Analysis of the Statement of Profit and Loss

General trends

The net profit of Sberbank Group under IFRS in 2016 increased to RUB 541.9 billion, which is 143.1% higher than in 2015. The Group's operating income before provisions in 2016 increased by 18.7% to RUB 1,697.5 billion, mainly due to net interest income and net fee and commission income. In 2016, net provision charge for impairment of debt financial assets decreased by 27.9% to RUB 342.4 billion against RUB 475.2 billion in 2015. Operating expenses in 2016 slowed down the growth rate in comparison to the previous year and increased by 8.7% - to RUB 677.6 billion. As at the end of 2016, the Group performed revaluation of office premises, which resulted in a negative effect on operating income in the amount of RUB 25 billion.

RUB bln	2015	2016	Change, %
Net profit of the Group	222.9	541.9	143.1
Operating income before provisions	1,429.8	1,697.5	18.7
Operating expenses	(623.4)	(677.6)	8.7
Provision charge for impairment of debt financial assets	(475.2)	(342.4)	–27.9
Provision charge for impairment loan portfolio	(473.1)	(342.4)	–27.6

Net interest income

The Group's net interest income increased by 37.9% in 2016 to RUB 1,362.8 billion. This growth was primarily due to reduction in interest expenses on the background of declining interest rates on funding in 2016. Interest income of the Group increased by 5.2%, primarily due to growth in volume of earning assets.

Interest income of the Group

RUB bln	2015	2016	Change, %
Net interest income,	988.0	1,362.8	37.9
Interest income	2,279.6	2,399.0	5.2

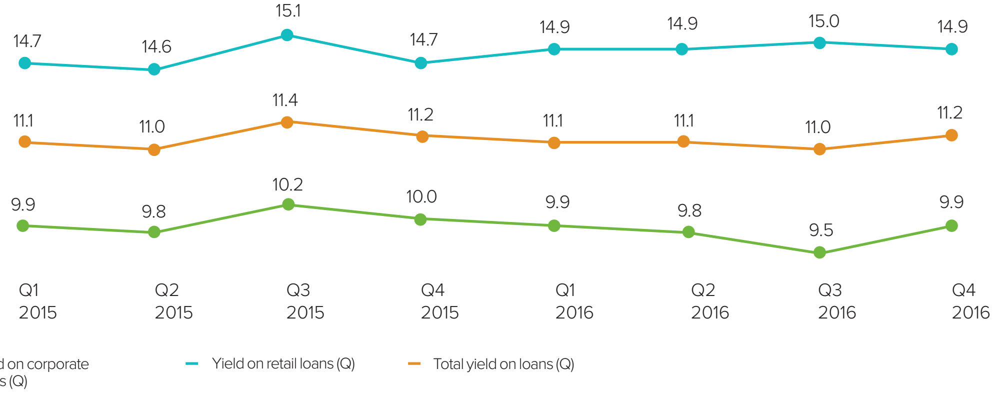
Factor analysis of change in the net interest income of the Group in 2015–2016

RUB bln	Changes in volume	Changes in rates	Change in interest income/ expenses
Assets			
Loans to corporate customers	55.9	(26.1)	29.8
Loans to individuals	23.6	7.3	30.9
Due from other banks	2.0	24.6	26.6
Debt securities	43.3	(11.2)	32.1
Change in interest income	**124.8**	**(5.4)**	**119.4**
Liabilities			
Due to individuals	(96.0)	69.1	(26.9)
Due to corporate customers	(18.3)	111.3	93.0
Subordinated debt	0.8	(0.8)	—
Other borrowed funds	3.4	(1.3)	2.1
Debt securities in issue	2.1	2.7	4.8
Due to banks	142.8	39.6	182.4
Change in interest expenses	**34.8**	**220.6**	**255.4**
Change in net interest income/expense	**159.6**	**215.2**	**374.8**

Factor analysis of interest income of the Group

RUB bln	2015 Average amount for the year	2015 Interest income	2015 Average yield, %	2016 Average amount for the year	2016 Interest income	2016 Average yield, %
Loans to corporate customers	13,786.3	1,371.3	9.9	14,348.7	1,401.1	9.8
Loans to individuals	4,829.3	713.7	14.8	4,989.3	744.6	14.9
Due from banks	1,583.5	25.8	1.6	1,705.3	52.4	3.1
Debt securities	2,300.0	168.8	7.3	2,889.9	200.9	7.0
Total interest-earning assets	**22,499.1**	**2,279.6**	**10.1**	**23,933.2**	**2,399.0**	**10.0**
Provision for loan impairment of debt financial assets	(1,042.9)			(1,272.6)		
Non-interest earning assets	3,570.9			3,402.6		
Total assets	**25,027.1**			**26,063.2**		

