



# Investor Presentation

April 2017



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# Safmar Group overview



# Safmar Group – committed and supportive shareholders



**Mikhail Gutseriev**

- In 1981, graduated from Dzhambul Institute of Light & Food Industry Technology with a degree in chemical process engineering. Later, obtained degrees from the Gubkin State University of Oil & Gas, the Finance Academy under the Russian Government and the St Petersburg University of Law
- In 1992, founded and headed up financial-industrial company B&N in Moscow. From 1994, President of B&N Bank
- In February 2000, was appointed President of Russian-Belarusian State Oil & Gas Company Slavneft
- In September 2002, founded and headed RussNeft oil company
- 2007-10, lived and worked in the UK, successfully developing a number of major oil & gas projects in Azerbaijan, Kazakhstan and in several African countries
- In June 2010, was appointed President of RussNeft
- In February 2015, in connection with the major expansion of RussNeft and Neftisa, he became Chairman of the Board of Directors of both companies, focusing on strategic management



**Mikail Shishkhanov**

- In 1995, graduated with distinction from the Patrice Lumumba Peoples' Friendship University with a master's degree in economics and law and, in 2000, graduated from the Finance Academy under the RF Government. Holds a doctorate in economics, a postgraduate degree in law ("candidate of legal science"), and is a Corresponding Member of the Russian Academy of Natural Sciences (since 2002)
- In June 1994, started his career at B&N Bank as Head of the Department for Establishing Interbank Relations and Representation in the Regions. In September 1994, was appointed Vice President and Deputy CEO
- January 1996 to July 2015, held the positions of President and CEO of B&N Bank.
- July 2015 to November 2016, Chairman of the Board of Directors of B&N Bank and CEO of MDM Bank
- Since November 2016, President, CEO and Member of the Board of Directors of B&N Bank



**Sait-Salam Gutseriev**

- In 1982, graduated from Grozny Oil Institute with a degree in Chemical Production Engineering, and, in 1999, graduated from the Finance Academy under the Russian Government, majoring in finance and credit
- In 2000, obtained a graduate degree in law ("candidate of legal science") and, in 2003, a PhD in economics
- From 1993, CEO of financial-industrial company B&N
- 1997-2007, Member of the Board of Directors of B&N Bank
- January 2008 to October 2015, Head of Margrey Limited Representative Office
- Since November 2015, CEO of A.N.D Corporation

# Safmar Group has a diversified asset base

Natural Resources	Real Estate	Financial Services	Construction	Retail Business	Media
<p><b>Oil &amp; gas</b></p> <ul style="list-style-type: none"> <li>RussNeft<sup>1</sup></li> <li>GCM Global Energy plc</li> <li>Neftisa</li> <li>FortInvest</li> <li>ADAMAS</li> <li>Orsknefteorgsintez</li> <li>Krasnodarekoneft</li> </ul> <p><b>Coal</b></p> <ul style="list-style-type: none"> <li>Russian Coal</li> <li>Krasnoyarskkrayugol</li> </ul> <p><b>Potassium fertiliser</b></p> <ul style="list-style-type: none"> <li>Slavkaliy</li> </ul>	<p><b>Shopping malls</b></p> <ul style="list-style-type: none"> <li>Smolensky Passage</li> <li>Petrovsky Passage</li> <li>Kaleidoscope</li> <li>Kaluzhsky</li> <li>Festival</li> </ul> <p><b>Hotels</b></p> <ul style="list-style-type: none"> <li>InterContinental Moscow Tverskaya</li> <li>Hotel National</li> <li>Hilton Leningradskaya</li> <li>2 Holiday Inn hotels</li> <li>4 Marriott hotels</li> <li>Sheraton Palace</li> <li>Renaissance (Minsk)</li> </ul> <p><b>Business centres</b></p> <ul style="list-style-type: none"> <li>Chaika Plaza</li> <li>Summit</li> <li>Integral</li> <li>Burevestnik</li> <li>Algorithm</li> <li>Diapazon</li> </ul>	<p><b>Banks</b></p> <ul style="list-style-type: none"> <li>B&amp;N Bank</li> <li>B&amp;N Bank Digital</li> <li>Rost Bank</li> <li>Other</li> </ul> <p><b>Insurance</b></p> <ul style="list-style-type: none"> <li>VSK Insurance Company<sup>2</sup></li> </ul> <p><b>Pension funds</b></p> <ul style="list-style-type: none"> <li>Safmar</li> <li>Doverie<sup>3</sup></li> </ul> <p><b>Leasing</b></p> <ul style="list-style-type: none"> <li>Europlan</li> </ul> <p><b>Safmar Financial Investments</b></p>	<p><b>Construction</b></p> <ul style="list-style-type: none"> <li>Mospromstroy</li> <li>Inteco</li> <li>A101 Development</li> </ul> <p><b>Logistics</b></p> <p><b>Warehousing</b></p> <ul style="list-style-type: none"> <li>Multinational Logistics Partnership</li> <li>Eurasia Logistics</li> <li>Other</li> </ul>	<p><b>Consumer electronics / household appliance retail</b></p> <ul style="list-style-type: none"> <li>Eldorado</li> </ul>	<p><b>Media</b></p> <ul style="list-style-type: none"> <li>Radio Chanson</li> <li>Radio Dacha</li> <li>Radio Moscow Is Speaking</li> <li>Radio Vesna FM</li> <li>Radio Vostok FM</li> <li>Love Radio</li> <li>Radio Taxi FM</li> <li>Radio Russkiy Hit</li> <li>Bridge Media Holding</li> </ul>



<sup>1</sup> On 24 November 2016, Russneft conducted an IPO in which 20% of the company's ordinary shares were sold on the Moscow Exchange for a total of RUB 32.4 billion

<sup>2</sup> Safmar Group owns 49% of VSK

<sup>3</sup> Pension Fund Doverie is not to be included in the Safmar Financial Investments holding company

