

Analysis of the Statement of Profit and Loss

General trends

The net profit of Sberbank Group under IFRS in 2017 increased to RUB 748.7 billion, which is 38.2% higher than in 2016. The Group's operating income before provisions in 2017 increased by 12.1% to RUB 1,903.3 billion, due to net interest income as well as due to net fee and commission income. In 2017, net provision charge for impairment of debt financial assets decreased by 16.1% to RUB 287.3 billion against RUB 342.4 billion in 2016. Operating expenses in 2017 decreased by 0.7% to RUB 672.8 billion primarily due to changes in methodology of calculation of depreciation expenses and telecommunication expenses. Should these amendments were not applied, the amount of operating expenses would have been RUB 694.1 billion with 2.4% increase for 2017.

	2016	2017	
		RUB bln	Change, %
Net profit of the Group	541.9	748.7	38.2
Operating income before provisions	1,697.5	1,903.3	12.1
Operating expenses	(677.6)	(672.8)	- 0.7
Provision charge for impairment of debt financial assets	(342.4)	(287.3)	-16.1

Net interest income

The Group's net interest income increased by 6.6% in 2017 to RUB 1,452.1 billion. This growth was primarily due to decrease of interest expenses on the back of reduction in interest rates on funding. Interest income of the Group decreased by 2.6%, primarily due to decrease in interest rates on the market.

Interest income of the Group, RUB bln

	2016	2017	Change
Net interest income	1,362.8	1,452.1	6.6%
Interest income	2,399.0	2,335.8	-2.6%

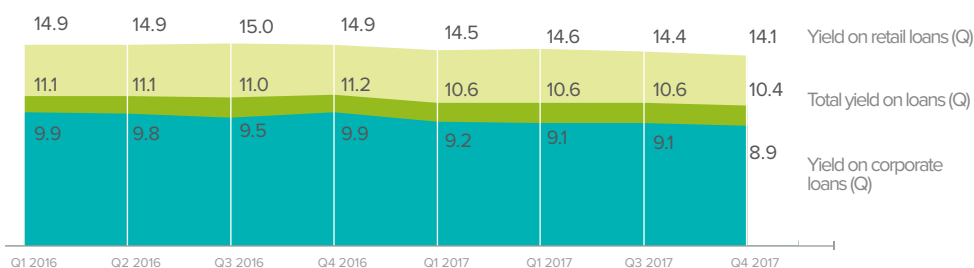
Factor analysis of change in the net interest income of the Group in 2016–2017, RUB bln

	Changes in volume	Changes in rates	Change in interest income/expenses
Assets			
Loans to corporate customers	(60.2)	(94.7)	(154.9)
Loans to individuals	40.7	(26.4)	14.3
Due from other banks	16.8	47.7	64.5
Debt securities	2.7	10.2	12.9
Change in interest income	-	(63.2)	(63.2)
Liabilities			
Due to individuals	(36.6)	86.3	49.7
Due to corporate customers	31.1	30.0	61.1
Subordinated debt	2.5	0.1	2.6
Other borrowed funds	2.8	(3.9)	(1.1)
Debt securities in issue	21.1	1.8	22.9
Due to banks	9.3	8.0	17.3
Change in interest expenses	30.2	122.3	152.5
Change in net interest income/expense	30.2	59.1	89.3

Factor analysis of interest income of the Group, RUB bln

	2016			2017		
	Average amount for the year	Interest income	Average yield, %	Average amount for the year	Interest income	Average yield, %
Loans to corporate customers	14,348.7	1,401.1	9.8	13,731.9	1,246.2	9.1
Loans to individuals	4,989.3	744.6	14.9	5,261.8	758.9	14.4
Due from other banks	1,705.3	52.4	3.1	2,253.2	116.9	5.2
Debt securities	2,889.9	200.9	7.0	2,928.7	213.8	7.3
Total earning assets	23,933.2	2,399	10.0	24,175.6	2,335.8	9.7
Provision for loan impairment of debt financial assets	(1,272.6)	,	,	(1,376.9)	,	,
Non-earning assets	3,402.6	,	,	2,919.0	,	,
Total assets	26,063.2	,	,	25,717.7	,	,

