

AO UniCredit Bank

**Consolidated Interim Condensed
Financial Statements**
Three-Month Period Ended 31 March 2016
(unaudited)

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Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Interim Condensed Financial Statements for the three-month period ended 31 March 2016

Management of AO UniCredit Bank is responsible for the preparation of the consolidated interim condensed financial statements that present fairly the financial position of AO UniCredit Bank and its subsidiary (collectively – the “Group”) as at 31 March 2016, and the related consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the three-month periods then ended and a summary of significant accounting policies and selected notes to the consolidated interim condensed financial statements (the “consolidated interim condensed financial statements”) in compliance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting.

In preparing the consolidated interim condensed 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 IFRSs 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; and
- 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 financial position of the Group, and which enable them to ensure that the consolidated interim condensed financial statements of the Group comply with IAS 34;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- 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 consolidated interim condensed financial statements as at 31 March 2016 were approved by the Supervisory Board of AO UniCredit Bank on 6 May 2016 based on the decision of Board of Management of AO UniCredit Bank dated 4 May 2016.


I. Matveev
Acting Chairman of the Board of Management

6 May 2016




V. Starovoytov
Acting Chief Accountant

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To: Shareholder and Supervisory Board of AO UniCredit Bank:

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of AO UniCredit Bank and its subsidiary (collectively – the “Group”) as of 31 March 2016, and the related consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and selected explanatory notes. Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with Federal Rule (Standard) of Auditing No. 33, Review of Financial Statements, and International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Federal Auditing Standards of the Russian Federation and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

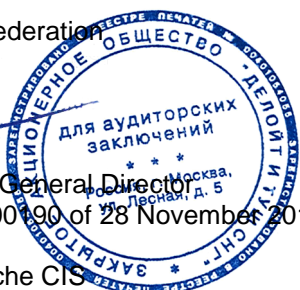
Deloitte & Touche

10 May 2016

Moscow, Russian Federation


Ponomarenko E.V., General Director
(certificate no. 01-000190 of 28 November 2011)

ZAO Deloitte & Touche CIS



Audited entity: AO UniCredit Bank

Licensed by the Central Bank of the Russian Federation on 22 December 2014, License No.1.

Primary State Registration Number: 1027739082106

Certificate of registration in the Unified State Register series 77 No. 007773325 of 19.08.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

9, Prechistenskaya emb., Moscow, Russia 119034.

Independent Auditor: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register series 77 No. 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in "NP "Audit Chamber of Russia" (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

AO UniCredit Bank

Consolidated Interim Condensed Statement of Financial Position as at 31 March 2016 (expressed in thousands of Russian Roubles)

	Notes	31 March 2016 unaudited	31 December 2015
ASSETS			
Cash and cash balances	5	34 233 164	22 730 813
Trading securities	6		
- held by the Group		833 170	3 652 106
Amounts due from credit institutions	7	457 718 835	336 744 808
Derivative financial assets	8	58 249 617	65 526 002
Derivative financial assets designated for hedging	8	8 674 478	7 042 056
Changes in fair value of portfolio hedged items		2 431 152	998 710
Loans to customers	9	816 481 880	867 295 074
Investment securities	10		
- available-for-sale			
- held by the Group		47 735 374	54 895 759
- pledged under repurchase agreements		17 657 138	14 841 932
- held-to-maturity		15 551 009	16 130 748
Fixed assets		5 493 717	5 612 240
Intangible assets		5 620 922	5 350 637
Current income tax assets		1 859 654	1 858 930
Other assets		4 879 657	4 445 843
TOTAL ASSETS		1 477 419 767	1 407 125 658
LIABILITIES			
Amounts due to credit institutions	12	141 947 180	193 922 309
Financial liabilities held for trading	7	526 041	-
Derivative financial liabilities	8	36 615 481	49 246 075
Derivative financial liabilities designated for hedging	8	17 299 662	19 306 086
Changes in fair value of portfolio hedged items		3 514 291	404 256
Amounts due to customers	13	1 067 789 174	931 426 988
Debt securities issued	14	22 490 146	32 979 085
Deferred income tax liabilities		8 321 933	7 390 616
Other liabilities		9 917 130	7 922 980
TOTAL LIABILITIES		1 308 421 038	1 242 598 395
EQUITY			
Share capital		41 787 806	41 787 806
Share premium		437 281	437 281
Cash flow hedge reserve		(1 144 057)	(765 540)
Revaluation reserve for available-for-sale securities		(1 725 747)	(2 902 933)
Retained earnings		129 643 446	125 970 649
TOTAL EQUITY		168 998 729	164 527 263
TOTAL LIABILITIES AND EQUITY		1 477 419 767	1 407 125 658


I. Matveev
Acting Chairman of the Board of Management

6 May 2016



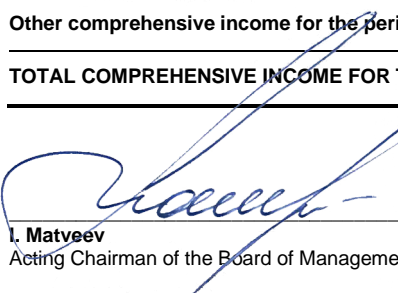

V. Starovoytov
Acting Chief Accountant

The accompanying selected notes on pages 8 to 29 are an integral part of these consolidated interim condensed financial statements.

AO UniCredit Bank

Consolidated Interim Condensed Statement of Comprehensive Income for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

	Notes	Three-month period ended 31 March	
		2016 unaudited	2015 unaudited
Interest income and similar revenues		30 259 871	36 119 781
Interest expense and similar charges		(19 436 280)	(25 863 212)
Net interest income		10 823 591	10 256 569
Fee and commission income		2 317 229	2 022 963
Fee and commission expense		(1 028 254)	(1 154 156)
Net fee and commission income		1 288 975	868 807
Gains on financial assets and liabilities held for trading	16	820 769	1 064 084
Fair value adjustments in portfolio hedge accounting		(116 896)	(400 902)
Gains/(losses) on disposal of:			
- loans		6 212	(4 337)
- available-for-sale financial assets		194	(141 157)
OPERATING INCOME		12 822 845	11 643 064
(Impairment)/recovery of impairment on:			
- loans	9	(4 014 214)	(2 456 285)
- other financial transactions		-	11 781
NET INCOME FROM FINANCIAL ACTIVITIES		8 808 631	9 198 560
Personnel expenses		(2 093 380)	(2 025 727)
Other administrative expenses		(1 473 001)	(1 251 611)
Depreciation of fixed assets		(150 342)	(183 605)
Amortization of intangible assets		(264 230)	(195 922)
Other provisions		(180 255)	(2 141)
Other operating expenses		(53 137)	(23 222)
Operating costs		(4 214 345)	(3 682 228)
Gains on disposal of fixed assets		1 861	2 561
PROFIT BEFORE INCOME TAX EXPENSE		4 596 147	5 518 893
Income tax expense	11	(923 350)	(1 125 521)
PROFIT FOR THE PERIOD		3 672 797	4 393 372
OTHER COMPREHENSIVE INCOME/(LOSSES)			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedge reserve – effective portion of changes in fair value, net of tax:			
- fair value changes		(407 884)	265 393
- reclassification adjustment relating to financial assets and liabilities designated for hedging disposed of in the period		29 367	7 924
Revaluation reserve for available-for-sale securities, net of tax:			
- fair value changes		1 156 270	2 489 652
- reclassification adjustment relating to available-for-sale financial assets disposed of in the period		20 916	160 738
Other comprehensive income for the period, net of tax	11	798 669	2 923 707
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		4 471 466	7 317 079