# Banking group and strategy overview



# B&N Bank group at a glance

<p>Top 5 privately-owned Russian banking group and top 10 amongst all Russian banks with strong growth story...</p>	<p><b>Growth</b></p> <p>2010-2015 CAGR: <b>57%</b> (Sector CAGR: 20%)</p> <p><b>Banking Sector Rankings<sup>1</sup></b> (amongst privately-owned Russian banks / amongst all Russian banks)</p> <table border="1"> <tr> <td>Total Assets</td> <td>Retail Deposits</td> <td>Retail Loans</td> <td>Corporate Deposits</td> <td>Corporate Loans</td> </tr> <tr> <td>#5 / #9</td> <td>#3 / #7</td> <td>#10 / #15</td> <td>#7 / #12</td> <td>#11 / #17</td> </tr> </table>		Total Assets	Retail Deposits	Retail Loans	Corporate Deposits	Corporate Loans	#5 / #9	#3 / #7	#10 / #15	#7 / #12	#11 / #17
Total Assets	Retail Deposits	Retail Loans	Corporate Deposits	Corporate Loans								
#5 / #9	#3 / #7	#10 / #15	#7 / #12	#11 / #17								
<p>...as a major participant in banking sector consolidation since 2014, including acquisition of MDM Bank</p>	<ul style="list-style-type: none"> <li>In 2014-15, B&amp;N Bank group acquired MDM Bank and several smaller institutions; in addition, it won tenders for the financial rehabilitation of Moscomprivatbank (renamed B&amp;N Bank Credit Cards) and the Rost group of banks</li> <li>Completion of the B&amp;N Bank / MDM Bank merger in November 2016 – preceded by the legal merger of a number of smaller institutions – marks a key milestone in B&amp;N Bank’s development</li> </ul>											
<p>Universal banking group with ~4.5 million clients</p>	<ul style="list-style-type: none"> <li>&gt;5,000 corporate customers</li> <li>~4.4 million retail customers</li> <li>~90,000 SME customers</li> </ul>	<p><b>Customer Loans by Segment<sup>2</sup></b></p> <p><b>Customer Accounts by Segment<sup>2</sup></b></p> <p>(CIB – Corporate &amp; Investment Banking; RB – Retail Banking; SME – SME Banking)</p>										
<p>Multichannel distribution network with growing focus on digital channels</p>	<ul style="list-style-type: none"> <li>&gt;400 offices</li> <li>Presence in 65 regions and in 176 cities</li> </ul>	<ul style="list-style-type: none"> <li>~15,500 ATMs<sup>3</sup></li> <li>~21,000 POS terminals</li> <li>#1 internet bank<sup>4</sup></li> <li>Top 5 mobile bank<sup>5</sup></li> </ul>										
<p>Committed shareholders supporting business growth</p>	<ul style="list-style-type: none"> <li>&gt;US\$ 700 mln of equity injections and subordinated loans provided by the shareholders to group banks since 2008</li> </ul>											
<p>Strategy up to 2020 to cement position as a leading privately-owned Russian banking group</p>	<ul style="list-style-type: none"> <li>Maintain and strengthen B&amp;N Bank’s position as a top 10 Russian bank by total assets</li> <li>Further diversify the Bank’s asset and liability base</li> <li>Achieve efficiency and profitability metrics in line with market leading peers</li> </ul>											

**B&N Bank Ratings**

**S&P: B / Stable / B**  
(November 2016)

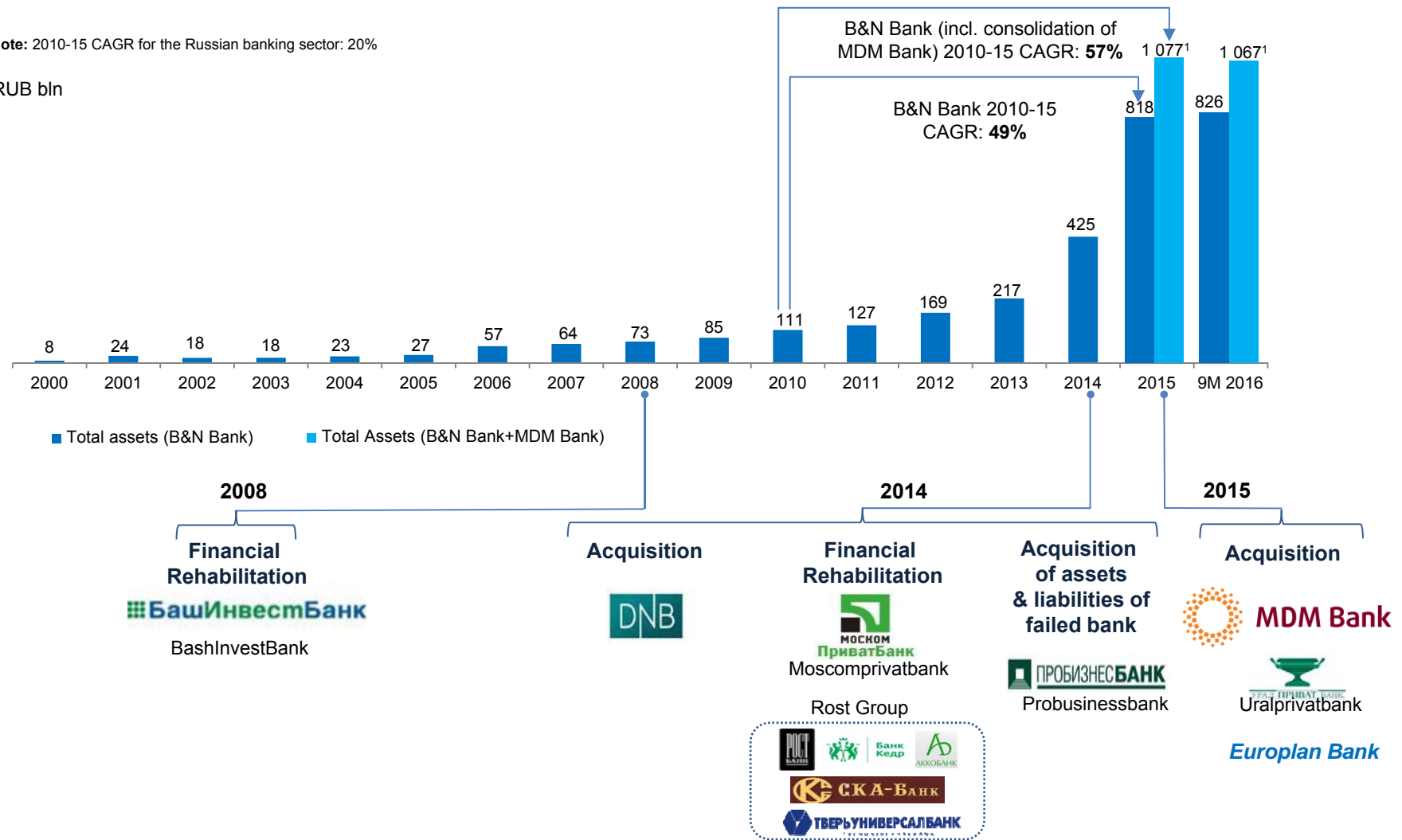
<sup>1</sup> Rankings based on Fitch Russian Banks Datawatch (12M 2016), consolidated by group and excluding subsidiaries of international banks  
<sup>2</sup> Q3 2016 B&N Bank / MDM Bank data on a *pro forma* consolidated basis  
<sup>3</sup> Own ATM network of B&N Bank, plus reciprocal partnership arrangements  
<sup>4</sup> B&N Bank position based on Markswebb Rank & Report 2017 (<http://markswebb.ru>)  
<sup>5</sup> MDM Bank position based on Markswebb Rank & Report 2016 (<http://markswebb.ru>)