Average loan yields, %



Interest expenses of the Group, RUB bln

	2016	2017	Change, %
Interest expenses (including insurance expenses)	(1,036.2)	(883.7)	-14.7

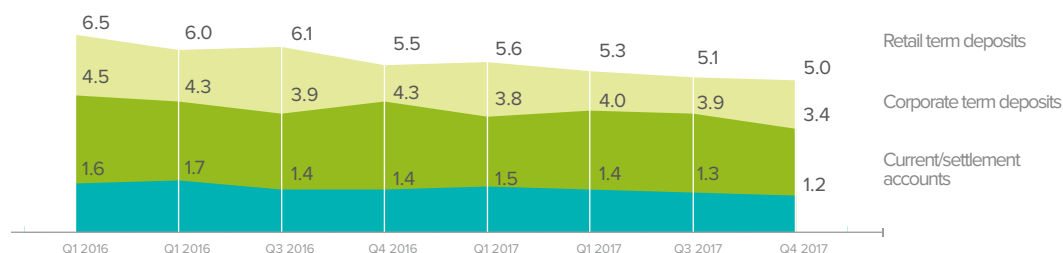
Interest expenses decreased by 14.7% in 2017 compared to 2016 and amounted to RUB 883.7 billion. This decline resulted mainly from a downward trend in cost of funding in 2017. Main reduction in interest expenses was attributed to interest expenses from corporate customers (by 24.4%), equally due to the reduction in average volume of amounts due to corporate customers in 2017 and due to the reduction in the cost of these resources. Also, the decline was recorded in interest expenses on debt securities in issue (by 26.4%), primarily due to repayment in 2017 of a number of issues of loan participation notes issued under the MTN programme of Sberbank. 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 62.3% in the total amount of interest expenses compared to 57.9% at the end of 2016. At the same time interest expenses on amounts due to individuals showed reduction by 8.3% in 2017, mainly due to decrease in cost of term deposits. Partly this reduction was compensated by an increase in interest expenses supported by an increase in volume of deposits of individuals.

Factor analysis of interest expenses of the Group, RUB bln

	2016			2017		
	Average amount for the year	Interest expenses	Average cost, %	Average amount for the year	Interest expenses	Average cost, %
Due to individuals	11,988.0	(600.2)	-5.0	12,719.0	(550.5)	-4.3
Due to corporate customers	6,993.0	(250.3)	-3.6	6,123.1	(189.2)	-3.1
Subordinated debt	778.6	(47.0)	-6.0	737.4	(44.4)	-6.0
Other borrowed funds	316.5	(10.7)	-3.4	234.4	(11.8)	-5.0
Debt securities in issue	1,299.0	(86.7)	-6.7	982.2	(63.8)	-6.5
Due to banks	758.7	(41.3)	-5.4	587.4	(24.0)	-4.1
Total	22,133.8	(1,036.2)	-4.7	21,383.5	(883.7)	-4.1
Non-interest-bearing liabilities	1,319.7			1,235.4		
Total liabilities	23,453.5			22,618.9		

On the background of lower interest rates in 2017, the cost of funds was reducing throughout the year for nearly all of the Group's liabilities. The cost of interest-bearing liabilities decreased by 0.6 pp. during the year from 4.5% in the 4th quarter of 2016 to 3.9% in the 4th quarter of 2017, supported mainly by decrease in cost of corporate and retail term deposits (-0,9 pp. to 3,4% and -0,5 pp. to 5,0%, accordingly). The decrease in interest expenses was not only due to changes in interest rates, but also due to decrease in average volumes of the Group's liabilities. For amounts due to individuals increase in volume slightly compensated reduction in interest expenses supported by an increase in average volumes of due to individuals in 2017. The share of reduction in interest expenses of amounts due to individuals amounted to 32.6% of the total amount of reduction in interest expenses of the Group for 2017.