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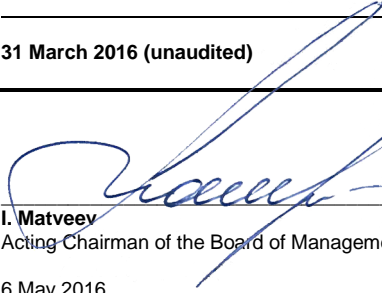

V. Starovoytov
Acting Chief Accountant

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AO UniCredit Bank


Consolidated Interim Condensed Statement of Changes in Equity for the Three-Month Period Ended 31 March 2016 (expressed in thousands of Russian Roubles)

	Share capital	Share premium	Cash flow hedge reserve	Revaluation reserve for available-for-sale securities	Retained earnings	Total equity
1 January 2015	41 787 806	437 281	(1 541 487)	(9 070 231)	110 452 655	142 066 024
Total comprehensive income						
Profit for the period (unaudited)	-	-	-	-	4 393 372	4 393 372
Other comprehensive income						
Change in cash flow hedge reserve, net of tax (unaudited)	-	-	273 317	-	-	273 317
Net change in revaluation reserve for available-for-sale securities, net of tax (unaudited)	-	-	-	2 650 390	-	2 650 390
Total other comprehensive income (unaudited)	-	-	273 317	2 650 390	-	2 923 707
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD (unaudited)	-	-	273 317	2 650 390	4 393 372	7 317 079
31 March 2015 (unaudited)	41 787 806	437 281	(1 268 170)	(6 419 841)	114 846 027	149 383 103
1 January 2016	41 787 806	437 281	(765 540)	(2 902 933)	125 970 649	164 527 263
Total comprehensive income						
Profit for the period (unaudited)	-	-	-	-	3 672 797	3 672 797
Other comprehensive income						
Change in cash flow hedge reserve, net of tax (unaudited)	-	-	(378 517)	-	-	(378 517)
Net change in revaluation reserve for available-for-sale securities, net of tax (unaudited)	-	-	-	1 177 186	-	1 177 186
Total other comprehensive income (unaudited)	-	-	(378 517)	1 177 186	-	798 669
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD (unaudited)	-	-	(378 517)	1 177 186	3 672 797	4 471 466
31 March 2016 (unaudited)	41 787 806	437 281	(1 144 057)	(1 725 747)	129 643 446	168 998 729


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6 May 2016



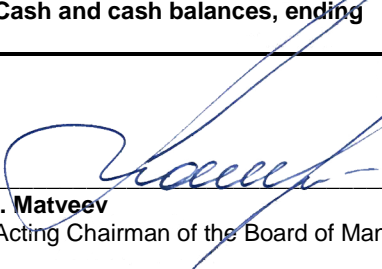

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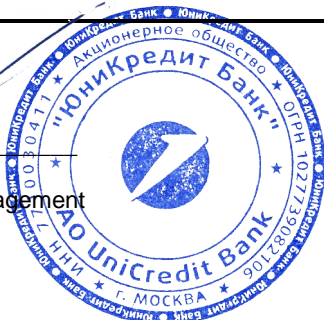
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Consolidated Interim Condensed Statement of Cash Flows for the Three-Month Period Ended 31 March 2016 (expressed in thousands of Russian Roubles)

	Note	Three-Month Period Ended 31 March 2016 unaudited	Three-Month Period Ended 31 March 2015 unaudited
Cash flows from operating activities before changes in operating assets and liabilities		10 536 784	14 451 429
Net cash from/(used in) operating activities before income tax		18 583 482	(31 341 481)
Corporate income tax paid		(192 464)	(392 098)
Net cash flows from/(used in) operating activities		18 391 018	(31 733 579)
Cash flows from investing activities			
Proceeds from redemption and sale of available-for-sale securities		4 421 317	3 502 006
Proceeds from sale of fixed and intangible assets		1 861	2 794
Purchase of fixed and intangible assets		(649 140)	(500 761)
Net cash flows from investing activities		3 774 038	3 004 039
Cash flows from financing activities			
Redemption of bonds issued		(10 205 218)	(9 904 446)
Proceeds from subordinated debt received		-	27 761 347
Net cash flows (used in)/from financing activities		(10 205 218)	17 856 901
Effect of exchange rates changes on cash and cash balances		(457 487)	336 016
Net increase/(decrease) in cash and cash balances		11 502 351	(10 536 623)
Cash and cash balances, beginning	5	22 730 813	42 873 396
Cash and cash balances, ending	5	34 233 164	32 336 773


I. Matveev
Acting Chairman of the Board of Management
6 May 2016




V. Starovoytov
Acting Chief Accountant

The accompanying selected notes on pages 8 to 29 are an integral part
of these consolidated interim condensed financial statements.

AO UniCredit Bank

Selected Notes to Consolidated Interim Condensed Financial Statements for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

1. Principal activities

These consolidated interim condensed financial statements include the financial statements of AO UniCredit Bank (hereinafter – the “Bank”) and its subsidiary. AO UniCredit Bank and its subsidiary are hereinafter collectively referred to as the “Group”.