# Active participant in Russian banking sector consolidation

Note: 2010-15 CAGR for the Russian banking sector: 20%

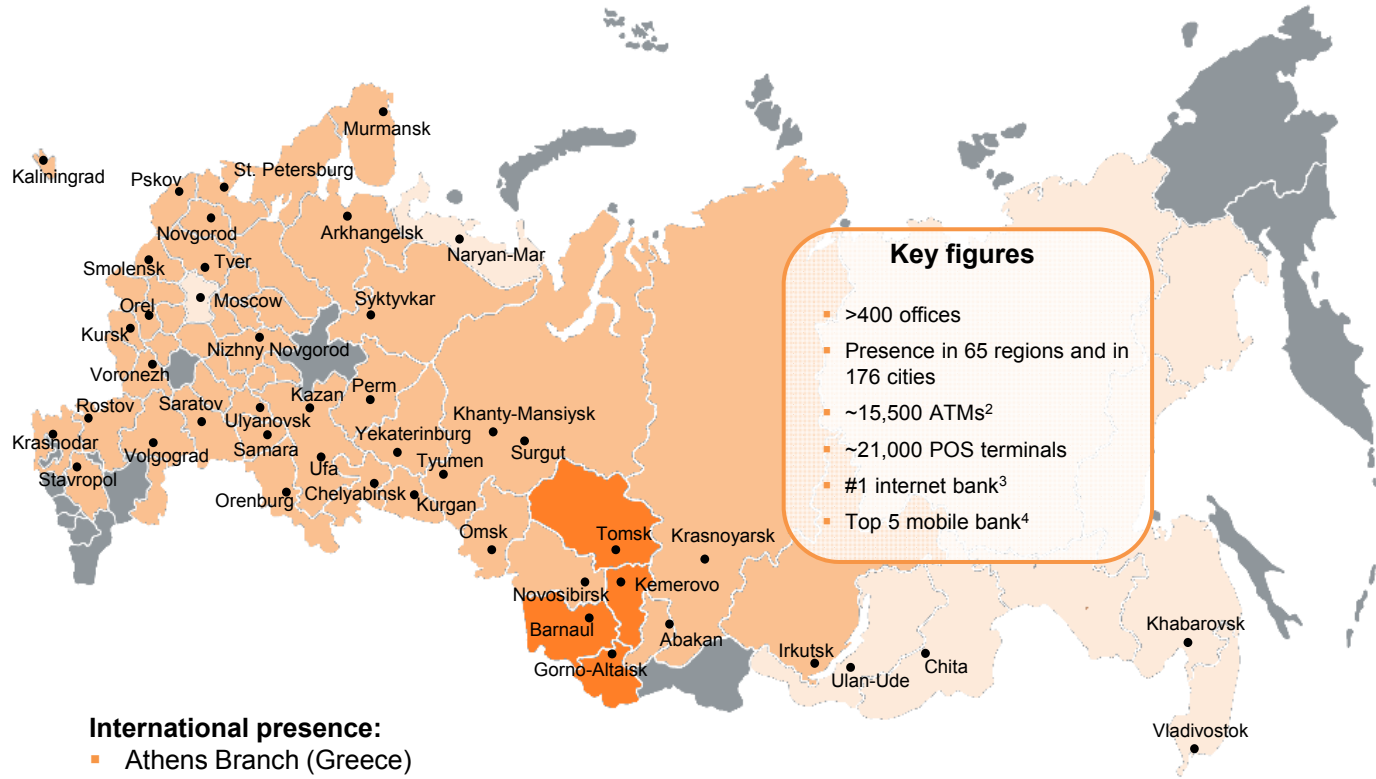
RUB bln



<sup>1</sup>Combined B&N Bank / MDM Bank figures for 2015 and 9M 2016 based on *pro forma* consolidated IFRS financials



# Multichannel distribution network with nationwide reach

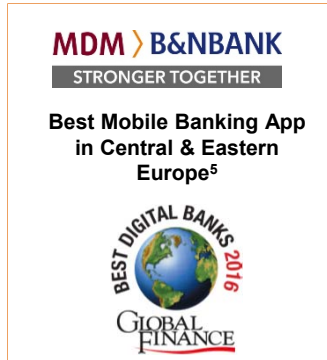


**International presence:**

- Athens Branch (Greece)
- London Rep. Office (UK)

B&N Bank, per its strategy, puts particular focus on the development of remote channels, both in order to increase customer accessibility / convenience and to improve efficiency.

The mobile banking application, which serves as the basis for the enlarged B&N Bank's mobile banking offering, won the Global Finance 2016 award for best mobile banking app in Central and Eastern Europe.



<sup>1</sup> Calculated as the total *pro forma* market share of the combined banking group's client business in each region as at 31 December 2016; source: CBR data adapted by the Bank

<sup>2</sup> Own ATM network of B&N Bank, plus reciprocal partnership arrangements

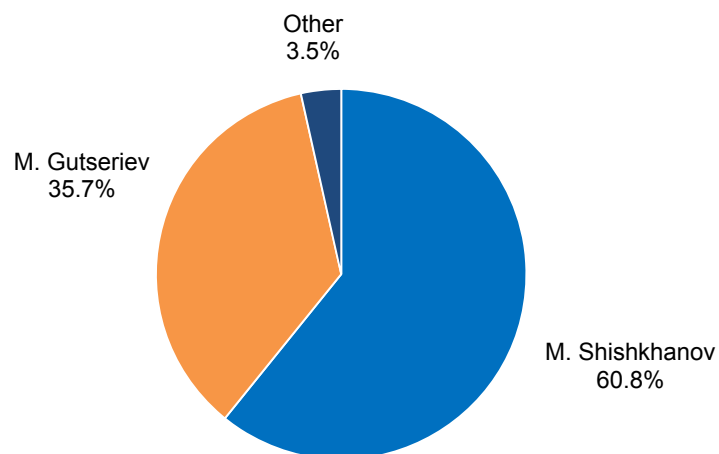
<sup>3</sup> B&N Bank position based on Marksw Webb Rank & Report 2017 (<http://markswwebb.ru>)

<sup>4</sup> MDM Bank position based on Marksw Webb Rank & Report 2016 (<http://markswwebb.ru>)

<sup>5</sup> Global Finance: [2016 World's Best Digital Banks Awards](#)