Average customer deposit costs, %

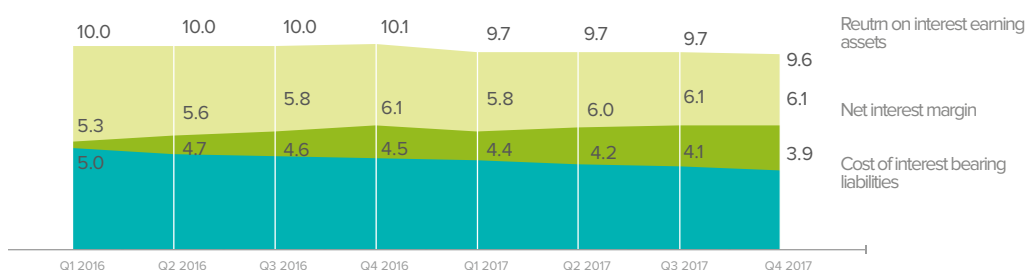


Net interest margin amounted to 6.0% in 2017, a 0.3 pp. increase compared to the ratio of 2016. Growth of net interest margin was accompanied throughout the year by significant reduction in cost of interest-bearing liabilities, which exceeded notably reduction in return on interest-earning assets. Thus, return on interest-earning assets decreased in 2017 for 0.3 pp. from 10.0% in 2016 to 9.7% in 2017, cost of interest-bearing liabilities decreased for 0.6 pp. from 4.7% in 2016 to 4.1% in 2017. Changes in net interest margin in 2017.

Changes in net interest margin in 2017

	Value
2016 NIM	5.7%
Return on corporate loans	-0.4%
Return on retail loans	-0.1%
Return on amounts due from other banks	0.2%
Structure of interest earning assets	-0.1%
Cost of amounts due to corporate customers	0.1%
Cost of amounts due to individuals	0.4%
Ratio of interest-earning assets to interest-bearing liabilities	0.2%
2017 NIM	6.0%

Yield on interest earning assets and cost of funds (quarterly), %



Fee and commission income and expense

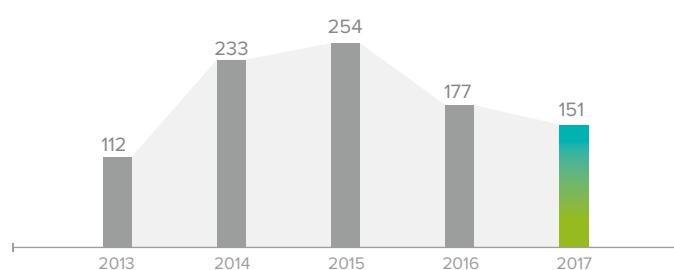
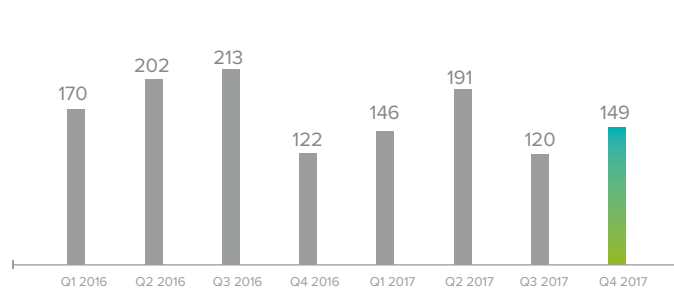
In 2017, the commission income of the Group increased by 15.8% to RUB 505.1 billion. Net fee and commission income of the Group increased by 12.9% – to RUB 394.2 billion. The main driver of commission income growth was commission income received from operations with banking cards. During the year these income increased by 24.3%, or by RUB 46.0 billion, – to RUB 235.1 billion. The share of this income in the Group's commission income was 46.5%. Significant share in the Group's commission income is attributed also to commission income from cash and settlement transactions with individuals and legal entities - 36.2%. This income grew by 8.0% in 2017.