The Bank (the former International Moscow Bank) was established in 1989 as a closed joint-stock company under the laws of the Russian Federation. The Bank operates under General Banking License No. 1 of the Central Bank of Russia (hereinafter – the “CBR”) to conduct banking operations reissued on 22 December 2014. The Bank also possesses licence of the professional securities market participant for dealing, brokerage and depository activities issued by the Federal Securities Commission on 25 April 2003, the CBR license for operations with precious metals reissued on 22 December 2014, as well as authorized to speak to the customs authorities as a guarantor on the basis of the notification of the Federal Customs Service of the Russian Federation dated 1 November 2013. The Bank is a member of the state deposit insurance system in the Russian Federation.

As at 31 March 2016 the Group comprises the Bank, the leading operating entity of the Group, and LLC UniCredit Leasing Company, a leasing company as its subsidiary. LLC UniCredit Leasing owns 100% of the shares in ZAO Locat Leasing Russia. Both companies operate in the financial leasing industry on the local market.

As at 31 March 2016 the Bank has 13 branches and 12 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus.

The Bank’s registered legal address is 9, Prechistenskaya Embankment, Moscow, Russian Federation, 119034.

As at 31 March 2016 the sole shareholder of the Group is UniCredit Bank Austria AG. UniCredit Bank Austria AG, a member of UniCredit Group, is responsible for commercial banking in Central and Eastern Europe within the UniCredit Group.

The primary activities of the Group are deposit taking, lending, providing payments and settlement services, transactions with foreign currencies and securities and providing finance leases.

The Group operates in industries where significant seasonal or cyclical variations in operating income are not experienced during the financial year. However, operating results for the three-month period ended 31 March 2016 are not necessarily indicative of the results that may be expected for the year ending 31 December 2016.

2. Basis of preparation

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

The consolidated interim condensed financial statements are unaudited and do not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2015 prepared in accordance with International Financial Reporting Standards (hereinafter – “IFRS”), such as accounting policies and details of accounts which have not changed significantly in amount or composition. 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 shareholders’ equity and cash flows for the interim reporting periods.

AO UniCredit Bank

Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

2. Basis of preparation (continued)

Basis of measurement. These consolidated interim condensed financial statements are prepared on the historical cost basis except that financial instruments held for trading, available-for-sale assets and derivative financial instruments are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Presentation currency. These consolidated interim condensed financial statements are presented in Russian Roubles (hereinafter – “RUB”). Amounts in Russian Roubles are rounded to the nearest thousand.

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

	31 March 2016	31 December 2015
RUB/1 US Dollar	67.6076	72.8827
RUB/1 Euro	76.5386	79.6972

Use of estimates and judgements. The preparation of financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing these consolidated interim condensed financial statements the significant judgements made by the management in applying accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

Going concern. These consolidated interim condensed 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. The 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.

AO UniCredit Bank

Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

3. Significant accounting policies

Interim measurement period. Income tax expense is recognized in these consolidated interim condensed financial statements based on the management's best estimates of the weighted average effective annual income tax rate expected for the full financial year. Costs that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

The same accounting policies, presentation and methods of computation have been followed in these condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2015.

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New or amended standard or interpretation	Effective date¹ - for annual periods beginning on or after
IFRS 9 <i>Financial Instruments</i>	1 January 2018
IFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
IFRS 16 <i>Leases</i>	1 January 2019
Amendments to IFRS 11 - <i>Accounting for Acquisition of Interests in Joint Operations</i>	1 January 2016
Amendments to IAS 1 – <i>Disclosure Initiative</i>	1 January 2016
Amendments to IAS 16 and IAS 38 - <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016
Amendments to IAS 16 and IAS 41 - <i>Agriculture: Bearer Plants</i>	1 January 2016
Amendments to IFRS 10 and IAS 28 - <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Date to be determined by the IASB ²
Amendments to IFRS 10, IFRS 12 and IAS 28 – <i>Investment Entities: Applying the Consolidation Exception</i>	1 January 2016
IFRS 14 <i>Regulatory Deferral Accounts</i>	1 January 2016
Amendments to IAS 27 - <i>Equity Method in Separate Financial Statements</i>	1 January 2016
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
Amendments to IAS 12 – <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	1 January 2017

¹ Early adoption is permitted for all new or amended standards and interpretations. IFRS 16 can be early adopted if IFRS 15 *Revenue from Contracts with Customers* has also been applied.

² The amendment was initially issued in September 2014 with the effective date on 1 January 2016. In December 2015 the IASB deferred the effective date of the amendments indefinitely until the research project on the equity method has been concluded.

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

4. Operating segments

For the management purposes, the Group has four reporting business segments:

Corporate and Investment banking (hereinafter – “CIB”) includes corporate lending, project and commodity and corporate structured finance, corporate sight and term deposit services, securities, foreign currency and derivatives trading and custody services.

Retail banking comprises banking services to private individuals and SME, credit and debit card services, retail sight and term deposit services, lending to SME and retail lending (consumer loans, car loans and mortgages).

Leasing – represents the leasing activities of the Group.

Other – represents the Group’s funding activities and other unallocated items.

The information about each segment is measured on the same basis as the information used for decision making purposes for allocating resources to segments and assessing segment performance and is prepared on the same basis as the consolidated interim condensed financial statements.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers included in segment revenue. Interest charged for these funds is based on the Group’s funds transfer pricing policy.

Segment breakdown of assets and liabilities is set out below:

	31 March 2016 unaudited	31 December 2015
Assets		
CIB	887 268 536	1 015 688 084
Retail banking	113 867 053	120 721 231
Leasing	14 254 857	14 001 241
Other	462 029 321	256 715 102
Total assets	1 477 419 767	1 407 125 658
Liabilities		
CIB	978 290 118	855 887 223
Retail banking	216 534 124	224 639 697
Leasing	11 360 692	11 186 533
Other	102 236 104	150 884 942
Total liabilities	1 308 421 038	1 242 598 395

AO UniCredit Bank

Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

4. Operating segments (continued)

Segment information for the operating segments for the three-month period ended 31 March 2016 is set out below (unaudited):