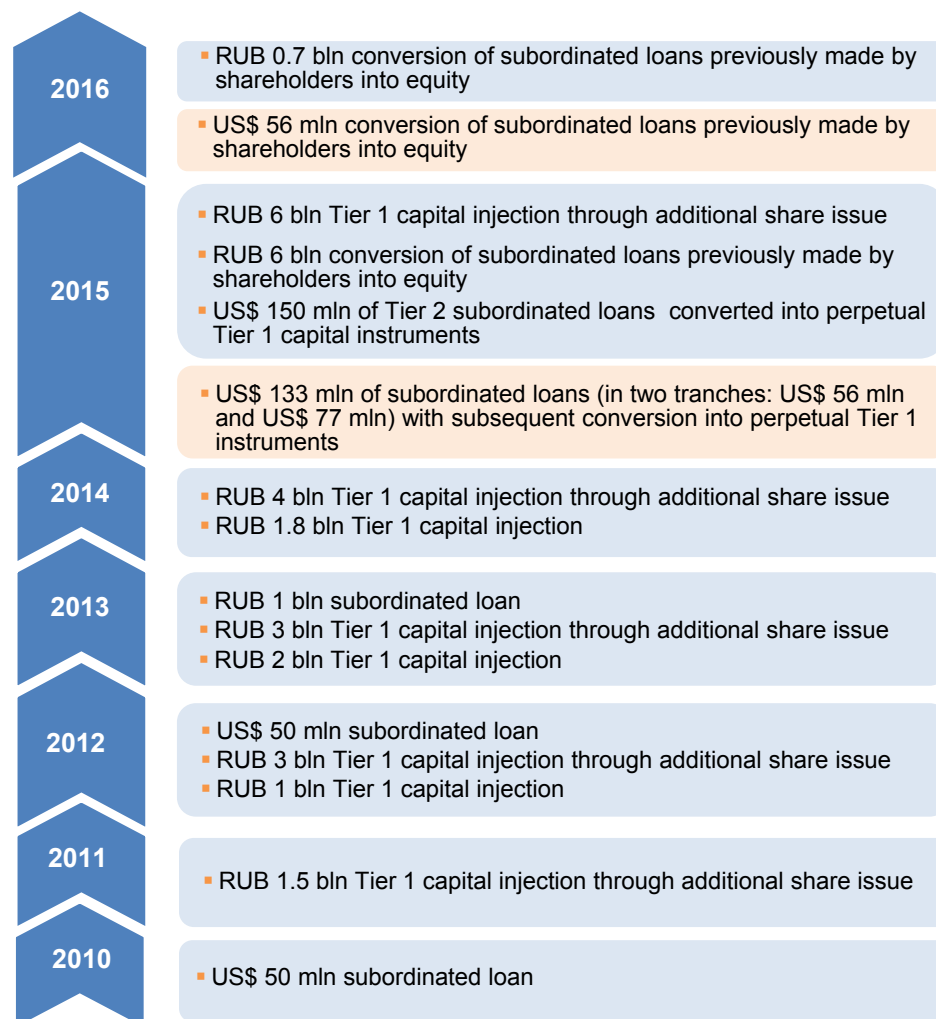
# Committed shareholders with a consistent track record of support

## Beneficial Shareholder Structure of B&N Bank (voting shares)



**Note:** Beneficial ownership structure as at 9 January 2017; a more detailed ownership structure is provided on slide 34

## Key Shareholder Capital Injections



# Strong Board Expertise

## B&N Bank Board of Directors



### Mikhail Gutseriev

*Chairman of the Board of Directors*

More than 40 years of experience in a broad range of economic sectors.

Founder and key shareholder of B&N Bank. Co-owner of Safmar Group and Chairman of the Board of Directors of a number of group companies, including RussNeft, Neftisa, Russian Coal, Slavkally, Inteco and Mospromstroy.



### Sergey Maryin

*Deputy Chairman of the Board of Directors, Deputy Chairman of the Strategy & Corporate Governance Committee*

Has amassed a wealth of experience in banking and industry, including holding senior positions at Inkombank, Guta Bank and Mospromstroy.

Since 2010, Chairman / Deputy Chairman of the Board of Directors of B&N Bank.



### Sait-Salam Gutseriev

*Member of the Board of Directors*

More than 40 years of experience in finance, industry and real estate. Co-owner of Safmar Group. 1997-2007, Member of the Board of Directors of B&N Bank. 2008-15, Head of Margrey Limited Representative Office.

Since November 2015, CEO of A.N.D Corporation.



### Said Gutseriev

*Member of the Board of Directors*

2012-14, worked for Glencore's representative office in London in the Department for Structured Finance of Oil Projects and in the Finance Department. Since 2014, CEO of FortelInvest and a Member of the Board of Directors of Russian Coal and Neftisa Oil Company.



### Mikail Shishkhanov

*Member of the Board of Directors*

January 1996 to July 2015, held the positions of President and CEO of B&N Bank. July 2015 to November 2016, Chairman of the Board of Directors of B&N Bank and CEO of MDM Bank.

Since November 2016, President and CEO of B&N Bank. Major shareholder of B&N Bank and co-owner of Safmar Group.



### Avet Mirakyan

*Member of the Board of Directors, Chairman of the Strategy & Corporate Governance Committee*

More than 20 years experience in finance, audit and consulting. In 2007, joined B&N Bank as Senior Vice President and CFO. 2008-09, held analogous positions at BNP Paribas (CIB, Russia). 2010-15, Partner in Transaction Services at EY. Since January 2016, CEO of Safmar FG.



### Alexander Lukin

*Member of the Board of Directors*

More than 15 years of experience in finance. From 2010, was Member of the Management Board of B&N Bank. 2015-16, CEO of B&N Bank. In December 2016, was elected Member of the Board of Directors of Safmar Pension Fund. In March 2017, appointed CEO of Safmar Pension Fund.



### Petr Morsin

*Member of the Board of Directors*

More than 15 years of experience in banking, including holding senior positions at Orient Express Bank, URSA and Sberbank. Since 2012, Senior Vice President of B&N Bank. From 2015, First Deputy CEO of MDM Bank and, following the merger with B&N Bank, First Deputy CEO of B&N Bank.



### Kirill Lyubentsov

*Member of the Board of Directors*

More than 20 years experience in banking, including with Menatep, IB Trust, Uralsib and Rosbank. Since 2006, has held senior positions at B&N Bank. Since 2012, Member of the Board of Directors of B&N Bank. Since December 2015, President and CEO of ROST Bank.



### Sergey Popov

*Member of the Board of Directors*

More than 35 years experience in finance, consulting and industry, including holding senior positions at the EBRD, Salomon Smith Barney, LUKOIL Financial Services Ltd (London).

Since 2012, CFO of Slavkally.



### Angelika Anshakova

*Member of the Board of Directors, Chairman of the Audit Committee*

More than 20 years experience in audit, consulting and finance, including with Arthur Andersen and Ernst & Young. Since 2006, a Director of Link Capital.

Since 2010, Member of the Board of Directors of B&N Bank.



### Alexander Filatov

*Member of the Board of Directors, Chairman of Nominations & Remuneration Committee*

More than 20 years of experience in consulting and the securities markets, consulting in the area of corporate governance. Member of the Board of Directors of B&N Bank since 2011. CEO of Expert Centre for Corporate Relations since 2011.