Fee and Commission Income and Expense, RUB bln

	2016	2017	Change	
			RUB bln	%
Operations with banking cards,	189.1	235.1	46.0	24.3
including:				
- Acquiring, commissions of payment systems and other similar commissions	145.3	182.0	36.7	25.3
- Service fees	43.5	52.3	8.8	20.2
- Other	0.3	0.8	0.5	166.7
Cash and settlements transactions	169.1	182.7	13.6	8.0
Client operations with foreign currencies and precious metals	22.0	28.0	6	27.3
Documentary commissions	25.7	26.1	0.4	1.6
Agent commissions	12.5	16.9	4.4	35.2
Securities and commodities brokerage, custodian and investment banking (including syndications) commissions	5.6	6.3	0.7	12.5
Other	12.3	10.0	(2.3)	-18.7
Fee and commission income	436.3	505.1	68.8	15.8
Commission expense on operations with banking cards	(72.4)	(99.2)	(26.8)	37.0
Other commission expense	(14.8)	(11.7)	3.1	-20.9
Fee and commission expense	(87.2)	(110.9)	(23.7)	27.2
Net fee and commission income	349.1	394.2	45.1	12.9

Net provision charge for loan impairment, RUB bln

In 2017 the provision charge for loan impairment decreased by 16.1% from RUB 342.4 billion in 2016 to RUB 287.2 billion in 2017. The reason for a decrease in provision charge for loan impairment was primarily the stabilization in the quality of the Group's loan portfolio due to the gradual recovery of the Russian economy after recession. The cost of credit risk decreased by 26 b.p. during 2017 from 177 b.p. in 2016 to 151 b.p. in 2017.

Cost of risk (annual figures) (bp)**Cost of risk (quarterly) (bp)**

Other operating income/expenses

Other net operating income, 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 57.0 billion in 2017. In 2016 other net operating expenses were recorded which amounted to RUB 14.4 billion. The increase in other operating income in 2017 was affected by the increase in income from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation. Besides, in 2016 other net operating expenses included a negative effect of revaluation of office premises for the amount of RUB 25 billion.

Operating expenses

In 2017, the Group's operating expenses decreased by 0.7%. The most significant decrease was shown by depreciation of premises and equipment (-31.5%) driven by changes in the estimates of remaining useful life of fixed assets. Also substantial decrease was recorded by telecommunication expenses (by 13.9%) on the back of reclassification of expenses on sms-alerts. Reduction in operating expenses was supported also by decrease in expenses from foreign subsidiaries due to FX effect. Should the Group did not apply methodology changes for calculation of depreciation and telecommunication expenses, the amount of operating expenses would have been RUB 694.1 billion with 2.4% increase y-o-y, which is in line with inflation growth rate. Staff costs - the main component of operating expenses - demonstrated increase by 4.8% in 2017 driven by indexation of staff salaries. The ratio of operating expenses to operating income before provisions continued downward trend and amounted to 35.2% in 2017 compared to 39.7% in 2016 (decrease by 4.5 pp). The decrease of this ratio was supported mainly by the growth of operating income

Operating expenses, RUB bln

	2016	2017	Change	
			RUB bln	%
Staff costs	384.3	402.7	18.4	4.8
Depreciation of premises and equipment	62.8	43.0	(19.8)	-31.5
Repairs and maintenance of premises and equipment	42.5	40.5	(2.0)	-4.7
Administrative expenses	39.7	40.4	0.7	1.8
Taxes other than on income	34.1	36.8	2.7	7.9
Operating lease expenses	33.1	30.9	(2.2)	-6.6
Telecommunication expenses	29.4	25.3	(4.1)	-13.9
Amortization of intangible assets	20.2	22.9	2.7	13.4
Consulting and assurance services	12.1	12.3	0.2	1.7
Advertising and marketing services	8.7	7.8	(0.9)	-10.3
Other	10.7	10.2	(0.5)	-4.7
Total operating expenses	677.6	672.8	(4.8)	-0.7