	CIB	Retail Banking	Leasing	Other	Total
Net interest income from external customers	7 964 113	1 879 442	229 982	750 054	10 823 591
Inter-segment income/(expense)	63 659	650 419	-	(714 078)	-
Net interest income	8 027 772	2 529 861	229 982	35 976	10 823 591
Net fee and commission income/(expense) from external customers	430 868	836 142	(816)	22 781	1 288 975
Gains on financial assets and liabilities held for trading from external customers	449 758	258 938	1 809	110 264	820 769
Fair value adjustments in portfolio hedge accounting	-	-	-	(116 896)	(116 896)
Gains on disposals of financial assets	6 406	-	-	-	6 406
Operating income	8 914 804	3 624 941	230 975	52 125	12 822 845
(Impairment)/recovery of impairment on loans and other financial transactions	(3 029 131)	(954 865)	(30 717)	499	(4 014 214)
Net income from financial activities	5 885 673	2 670 076	200 258	52 624	8 808 631
Operating costs including: depreciation on fixed assets and amortization of intangible assets	(1 553 425)	(2 335 476)	(87 394)	(238 050)	(4 214 345)
Gains on disposal of fixed assets	-	-	-	1 861	1 861
Profit/(loss) before income tax expense	4 332 248	334 600	112 864	(183 565)	4 596 147
Income tax expense					(923 350)
Profit					3 672 797
Cash flow hedge reserve					(378 517)
Revaluation reserve for available-for-sale securities					1 177 186
Total comprehensive income					4 471 466

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

4. Operating segments (continued)

Segment information for the operating segments for the three-month period ended 31 March 2015 is set out below (unaudited):

	CIB	Retail Banking	Leasing	Other	Total
Net interest income from external customers	5 642 469	2 995 576	196 457	1 422 067	10 256 569
Inter-segment income/(expense)	662 398	(206 944)	-	(455 454)	-
Net interest income	6 304 867	2 788 632	196 457	966 613	10 256 569
Net fee and commission income from external customers	150 850	711 726	4 545	1 686	868 807
Gains on financial assets and liabilities held for trading from external customers	504 212	392 716	841	166 315	1 064 084
Fair value adjustments in portfolio hedge accounting	-	-	-	(400 902)	(400 902)
(Losses)/gains on disposals of financial assets	(147 470)	1 976	-	-	(145 494)
Operating income	6 812 459	3 895 050	201 843	733 712	11 643 064
(Impairment)/recovery of impairment on loans and other financial transactions	(1 520 310)	(905 577)	(18 981)	364	(2 444 504)
Net income from financial activities	5 292 149	2 989 473	182 862	734 076	9 198 560
Operating costs including: depreciation on fixed assets and amortization of intangible assets	(1 278 225) (119 133)	(2 178 949) (259 744)	(96 654) (650)	(128 400) -	(3 682 228) (379 527)
Gains on disposal of fixed assets	-	-	-	2 561	2 561
Profit before income tax expense	4 013 924	810 524	86 208	608 237	5 518 893
Income tax expense					(1 125 521)
Profit for the period					4 393 372
Cash flow hedge reserve					273 317
Revaluation reserve for available-for-sale securities					2 650 390
Total comprehensive income					7 317 079

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

4. Operating segments (continued)

Chief operating decision maker reviews the Group's results on the basis of net interest income. The following is the analysis by segments of the Group's net interest income from continuing operations from its major products and services:

	Three-Month Period Ended 31 March 2016 unaudited	Three-Month Period Ended 31 March 2015 unaudited
Medium and long term financing	2 641 337	3 047 409
Current accounts	1 758 669	2 177 753
Consumer loans	374 218	387 629
Short-term financing	310 844	548 879
Term deposits	244 308	843 500
Mortgage loans	50 755	52 774
Other lending	970 397	709 882
Other products	4 473 063	2 488 743
Net interest income	10 823 591	10 256 569

5. Cash and cash balances

Cash and cash balances comprise:

	31 March 2016 unaudited	31 December 2015
Cash on hand	12 655 126	14 356 435
Current accounts with the CBR	21 578 038	8 374 378
Cash and cash balances	34 233 164	22 730 813

Included in cash and cash balances as at 31 March 2016 is amount of RUB 3 100 000 thousand (31 December 2015: RUB 2 050 000 thousand) pledged as collateral for mortgage-backed bonds issued by the Group in September 2011 and September 2015 (see Note 14 for details).

6. Trading securities

Trading securities comprise:

	31 March 2016 unaudited	31 December 2015
USD denominated		
Russian government eurobonds	1 126	7 137
RUB denominated		
Russian government bonds	213 139	946 463
Corporate and bank bonds	618 905	2 698 506
Trading securities	833 170	3 652 106

As at 31 March 2016 no trading securities are blocked as collateral in order to receive "overnight" loans from the CBR upon the Group's request (31 December 2015: RUB 512 118 thousand). As at 31 March 2016 and 31 December 2015 the Group has no "overnight" loans due to the CBR.

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 March 2016 unaudited	31 December 2015
Current accounts with credit institutions	254 614 679	60 609 432
Time deposits	180 196 476	254 059 273
Reverse repurchase agreements with credit institutions	18 625 904	18 201 246
Obligatory reserve with the CBR	4 281 776	3 874 857
Amounts due from credit institutions	457 718 835	336 744 808

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw such deposit is significantly restricted by statutory legislation.

As at 31 March 2016, there are five counterparties with balances that individually exceed 10% of the Group's equity. As at 31 March 2016, the aggregate amount of these balances is RUB 406 937 944 thousand (31 December 2015: three counterparties with aggregate amount of RUB 253 319 891 thousand).

As at 31 March 2016, the Group entered into reverse repurchase agreements with a number of Russian banks. Pledged under these agreements are Russian government bonds, municipal bonds, corporate and bank bonds with the total fair value of RUB 20 171 459 thousand (31 December 2015: Russian government bonds, corporate and bank bonds with total fair value of RUB 19 427 182 thousand). As at 31 March 2016 Russian government bonds with the total fair value of RUB 526 041 thousand were sold out of collateral pledged under reverse repurchase agreements with banks and disclosed as financial liabilities held for trading in the consolidated interim condensed statement of financial position.

8. Derivative financial instruments

The Group enters into derivative financial instruments principally for trading and hedging purposes. The tables below show the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or notional amount to which reference rate or index is applied and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the end of reporting period and are indicative of neither the market risk nor the credit risk.

The Group values the derivative financial instruments using widely accepted valuation techniques which are based on market interest rates and forward currency rates. Significant changes in these variables could cause the fair value of the derivatives to change materially.

The table below shows the fair value of derivative instruments held for trading, recorded as assets or liabilities, together with their notional amounts.

	31 March 2016 unaudited			31 December 2015		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
Cross-currency interest rate swaps	210 032 516	48 984 810	28 876 265	228 353 208	56 770 885	39 765 795
Interest rate swaps and options	234 236 283	6 468 012	7 033 545	251 888 460	7 044 837	7 333 570
Foreign exchange forwards, options and swaps	54 664 455	2 796 795	705 671	87 409 741	1 710 280	2 146 710
Total derivative assets/liabilities		58 249 617	36 615 481		65 526 002	49 246 075

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

8. Derivative financial instruments (continued)

The table below shows the fair values of derivative financial instruments designated for hedging, recorded as assets or liabilities, together with their notional amounts.

