessed as low, as liquidity control is performed by Market Risk Department. Control period of liquidity assessment is 90 days from position opening. Market risk department performs liquidity analysis using position turnover, volumes of exchange trades, availability of exchange and brokers quotations. In case of position assessment as insufficient liquid the necessary actions to close position are taken.

For financial instruments that are recognized at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

31. Segment reporting

The Group discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 *Operating Segments* and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and
- For which discrete financial information is available

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Group's reportable segments under IFRS 8 are therefore as follows:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products
- Treasury and Financial institutions - representing all trading financial instruments recognized and measured at fair value through profit and loss as well as loans and borrowings initiated through interbank transactions

ROSBANK Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 9 MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies in the Group financial statements for the year ended 31 December 2015 except for as described below. Transactions between the operating segments consist only of reallocating of funds. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's marginal funding price. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities. Internal charges and transfer pricing adjustments have been reflected in the performance of each business.

The main business activity of the Group is concentrated in RF, thus no geographical segmentation is reported.

Segment information about these businesses is presented below.

	Retail banking	Corporate banking	Treasury and financial institutions	Unallocated	9 months ended 30 September 2016 (unaudited)
Net interest margin	20,336	6,124	1,367	1,150	28,977
Provisions for impairment losses on interest bearing assets	(11,812)	234	-	-	(11,578)
Net gain/(loss) on financial transactions	68	-	1,096	(478)	686
Net fee and commission income	4,295	1,525	301	(141)	5,980
Other provisions	-	(861)	(4)	138	(727)
Dividend income	161	129	57	-	347
Other income	207	36	36	541	820
Intersegment allocation operating income	780	664	(234)	(1,210)	-
Total operating income	14,035	7,851	2,619	-	24,505
Operating expenses	(21,387)	(3,080)	(1,431)	1,055	(24,843)
Other non-operating income/(expenses)	-	-	-	631	631
Intersegment allocation operating expenses	879	644	163	(1,686)	-
Profit/(loss) before income tax	(6,473)	5,415	1,351	-	293
Income tax credit/(expense)	(12)	(13)	(5)	-	(30)
Net profit/(loss)	(6,485)	5,402	1,346	-	263
Segment assets as at 30 September 2016 (unaudited)	412,859	320,546	149,040	26,891	909,336
Segment liabilities as at 30 September 2016 (unaudited)	359,590	330,932	87,342	10,890	788,754

During 2016 the Group has changed methodology on segments report:

- The amount of Fund transfer pricing costs on Retail is being calculated based on loan portfolio net of provisions
- New allocation methodology of unallocated amounts has been applied.

ROSBANK Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 9 MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)

Segment information is presented below.

	Retail banking	Corporate banking	Treasury and financial institutions	Unallocated	9 months ended 30 September 2015 (unaudited)
Net interest margin	24,098	8,142	1,595	(7,275)	26,560
Provisions for impairment losses on interest bearing assets	(15,535)	440	-	25	(15,070)
Net gain/(loss) on financial transactions	484	-	2,031	(3,213)	(698)
Net fee and commission income	4,209	3,104	211	(372)	7,152
Other provisions	-	(306)	-	(378)	(684)
Other income	201	12	48	589	850
Intersegment allocation operating income	(4,897)	(4,028)	(1,699)	10,624	-
Total operating income	8,560	7,364	2,186	-	18,110
Operating expenses	(20,009)	(4,562)	(1,031)	(624)	(26,226)
Other non-operating income/(expenses)	-	-	-	(293)	(293)
Intersegment allocation operating expenses	(478)	(351)	(88)	917	-
Profit/(loss) before income tax	(11,927)	2,451	1,067	-	(8,409)
Income tax credit/(expense)	322	254	139	-	715
Net profit/(loss)	(11,605)	2,705	1,206	-	(7,694)
Segment assets as at 31 December 2015	484,966	326,293	175,118	24,802	1,011,179
Segment liabilities as at 31 December 2015	355,612	337,907	187,950	9,209	890,678

For the purpose of the segment reporting disclosure the category “Net gain/(loss) on financial transactions” includes the following categories:

- Net gain/(loss) on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards
- Net gain/(loss) on foreign exchange operations
- Net gain/(loss) on precious metals operations

32. Subsequent events

In November 2016 the following bonds were redeemed:

Issuer	Issue date	Maturity date	Debt volume, mRUB	Annual coupon rate, %
Delta Credit Bank	09.11.2011	02.11.2016	3,664	11.75