Loan yields, %



Interest expenses of the Group

RUB bln	2015	2016	Change, %
Interest expenses (including insurance expenses)	(1,291.6)	(1,036.2)	19.8

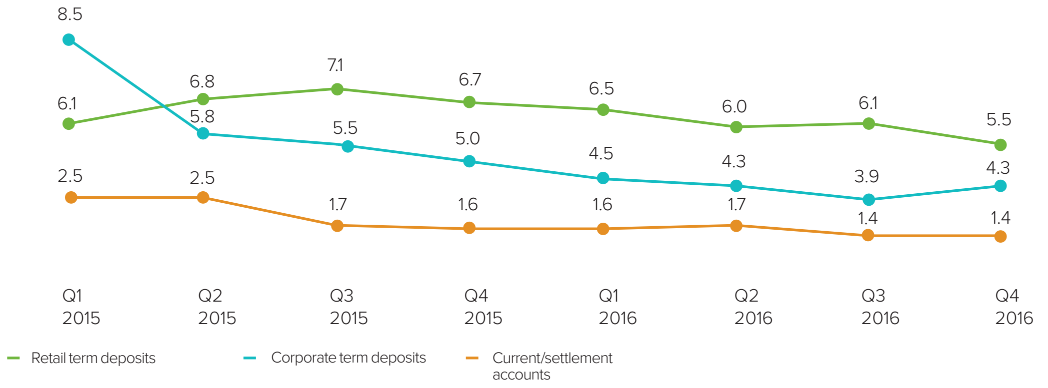
Interest expenses decreased by 19.8% in 2016 compared to 2015 and amounted to RUB 1 036.2 billion. This decline resulted from optimization in liabilities structure in favour of cheaper resources, as well as a downward trend in cost of funding in 2016. Main reduction in interest expenses was attributed to interest expenses on amounts due to banks (by 81.5%), mainly due to the reduction in volume of these funds, primarily attracted from the Bank of Russia. Also, the decline was recorded in interest expenses from corporate customers (by 27.1%), primarily due to the impact of a decrease in interest rates on term deposits. Interest expenses on amounts due to individuals, which is a key source of financing for the Group, continue to remain the main component of interest expenses. The share of these expenses was 57.9% in the total amount of interest expenses compared to 44.4% at the end of 2015, which confirms the redistribution of the Group's funding towards cheaper resources.

Factor analysis of interest expenses of the Group

	2015			2016		
RUB bln	**Average amount for the year**	**Interest expenses**	**Average cost, %**	**Average amount for the year**	**Interest expenses**	**Average cost, %**
Due to individuals	10,268.7	(573.3)	5.6	11,988.0	(600.2)	5.0
Due to corporate customers	6,639.6	(343.3)	5.2	6,993.0	(250.3)	3.6
Subordinated debt	791.5	(47.0)	5.9	778.6	(47.0)	6.0
Other borrowed funds	431.8	(12.8)	3.0	316.5	(10.7)	3.4
Debt securities in issue	1,330.0	(91.5)	6.9	1,299.0	(86.7)	6.7
Due to banks	2,098.7	(223.7)	10.7	758.7	(41.3)	5.4
Total	**21,560.3**	**(1,291.6)**	**6.0**	**22,133.8**	**(1,036.2)**	**4.7**
Non-interest earning liabilities	1,291.1			1,319.7		
Total liabilities	**22,851.4**			**23,453.5**		

On the background of lower interest rates in 2016, the cost of funds was reducing throughout the year for nearly all of the Group's liabilities. The reducing trend for interest rates had the largest influence on the cost of term deposits of individuals and corporate clients. Thus, for term deposits of individuals the cost of funding decreased by 1.2 pp. during the year from 6.7% in the 4th quarter of 2015 to 5.5% in the 4th quarter of 2016. At the same time, a significant increase in the volume of amounts due to individuals in 2016 led to an increase in interest expenses on amounts due to individuals by 4.7%. For term deposits of corporate clients the cost of funding decreased by 0.7 pp. during the year from 5.0% in the 4th quarter of 2015 to 4.3% in the 4th quarter of 2016. The decrease in interest rates was crucial for reducing interest expenses on corporate customers: during 2016 the decline was 27.1%. In general, the cost of interest-bearing liabilities consistently decreased by 0.8 pp. in 2016 from 5.3% in the 4th quarter of 2015 to 4.5% in the 4th quarter of 2016.