	31 March 2016 unaudited			31 December 2015		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
Cash flow hedge						
Interest rate swaps	379 064 399	110 804	1 242 537	321 333 127	380 446	345 545
Cross-currency interest rate swaps	85 699 381	1 319 482	6 499 709	100 927 028	2 084 247	11 372 356
Total cash flow hedge		1 430 286	7 742 246		2 464 693	11 717 901
Fair value hedge						
Interest rate swaps	665 276 950	7 244 192	9 557 416	704 837 888	4 577 363	7 588 185
Total fair value hedge		7 244 192	9 557 416		4 577 363	7 588 185
Total derivative financial assets/ liabilities designated for hedging		8 674 478	17 299 662		7 042 056	19 306 086

9. Loans to customers

Loans to customers comprise:

	31 March 2016 unaudited	31 December 2015
Corporate customers	699 297 994	755 082 908
Retail customers, including SME	126 447 659	132 646 305
Lease receivables	12 466 722	12 481 464
Reverse repurchase agreements with companies	14 705 595	533 189
Gross loans to customers	852 917 970	900 743 866
Allowance for loan impairment	(36 436 090)	(33 448 792)
Loans to customers	816 481 880	867 295 074

A reconciliation of the allowance for loan impairment is as follows:

	Three-Month Period Ended 31 March	
	2016 unaudited	2015 unaudited
Allowance for loan impairment at the beginning of the period	33 448 792	20 749 321
Charge for the period	4 014 214	2 456 285
Loans sold or recovered through repossession of collateral during the period	(9 012)	(83 104)
Loans written-off during the period	(357 972)	(649 651)
Effect of exchange rate changes	(659 932)	172 601
Allowance for loan impairment at the end of the period	36 436 090	22 645 452

Write-off and sale of loans. The decision to write-off the loan is taken by the authorized body of the Group. Loans are written-off after receiving all necessary documentation from the authorized state bodies, as well as under the conditions where further debt collection is not possible.

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

9. Loans to customers (continued)

The decision to sell the loans is taken individually for each case, for both corporate and retail loans. The decision is taken by the authorized body of the Group based on the analysis of all possible alternative strategies for debt collection, the main criterion for the adoption of which is to minimize the losses of the Group's troubled assets.

The following table shows gross loans and related impairment as at 31 March 2016:

	Gross loans	Impairment	Net loans
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	652 534 499	(2 590 037)	649 944 462
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	1 152 663	(20 150)	1 132 513
- Past due 31-90 days	2 848 291	(72 550)	2 775 741
Impaired loans			
- Not past due	7 877 881	(2 808 693)	5 069 188
- Past due less than 31 days	1 786 129	(103 372)	1 682 757
- Past due 31-90 days	3 800 666	(1 652 145)	2 148 521
- Past due 91-180 days	2 118 996	(1 362 716)	756 280
- Past due over 180 days	27 178 869	(14 989 854)	12 189 015
Total loans to corporate customers	699 297 994	(23 599 517)	675 698 477
Retail customers			
Standard loans, not past due	104 858 725	(495 367)	104 363 358
Standard loans, past due			
- Past due less than 31 days	2 800 171	(112 771)	2 687 400
- Past due 31-90 days	1 612 309	(230 353)	1 381 956
- Past due 91-180 days	460 482	(181 733)	278 749
- Past due over 180 days	105 830	(18 450)	87 380
Impaired loans			
- Not past due	132 003	(23 572)	108 431
- Past due less than 31 days	43 192	(2 152)	41 040
- Past due 31-90 days	145 135	(23 579)	121 556
- Past due 91-180 days	961 049	(430 370)	530 679
- Past due over 180 days	15 328 763	(11 193 174)	4 135 589
Total loans to retail customers	126 447 659	(12 711 521)	113 736 138
Lease receivables			
Loans for which no indications of impairment have been identified on an individual basis, not past due	11 440 981	(55 505)	11 385 476
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	502 688	(2 784)	499 904
- Past due 31-90 days	352 863	(3 401)	349 462
Impaired loans			
- Not past due	60 007	(19 681)	40 326
- Past due less than 31 days	12 940	(6 027)	6 913
- Past due 31-90 days	77 903	(20 549)	57 354
- Past due 91-180 days	16 438	(14 203)	2 235
- Past due over 180 days	2 902	(2 902)	-
Total lease receivables	12 466 722	(125 052)	12 341 670
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	14 705 595	-	14 705 595
Total loans to customers	852 917 970	(36 436 090)	816 481 880

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

9. Loans to customers (continued)

The following table shows gross loans and related impairment as at 31 December 2015:

	Gross loans	Impairment	Net loans
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	709 479 029	(3 213 961)	706 265 068
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	2 825 193	(43 836)	2 781 357
- Past due 31-90 days	1 057 786	(29 127)	1 028 659
Impaired loans			
- Not past due	11 827 914	(3 219 232)	8 608 682
- Past due less than 31 days	238 053	(63 420)	174 633
- Past due 31-90 days	1 341 986	(865 539)	476 447
- Past due 91-180 days	4 760 156	(1 734 228)	3 025 928
- Past due over 180 days	23 552 791	(12 184 827)	11 367 964
Total loans to corporate customers	755 082 908	(21 354 170)	733 728 738
Retail customers			
Standard loans, not past due	112 265 778	(506 288)	111 759 490
Standard loans, past due			
- Past due less than 31 days	2 472 982	(124 252)	2 348 730
- Past due 31-90 days	1 202 829	(205 656)	997 173
- Past due 91-180 days	580 467	(194 197)	386 270
- Past due over 180 days	80 144	(9 926)	70 218
Impaired loans			
- Not past due	173 481	(25 501)	147 980
- Past due less than 31 days	86 260	(5 093)	81 167
- Past due 31-90 days	125 281	(27 099)	98 182
- Past due 91-180 days	1 065 294	(472 342)	592 952
- Past due over 180 days	14 593 789	(10 403 756)	4 190 033
Total loans to retail customers	132 646 305	(11 974 110)	120 672 195
Lease receivables			
Loans for which no indications of impairment have been identified on an individual basis, not past due	11 363 315	(56 942)	11 306 373
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	595 613	(4 244)	591 369
- Past due 31-90 days	400 320	(2 975)	397 345
Impaired loans			
- Not past due	45 847	(6 767)	39 080
- Past due less than 31 days	12 043	(6 456)	5 587
- Past due 31-90 days	16 661	(4 652)	12 009
- Past due 91-180 days	16 144	(10 160)	5 984
- Past due over 180 days	31 521	(28 316)	3 205
Total lease receivables	12 481 464	(120 512)	12 360 952
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	533 189	-	533 189
Total loans to customers	900 743 866	(33 448 792)	867 295 074

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

9. Loans to customers (continued)

As at 31 March 2016, the Group entered into reverse repurchase agreements with a number of Russian companies. Pledged under these agreements are Russian government bonds and corporate bonds with the total fair value of RUB 15 698 886 thousand (31 December 2015: Russian government bonds and corporate bonds with total fair value of RUB 556 354 thousand).