### Georgy Arakelyan

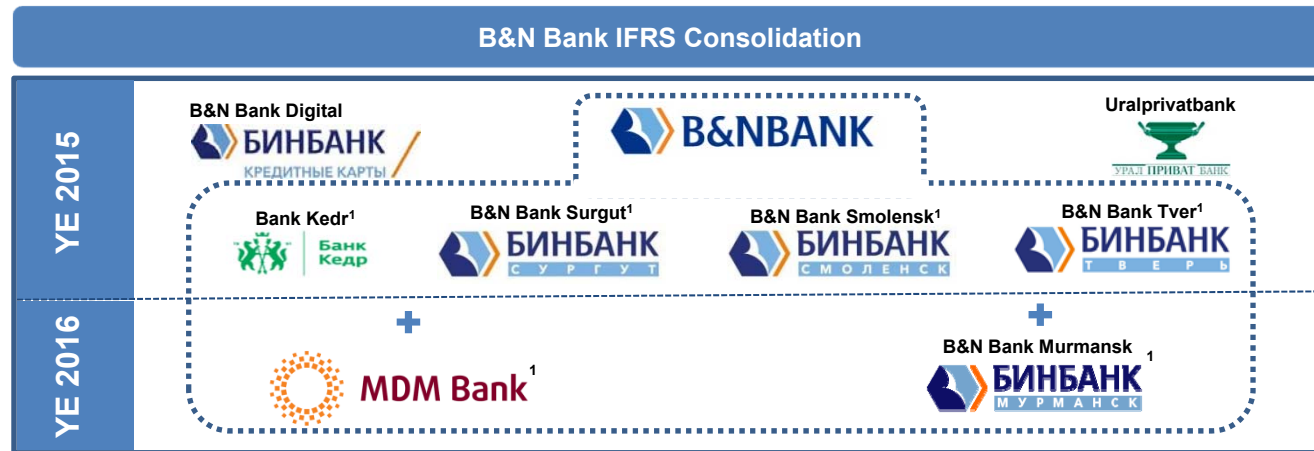
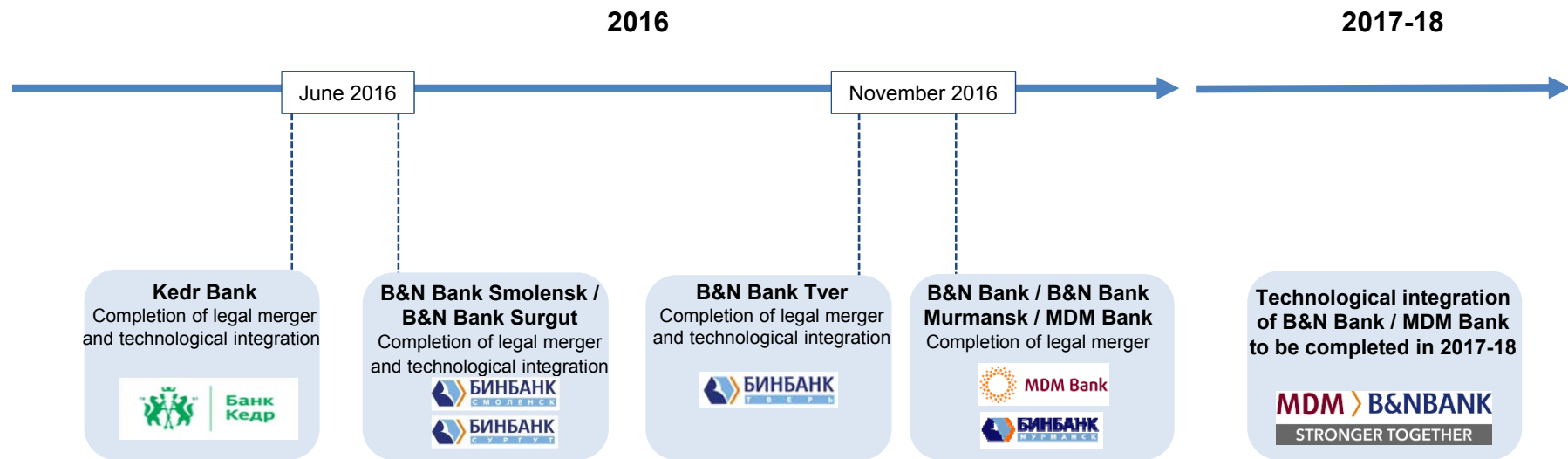
*Member of the Board of Directors, Chairman of the Risk Management Committee*

Has worked in banking and risk management since 2003. 2005-13, worked in risk management at B&N Bank.

Since 2014, Managing Partner of Scoring Studio consulting company.

**Strong BoD expertise, including commercial and investment banking, consulting, risk management, corporate governance and audit**

# Merger / integration of group banks progressing according to plan



On 18<sup>th</sup> November 2016, the legal merger of B&N Bank and B&N Bank Murmansk (former DNB Bank) into MDM Bank was completed, with MDM Bank being simultaneously renamed B&N Bank. The combined bank will continue to operate under the B&N Bank brand.



<sup>1</sup> Bank Kedr, B&N Bank Surgut and B&N Bank Smolensk were merged into B&N Bank in June 2016; B&N Bank Tver was merged into B&N Bank on 11 November 2016; the merger of B&N Bank and B&N Bank Murmansk into MDM Bank was completed on 18 November 2016.

**Note:** See slide 27 for more details on individual banks

# Overview of B&N Bank group target business model

**Group objective**



**Systemically important Top 10 universal bank at the core of a financial-industrial group**

**Business unit objectives**



### **Corporate & Investment Bank**

**Creation of a Top 10 CIB** with a focus on building a segmental model of coverage and industrial expertise



### **Retail & SME Bank**

Transformation of the business model **into a transactional bank** for retaining and monetising the client base, combined with building up a **competitive advantage on the basis of digital banking**

**Operational objectives**

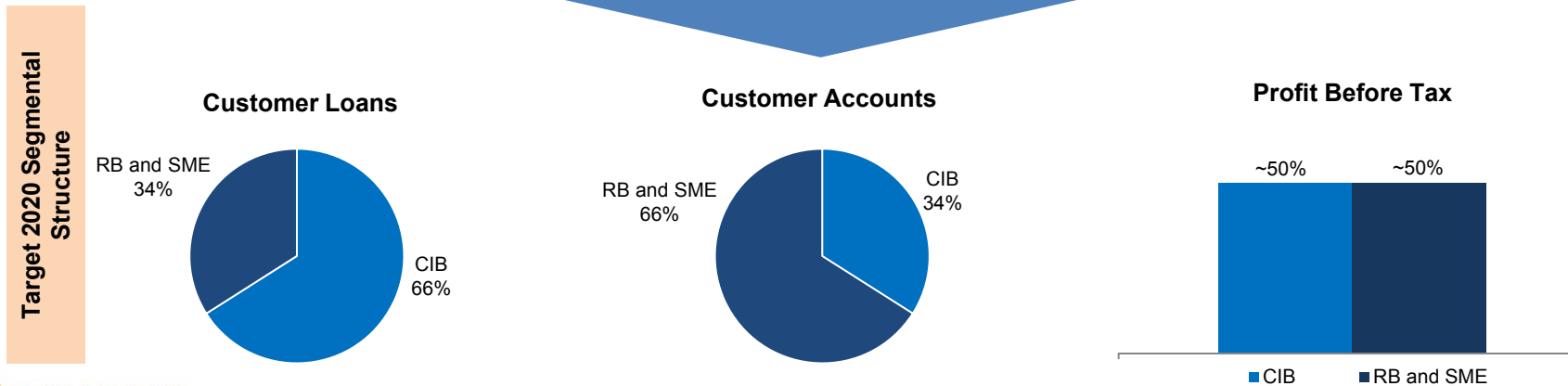
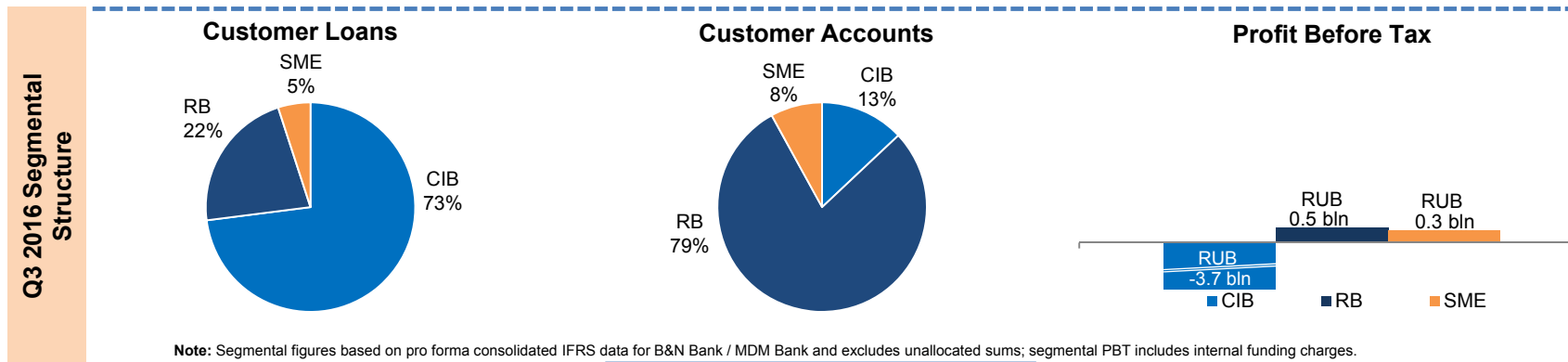