Average customer deposit costs, %

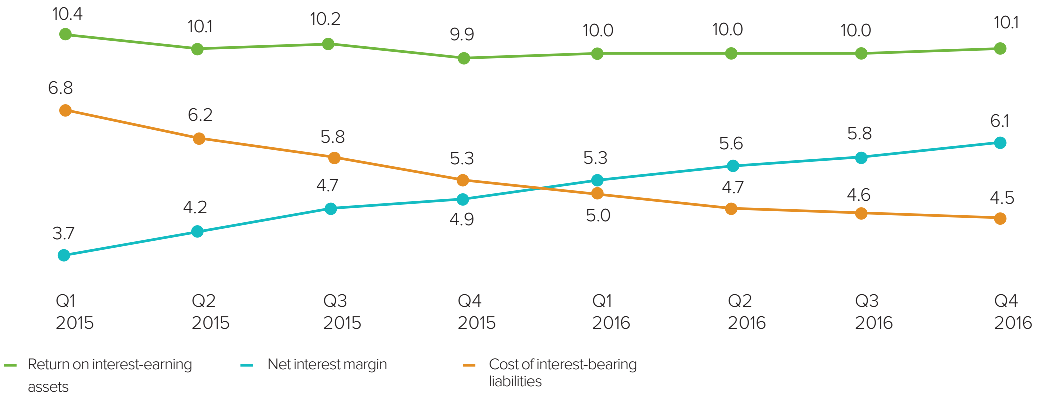


The net interest margin grew consistently throughout 2016 from 4.9% in the 4th quarter of 2015 to 6.1% in the 4th quarter of 2016. The growth of the margin was primarily due to the decrease in cost of funding for the Group, which was observed in 2016. At the same time, return on interest-earning assets increased slightly in 2016: by 0.2 pp. from 9.9% to 10.1%.

Changes in net interest margin in 2016

	Value, %
2015 NIM	**4.4**
Return on corporate loans	–0.1
Return on retail loans	0.0
Return on amounts due from other banks	+0.1
Return on securities	0.0
Structure of interest earning assets	–0.1
Cost of amounts due to corporate customers	+0.5
Cost of amounts due to individuals	+0.3
Cost of amounts due to other banks	+0.2
Cost of issued securities and subordinated debt	0.0
Structure of interest-bearing liabilities	+0.2
Ratio of interest-earning assets to interest-bearing liabilities	+0.2
2016 NIM	**5.7**

Yield on interest earning assets and cost of funds, %



Fee and commission income and expense

In 2016, the commission income of the Group increased by 13.6% to RUB 436.3 billion. Net fee and commission income of the Group increased by 9.4% - to RUB 349.1 billion. The main driver of commission income growth was commission income received from cash and settlement transactions with individuals and legal entities. During the year these income increased by 18.9% - to RUB 350.4 billion. The share of this income in the Group's commission income was 80.3%. Also, the growth was shown by documentary and agent commissions.