As at 31 March 2016 the Group had RUB 224 191 565 thousand due from its ten largest borrowers (26% of gross loan portfolio) (31 December 2015: RUB 246 592 534 thousand or 27%). An allowance of RUB 216 179 thousand was recognized against these loans (31 December 2015: RUB 271 223 thousand).

As at 31 March 2016 the Group had eight borrowers or groups of borrowers with aggregate loan amounts that individually exceeded 10% of equity (31 December 2015: eleven borrowers or groups of borrowers). As at 31 March 2016 the gross amount of these loans is RUB 230 588 047 thousand (31 December 2015: RUB 288 585 229 thousand).

As at 31 March 2016 there are no loans pledged as collateral for term deposits due to the CBR (31 December 2015: RUB 49 218 141 thousand) (see Note 12 for details).

Included in retail loans as at 31 March 2016 are mortgage loans with gross amount of RUB 6 610 219 thousand (31 December 2015: RUB 7 541 188 thousand) pledged as collateral for mortgage-backed bonds issued by the Group (see Note 14 for details).

10. Investment securities

Available-for-sale investment securities comprise:

	31 March 2016 unaudited	31 December 2015
Debt and other fixed income investments available-for-sale		
USD denominated		
Russian government eurobonds	16 781 658	17 656 944
Corporate eurobonds	223 733	239 432
RUB denominated		
Russian government bonds	35 113 733	34 718 381
Corporate and bank bonds	13 153 736	17 003 282
Total debt and other fixed income investments available-for-sale	65 272 860	69 618 039
Equity investments available-for-sale		
RUB denominated		
Equity investments in financial institutions	116 945	116 945
EUR denominated		
Equity investments in financial institutions	2 707	2 707
Total equity investments available-for-sale	119 652	119 652
Total available-for-sale securities	65 392 512	69 737 691

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

10. Investment securities (continued)

As at 31 March 2016 included in Russian government bonds and eurobonds are securities sold under repurchase agreements in the amount of RUB 17 657 138 thousand (31 December 2015: RUB 14 841 932 thousand) (see Notes 12 and 13 for details).

As at 31 March 2016 included in debt and other fixed income investments available-for-sale are bonds blocked as collateral in order to receive "overnight" loans from the CBR in the amount of RUB 17 168 986 thousand (31 December 2015: RUB 18 784 041 thousand). As at 31 March 2016 and 31 December 2015 the Group has no "overnight" loans due to the CBR.

In 2015 the Group acquired Russian government debt securities with the positive intent and ability to hold them to maturity. As at 31 March 2016 and 31 December 2015, held-to-maturity securities comprise:

	31 March 2016 unaudited		31 December 2015	
	Nominal value	Carrying value	Nominal value	Carrying value
Russian government bonds	15 000 000	15 551 009	15 000 000	16 130 748
Held-to-maturity securities	15 000 000	15 551 009	15 000 000	16 130 748

11. Taxation

The corporate income tax expense comprises:

	Three-Month Period Ended 31 March	
	2016 unaudited	2015 unaudited
Current tax charge	191 741	42 108
Deferred tax charge – origination of temporary differences	731 609	1 083 413
Income tax expense	923 350	1 125 521

Tax effect relating to components of other comprehensive income comprises:

	Three-Month Period Ended 31 March 2016 unaudited			Three-Month Period Ended 31 March 2015 unaudited		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Cash flow hedge reserve	(473 146)	94 629	(378 517)	341 646	(68 329)	273 317
Revaluation reserve for available-for-sale securities	1 471 483	(294 297)	1 177 186	3 312 988	(662 598)	2 650 390
Other comprehensive income	998 337	(199 668)	798 669	3 654 634	(730 927)	2 923 707

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

12. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 March 2016 unaudited	31 December 2015
Current accounts	14 066 073	15 490 125
Time deposits and loans	65 938 235	114 574 175
Repurchase agreements with credit institutions (Note 10)	14 112 090	12 766 312
Subordinated debt (Note 18)	47 830 782	51 091 697
Amounts due to credit institutions	141 947 180	193 922 309

As at 31 March 2016, the ten largest deposits, excluding subordinated debt, represented 76% of total amounts due to credit institutions (31 December 2015: 79%).

As at 31 March 2016, the Group had no counterparties with the balances that exceed 10% of equity (31 December 2015: two counterparties). As at 31 December 2015, the aggregate amount of these balances was RUB 55 732 422 thousand.

As at 31 March 2016, the Group has no term deposits due to the CBR (31 December 2015: RUB 38 292 939 thousand) which are secured by a pool of corporate loans (see Note 9 for details).

13. Amounts due to customers

The amounts due to customers include the following:

	31 March 2016 unaudited	31 December 2015
Current accounts	341 646 490	146 655 702
Time deposits	724 002 954	784 025 324
Repurchase agreements with customers (Note 10)	2 139 730	745 962
Amounts due to customers	1 067 789 174	931 426 988

As at 31 March 2016, approximately 64% of total amounts due to customers were placed with the Group by its ten largest customers (31 December 2015: 59%).

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

13. Amounts due to customers (continued)

Analysis of customer accounts by type of customer is as follows:

	31 March 2016 unaudited	31 December 2015
Corporate		
Current accounts	255 458 337	60 292 671
Time deposits	593 656 983	645 936 117
Repurchase agreements with customers	2 139 730	745 962
Total corporate accounts	851 255 050	706 974 750
Retail		
Current accounts	86 188 153	86 363 031
Time deposits	130 345 971	138 089 207
Total retail accounts	216 534 124	224 452 238
Amounts due to customers	1 067 789 174	931 426 988

Included in retail time deposits are deposits of individuals in the amount of 115 624 999 RUB thousand (31 December 2015: RUB 119 174 751 thousand). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of the depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, the related interest rate on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the contract. Group's experience shows that majority of the time deposits of individuals mature according to contractual terms and can be treated as stable customer base. The remaining part of retail time deposits in the amount of RUB 14 720 972 thousand (31 December 2015: RUB 18 914 456 thousand) is represented by deposits placed by SME.