**Building an operating model**, ensuring **flexibility and low cost** of operations, including efficient organisation, optimised processes and a streamlined IT infrastructure

# Business segment overview

Corporate & Investment Banking (CIB)	Retail Banking (RB)	SME Banking (SME)
<ul style="list-style-type: none"> <li>&gt;5,000 customers</li> <li>#7 / #12 by corporate deposits<sup>1</sup></li> <li>#11 / #17 by corporate loans<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>~4.4 mln customers</li> <li>#3 / #7 by retail deposits<sup>1</sup></li> <li>#10 / #15 by retail loans<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>~90,000 customers</li> <li>#12 by SME loan portfolio volume<sup>2</sup></li> </ul>

<sup>1</sup>Rankings based on Fitch Russian Banks Datawatch (12M 2016), consolidated by group, show ranking amongst privately-owned Russian banks and all Russian banks  
<sup>2</sup>Expert RA ranking for H1 2016: [http://www.raexpert.ru/ratings/bank/frb\\_1h2016/](http://www.raexpert.ru/ratings/bank/frb_1h2016/)



# Strategic focus

Corporate & Investment Banking	Retail Banking	SME Banking
<ul style="list-style-type: none"><li>▪ Focus on lending to low-risk clients and maintaining sector diversification of the loan portfolio</li><li>▪ Focus on attracting “wholesale” deposits from blue-chip companies, including state-owned companies</li><li>▪ Growing the share of current accounts in total customer funding</li><li>▪ Increasing cross-selling</li><li>▪ Developing product expertise in DCM and structured finance</li><li>▪ Developing flow business</li></ul>	<ul style="list-style-type: none"><li>▪ Focus on clients in the Bank’s target segments (mid-level to high income bracket, payroll projects)</li><li>▪ Reduction of the Bank’s physical branch network and increasing the share of operations conducted through remote channels</li><li>▪ Increasing clients’ transactional activity</li><li>▪ Increasing cross-selling</li><li>▪ Focus on risk-free fee &amp; commission products (payments, transfers, FX operations etc)</li><li>▪ Growing the share of current accounts in total customer funding</li><li>▪ Development of mortgage products with subsequent securitisation</li><li>▪ Target share of collateralised / uncollateralised credit products: 30% / 70%</li></ul>	<ul style="list-style-type: none"><li>▪ Development of transactional business on the basis of the Bank’s digital platform with a focus on micro and small business segments</li><li>▪ Broadening the product offering and the functionality of digital channels</li><li>▪ Increasing clients’ transactional activity</li><li>▪ Focus on risk-free products</li><li>▪ Increasing the share of current accounts in total customer funding</li></ul>

The Bank’s strategy is focused, *inter alia*, on reducing funding costs and operating expenses, whilst boosting the Bank’s core operating income

# Financial overview

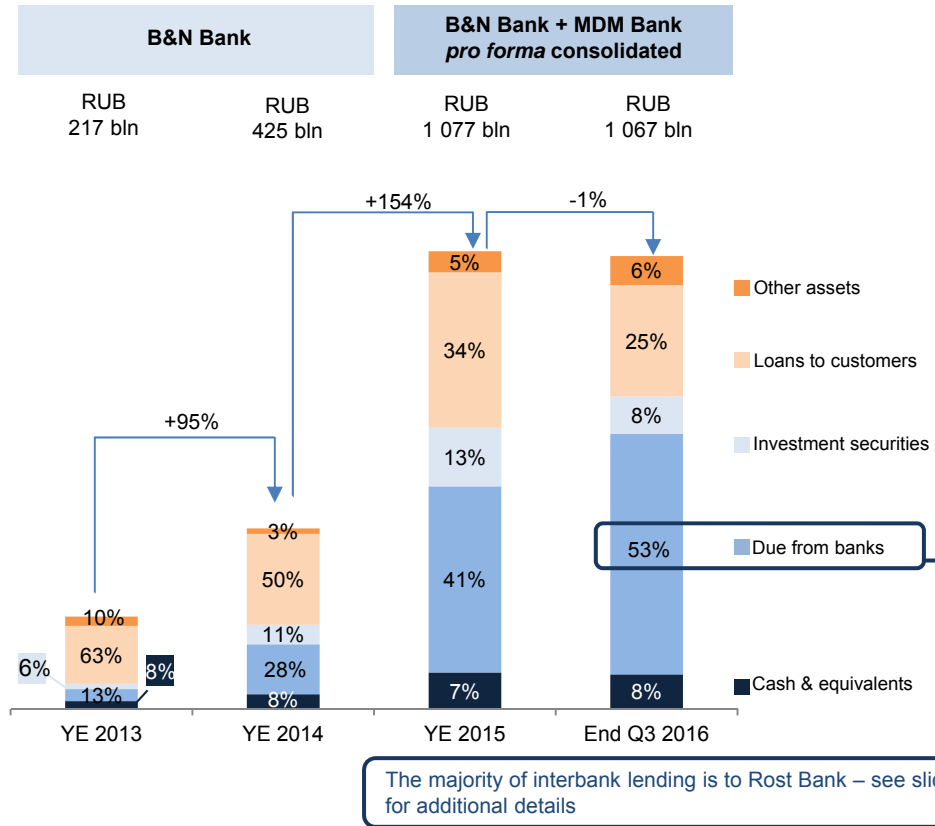
(All data in accordance with IFRS unless otherwise stated; financials for 2015 and 9M 2016 are B&N Bank + MDM Bank on a *pro forma* consolidated basis)