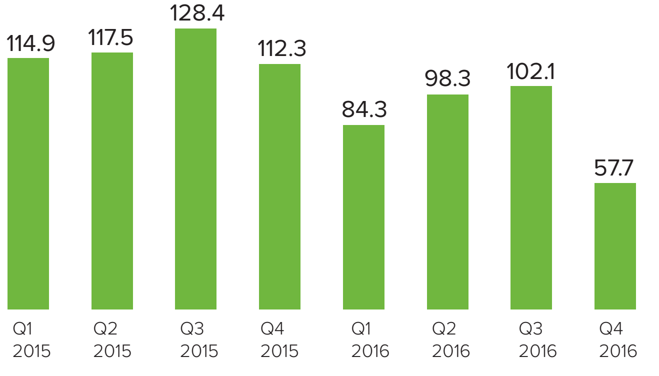
Fee and commission income and expense

			change	
RUB bln	**2015**	**2016**	**RUB bln**	**%**
Cash and settlements transactions with legal entities	205.0	248.7	43.7	21.3
Cash and settlements transactions with individuals	89.8	101.7	11.9	13.3
Documentary commissions	23.1	25.7	2.6	11.3
Operations with foreign currencies and precious metals	40.1	22.0	(18.1)	–45.1
Agent commissions	8.4	12.5	4.1	48.8
Cash collection	7.1	7.8	0.7	9.9
Operations on financial markets on behalf of clients and investment banking operations	5.0	5.6	0.6	12.0
Other	5.6	12.3	6.7	119.6
Fee and commission expense on settlement transactions	(60.2)	(80.9)	(20.7)	34.4
Other and commission expense	(4.9)	(6.3)	(1.4)	28.6
Net fee and commission income	**319.0**	**349.1**	**30.1**	**9.4**

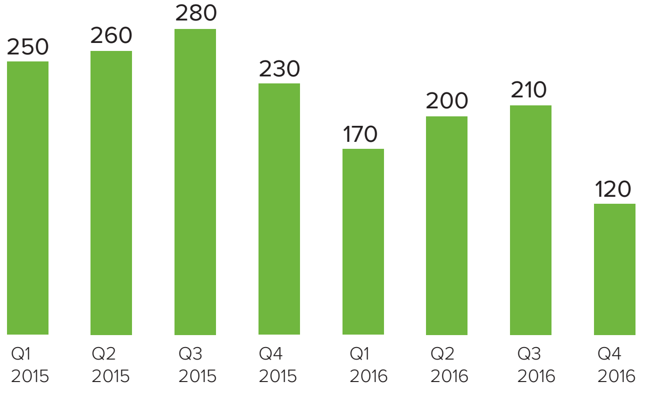
Provisin charhe for loan inpairment

In 2016 the provision charge for loan impairment decreased by 27.6% from RUB 473.1 billion in 2015 to RUB 342.4 billion in 2016. The main reasons for significant decrease in provision charge for loan impairment were the improvement in the quality of the Group's loan portfolio due to the slowdown of the recession in the Russian economy and appreciation of Russian Rouble, which affected the reduction in the amount of provisions for foreign currency loans in Russian Rouble equivalent. The cost of credit risk decreased by 110 b.p. during 2016 from 230 b.p. in the 4th quarter of 2015 to 120 b.p. in the 4th quarter of 2016.

Net provision charge for loan impairment (RUB bln)



Cost of risk (bp)



Other operating income/expenses

Other net operating expenses, which include net income / (expenses) from operations with securities, derivative financial instruments, foreign currency, and net income / expenses from insurance and pension fund operations amounted to RUB 14.4 billion in 2016. In 2015 other net operating income amounted to RUB 122.8 billion. Other net operating expenses include a negative effect of revaluation of office premises for the amount of RUB 25 billion. Had the effect of revaluation been excluded, other net operating income would have been RUB 10.6 billion. Also, the decrease in other operating income was affected by the decrease in income from operations with foreign currency and foreign currency interest rate derivative financial instruments in 2016.

Operating expenses

In 2016, the Group's operating expenses increased by 8.7%. The most significant increase was shown by staff costs (11.1%), which are the main component of operating expenses. Primarily this growth was driven by indexation of staff salaries. Also in 2016, the growth was recorded by advertising and marketing expenses (by 19.2%) and operating lease expenses (by 17.8%). At the same time the ratio of operating expenses to operating income before provisions significantly improved: from 43.7% in 2015 to 39.7% in 2016 (for 4.0 pp).

Operating expenses

			Change	
RUB bln	**2015**	**2016**	**RUB bln**	**%**
Staff costs	346.0	384.3	38.3	11.1
Depreciation of premises and equipment	60.2	62.8	2.6	4.3
Repairs and maintenance of premises and equipment	39.9	42.5	2.6	6.5
Administrative expenses	38.3	39.7	1.4	3.7
Taxes other than on income	36.0	34.1	(1.9)	–5.3
Operating lease expenses	28.1	33.1	5.0	17.8
Telecommunication expenses	27.1	29.4	2.3	8.5
Amortization of intangible assets	20.6	20.2	(0.4)	–1.9
Consulting and assurance services	10.5	12.1	1.6	15.2
Advertising and marketing services	7.3	8.7	1.4	19.2
Other	9.4	10.7	1.3	13.8
Total operating expenses	**623.4**	**677.6**	**54.2**	**8.7**