14. Debt securities issued

Debt securities issued consists of the following:

Issue	Date of issue	Maturity date	Currency	Coupon rate, %	Carrying value at 31 March 2016 (unaudited)	Carrying value at 31 December 2015
UniCredit Bank, BO-10	26.11.2013	20.11.2018	RUB	8.10	10 283 503	10 082 110
UniCredit Bank, 01-IP	14.09.2011	07.09.2016	RUB	8.20	5 023 246	5 122 775
UniCredit Bank, 02-IP	23.09.2015	16.09.2020	RUB	12.35	4 012 148	4 133 989
UniCredit Bank, BO-11	26.11.2014	20.11.2019	RUB	10.75	2 914 959	2 839 802
UniCredit Bank, BO-21	23.05.2014	17.05.2019	RUB	10.50	197 012	192 057
UniCredit Bank, BO-22	12.08.2014	06.08.2019	RUB	10.50	59 278	60 838
UniCredit Bank, BO-06	14.02.2013	11.02.2016	RUB	8.60	-	5 166 110
UniCredit Bank, BO-07	14.02.2013	11.02.2016	RUB	8.60	-	5 166 110
UniCredit Bank, BO-08	26.02.2013	23.02.2016	RUB	14.00	-	141 048
UniCredit Bank, BO-09	26.02.2013	23.02.2016	RUB	14.00	-	74 246
Debt securities issued					22 490 146	32 979 085

As at 31 March 2016 mortgage-backed bonds (UniCredit Bank, 01-IP and UniCredit Bank, 02-IP) with the carrying value of RUB 9 035 394 thousand (31 December 2015: RUB 9 256 764 thousand) are secured by a pool of mortgage loans with the carrying value of RUB 6 610 219 thousand (31 December 2015: RUB 7 541 188 thousand) and by cash in the amount of RUB 3 100 000 thousand (31 December 2015: RUB 2 050 000 thousand) (see Notes 5 and 9 for details).

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

15. Credit related commitments and contingencies

Credit related commitments and contingencies include the following:

	31 March 2016 unaudited	31 December 2015
Guarantees issued	131 370 440	130 012 623
Undrawn loan commitments	100 023 159	124 924 548
Letters of credit issued	40 431 002	47 271 329
Undrawn commitments to issue documentary instruments	22 572 460	-
Total credit related commitments and contingencies	294 397 061	302 208 500

As at 31 March 2016 and 31 December 2015 undrawn loan commitments and undrawn commitments to issue documentary instruments are of revocable nature for which the Group does not undertake any substantial liability.

Operating Environment. Emerging markets such as Russia 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 Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia 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. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies.

In the first quarter of 2015 two international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

16. Gains on financial assets and liabilities held for trading

Gains on financial assets and liabilities held for trading comprise:

	Three-Month Period Ended 31 March	
	2016 unaudited	2015 unaudited
Net gains from trading securities	82 502	42 320
Net gains from foreign exchange, interest based derivatives and translation of other foreign currency assets and liabilities	738 267	1 021 764
Gains on financial assets and liabilities held for trading	820 769	1 064 084

17. Fair values of financial instruments

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

The 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.
- 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.
- As there is no active secondary market in Russia for loans and advances to banks and customers, deposits due to banks and customers, promissory notes issued, subordinated debt, other borrowing funds and other financial assets and liabilities, there is no reliable market value available for these portfolios. In order to present fair value for these financial instruments a separate recalculation procedure is performed by a special routine which uses cash flows of each individual deal as a basis. The cash flows are multiplied with the respective discount factor per time bucket, currency and risk product (asset or liability).

In accordance with the Group methodology discount factors include:

- for assets: risk free rate + expected loss + unexpected loss;
- for liabilities: risk free rate + own credit spread (liquidity spreads).
- 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.
- 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 value valuation of derivative instruments is based on discounted cash flow analysis and performed using the management's best estimates and applicable interest rates. 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.

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.

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

17. Fair values of financial instruments (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value on a recurring basis, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	31 March 2016 unaudited		
	Level 1	Level 2	Total
Financial assets measured at fair value			
Trading securities			
- held by the Group	1 126	832 044	833 170
Derivative financial assets	-	58 249 617	58 249 617
Derivative financial assets designated for hedging	-	8 674 478	8 674 478
Available-for-sale securities			
- held by the Group	33 604 203	14 011 519	47 615 722
- pledged under repurchase agreements	17 657 138	-	17 657 138
Total	51 262 467	81 767 658	133 030 125

Financial liabilities measured at fair value			
Derivative financial liabilities	-	36 615 481	36 615 481
Derivative financial liabilities designated for hedging	-	17 299 662	17 299 662
Total	-	53 915 143	53 915 143

	31 December 2015		
	Level 1	Level 2	Total
Financial assets measured at fair value			
Trading securities			
- held by the Group	437 860	3 214 246	3 652 106
Derivative financial assets	-	65 526 002	65 526 002
Derivative financial assets designated for hedging	-	7 042 056	7 042 056
Available-for-sale securities			
- held by the Group	36 936 733	17 839 374	54 776 107
- pledged under repurchase agreements	14 390 682	451 250	14 841 932
Total	51 765 275	94 072 928	145 838 203

Financial liabilities measured at fair value			
Derivative financial liabilities	-	49 246 075	49 246 075
Derivative financial liabilities designated for hedging	-	19 306 086	19 306 086
Total	-	68 552 161	68 552 161

The table above does not include available-for-sale equity investments of RUB 119 652 thousand (31 December 2015: RUB 119 652 thousand) which do not have a quoted market price in an active market and whose fair value cannot be reliably measured due to absence of the market for such instruments. Currently the Group does not intend to dispose of these investments.

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

17. Fair values of financial instruments (continued)

During the three-month period ended 31 March 2016 and 2015 there were no transfers between level 1 and level 2 for trading securities.