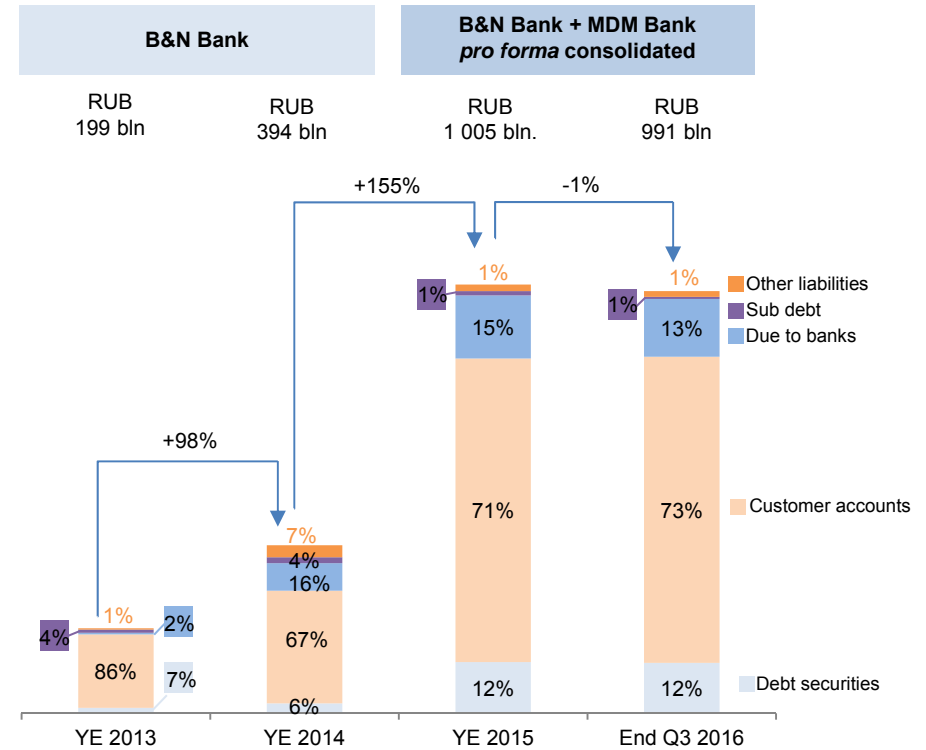


# Above-market growth in 2014-15 driven by combination of organic and acquisitive growth

## Asset Structure



## Liability Structure



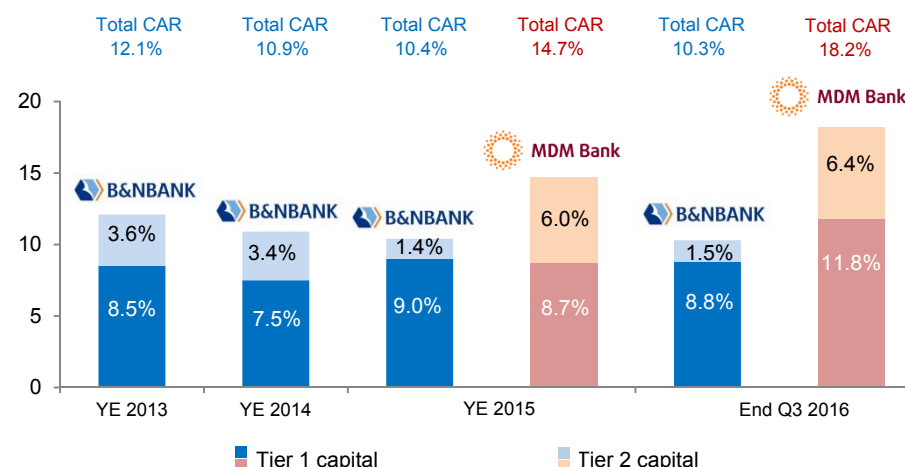
# Comfortable capital position

- In 2015 - 9M 2016 a number of measures were implemented to bolster the capital position of both B&N Bank and MDM Bank, *inter alia*: an additional share issue (B&N Bank, 2015); conversion of subordinated deposits into perpetual Tier 1 capital instruments (B&N Bank / MDM Bank, 2015); and conversion of subordinated loans into equity through debt forgiveness (B&N Bank / MDM Bank, 2015-2016)
- In addition, in 2015 B&N Bank received a RUB 8.8 billion and MDM Bank RUB 9.0 bln Tier 2 capital injection from the Deposit Insurance Agency through an injection of Federal Loan Bonds (OFZ) as part of the State's banking system recapitalisation programme

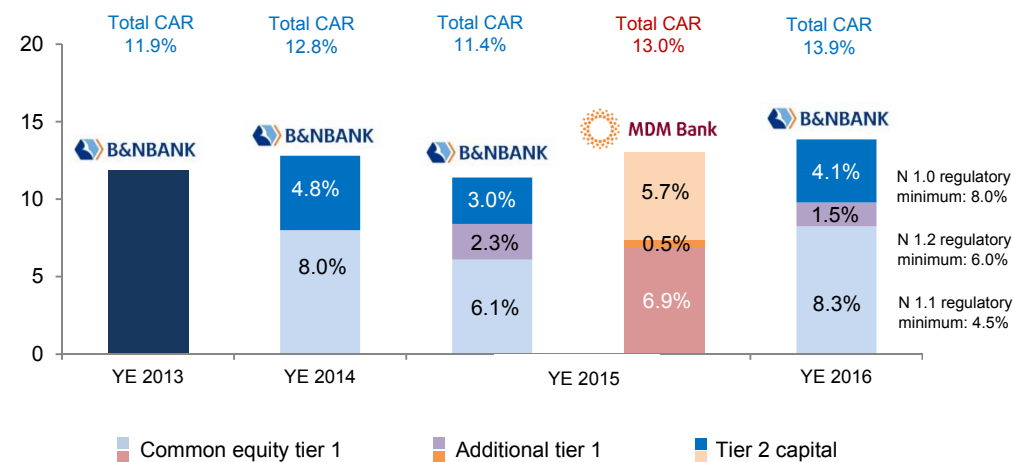
Basel / IFRS capital as at end Q3 2016		
RUB mln	Tier 1 Capital	Total Capital
B&N Bank	50 443	59 244
MDM Bank	25 873	39 944
<b>Consolidated (pro forma)</b>	<b>76 316</b>	<b>99 188</b>

- Basel III regulatory capital adequacy ratios, in accordance with Russian Accounting Standards and the CBR regulatory framework, stood comfortably above minimum regulatory requirements as at YE 2016