During the three-month period ended 31 March 2016 there were no transfers between level 1 and level 2 for available-for-sale securities. During the three-month period ended 31 March 2015 the transfers from level 2 to level 1 amounted to RUB 2 012 891 thousand for available-for-sale securities

Except as detailed in the following table, the Group considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated interim condensed statement of financial position approximate their fair value. For the purpose of calculation fair value of financial instruments the Group applies ratios calculating by UniCredit Bank Austria AG

	31 March 2016		31 December 2015	
	Carrying value unaudited	Fair value unaudited	Carrying value	Fair value
Financial assets				
Amounts due from credit institutions	457 718 835	441 104 942	336 744 808	321 744 421
Loans to customers	816 481 880	835 209 625	867 295 074	885 729 267
Investment securities held-to-maturity	15 551 009	16 033 568	16 130 748	16 305 248
Financial liabilities				
Amounts due to credit institutions	141 947 180	158 459 358	193 922 309	211 690 450
Amounts due to customers	1 067 789 174	1 080 864 394	931 426 988	944 180 736
Debt securities issued	22 490 146	22 435 573	32 979 085	32 582 136

As at 31 March 2016, there were no changes in fair value levels hierarchy for financial assets and financial liabilities that are measures subsequently to initial recognition at amortised cost in comparison with 31 December 2015.

18. Related party disclosures

The Group's ultimate shareholder is the UniCredit S.p.A, the parent company of UniCredit Group. The Bank's immediate parent is UniCredit Bank Austria AG. Both entities issue publicly available financial statements.

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be conducted on the same terms, conditions and amounts as transactions between unrelated parties.

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

18. Related party disclosures (continued)

Balances and transactions with UniCredit Bank Austria AG (the immediate parent) and UniCredit S.p.A (ultimate parent) were as follows:

	31 March 2016 unaudited	Weighted average interest rate, % unaudited	31 December 2015	Weighted average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	56 503	0.0%	-	-
- In EUR	7 745 557	0.0%	560 100	0.0%
- In USD	157 484 870	3.9%	210 655 001	3.1%
Derivative financial assets	533 427		65 775	
Derivative financial assets designated for hedging	234 834		302 860	
Other assets	141 267		115 505	
Amounts due to credit institutions				
- In Russian Roubles	2 635 997	8.0%	4 893 570	8.0%
- In EUR	18 644 144	1.9%	20 119 736	1.9%
- In USD	41 170 527	8.9%	46 409 005	8.5%
Derivative financial liabilities	9 243 997		13 320 617	
Derivative financial liabilities designated for hedging	2 904 607		4 144 017	
Other liabilities	573 630		632 275	
Commitments and guarantees issued	12 627 723		13 025 828	
Commitments and guarantees received	88 105 646		97 532 631	

	Three-Month Period Ended 31 March 2016 unaudited	Three-Month Period Ended 31 March 2015 unaudited
Interest income and similar revenues	3 128 402	2 056 268
Interest expense and similar charges	(1 283 934)	(487 683)
Fee and commission income	16 485	4 826
Fee and commission expense	(573 883)	(780 391)
Gains/(losses) on financial assets and liabilities held for trading	4 337 924	(4 230 126)
Fair value adjustments in portfolio hedge accounting	(1 893)	(273)
Recovery of personnel expenses/(personnel expenses) for seconded employees	15 634	(6 017)
Other administrative expenses	(33 988)	-

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued) for the three-month period ended 31 March 2016 (expressed in thousands of Russian Roubles)

18. Related party disclosures (continued)

Balances and transactions with other companies controlled by the UniCredit Group or related with UniCredit Group are as follows:

	31 March 2016 unaudited	Weighted average interest rate, % unaudited	31 December 2015	Weighted average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	21 066 493	13.5%	12 596 181	14.2%
- In EUR	166 821 421	0.0%	10 567 575	0.4%
- In USD	1 360 048	4.1%	1 466 189	4.1%
- In other currencies	3 476	0.0%	4 822	0.0%
Derivative financial assets	7 148 944		7 491 744	
Derivative financial assets designated for hedging	7 234 427		4 761 503	
Loans to customers				
- In Russian Roubles	879 559	5.0%	864 197	5.0%
Intangible assets	257 679		1 175 070	
Other assets	119 081		17 791	
Amounts due to credit institutions				
- In Russian Roubles	906 410	6.4%	2 683 006	7.9%
- In EUR	5 149 734	0.0%	5 394 160	0.0%
- In USD	553 408	0.0%	379 645	0.0%
- In other currencies	300	0.0%	1 413	0.0%
Derivative financial liabilities	9 213 564		10 639 021	
Derivative financial liabilities designated for hedging	5 549 061		7 492 424	
Amounts due to customers				
- In Russian Roubles	45 400	8.8%	10 867	8.6%
- In EUR	510 219	0.0%	332 508	0.0%
Other liabilities	1 090 877		811 259	
Commitments and guarantees issued	6 485 508		5 915 263	
Commitments and guarantees received	966 541		980 193	
			Three-Month Period Ended 31 March 2016 unaudited	Three-Month Period Ended 31 March 2015 unaudited
Interest income and similar revenues			1 669 937	2 656 146
Interest expense and similar charges			(1 022 101)	(1 409 919)
Fee and commission income			17 397	11 412
Fee and commission expense			(14 248)	(11 084)
Gains/(losses) on financial assets and liabilities held for trading			694 345	(2 909 048)
Fair value adjustments in portfolio hedge accounting			(17 224)	(1 533 773)
Other income			121	109
Personnel expenses			(15 306)	(11 141)
Other administrative expenses			(60 586)	(25 299)

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Selected Notes to Consolidated Interim Condensed Financial Statements (continued)
for the three-month period ended 31 March 2016
(expressed in thousands of Russian Roubles)

18. Related party disclosures (continued)

Balances and transactions with key management personnel are as follows:

	31 March 2016 unaudited	31 December 2015
Amounts due to customers	270 859	296 028
Other liabilities	23 342	22 018

	Three-Month Period Ended 31 March 2016 unaudited	Three-Month Period Ended 31 March 2015 unaudited
Interest expense	(3 760)	(3 373)
Personnel expenses, including:	(33 163)	(31 519)
short-term benefits	(32 865)	(31 253)
post-employment benefits	(298)	(266)

Subordinated loans from the members of the UniCredit Group were as follows:

	Three-Month Period Ended 31 March 2016 unaudited	Three-Month Period Ended 31 March 2015 unaudited
	UniCredit Bank Austria AG	UniCredit Bank Austria AG
Subordinated loans at the beginning of the period	51 091 697	13 753 224
Subordinated loans received during the period	-	27 761 347
Accrual of interest, net of interest paid	(92 399)	(75 778)
Effect of exchange rates changes	(3 168 516)	(640 505)
Subordinated loans at the end of the period	47 830 782	40 798 288

Протинуровано, пронумеровано и
скреплено печатью

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