## Basel IFRS Capital Adequacy Ratios<sup>1</sup>



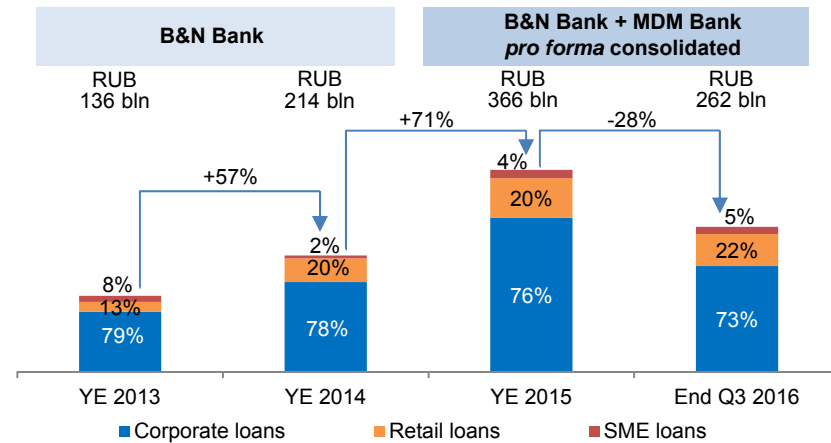
## CBR Basel III Regulatory Capital Adequacy Ratios (RAS)



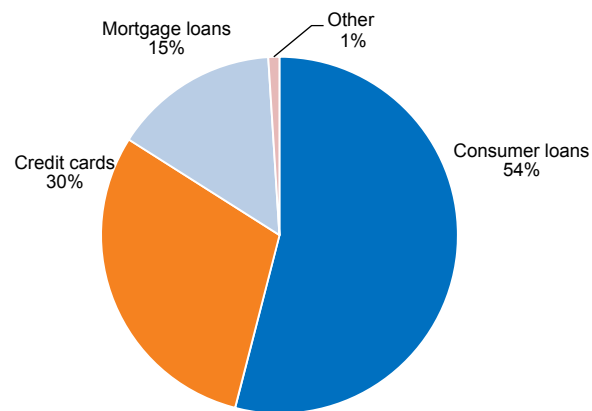
# Loan portfolio overview

- In 9M 2016, the *pro forma* consolidated net loan portfolio contracted by 28% primarily driven by:
  - Negative revaluation of FX-denominated loans, due to material ruble strengthening
  - Optimisation of the corporate loan portfolio aimed at: (i) improving the quality and yield of the portfolio; and (ii) fulfilling obligations to the Deposit Insurance Agency (under the State's bank recapitalisation programme) to increase lending to priority sectors of the economy. As a result, a number of major loans, which did not meet the Bank's new criteria, were not renewed and are to be replaced by loans to clients from target sectors

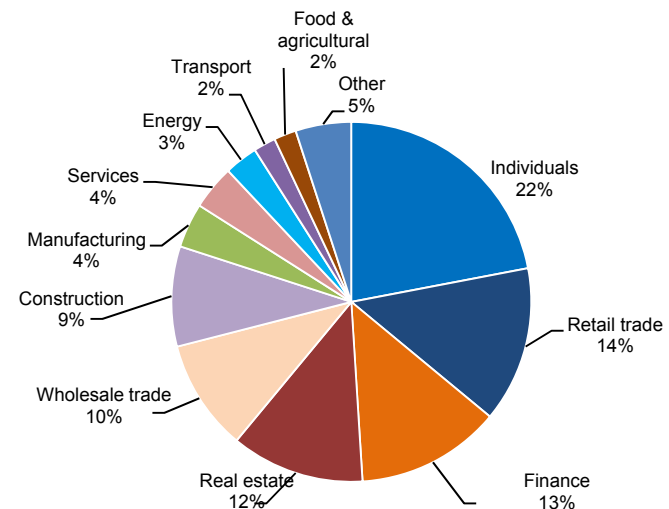
## Net Loan Portfolio, Q3 2016



## Gross Retail Loan Portfolio by Segment, Q3 2016<sup>1</sup>

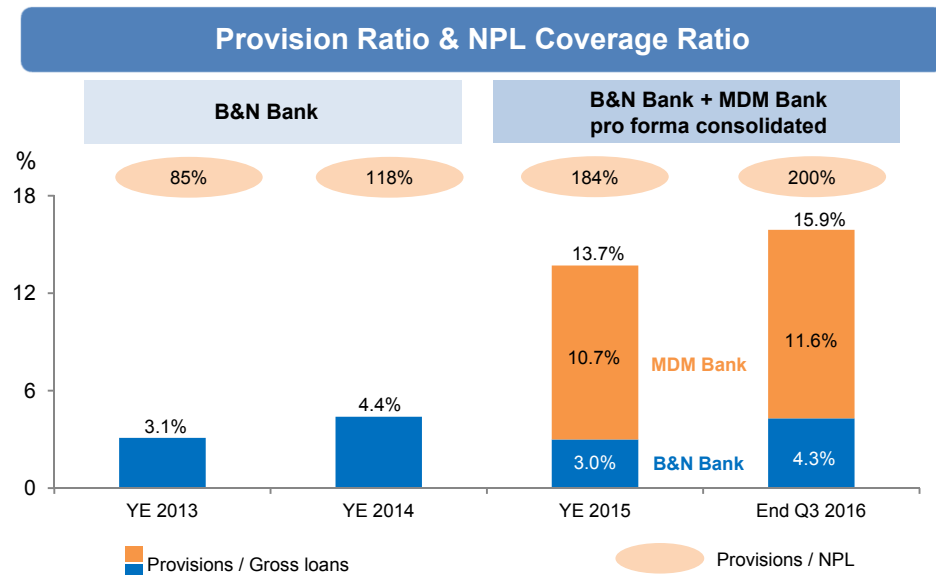
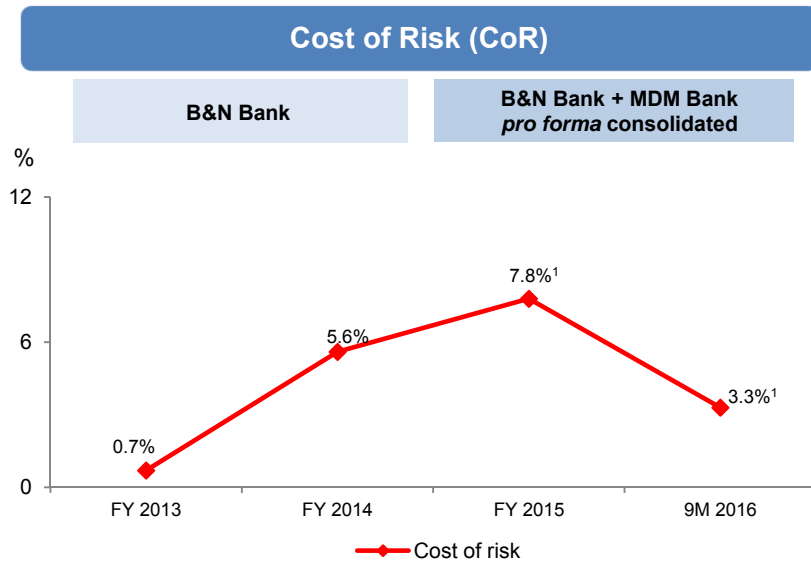
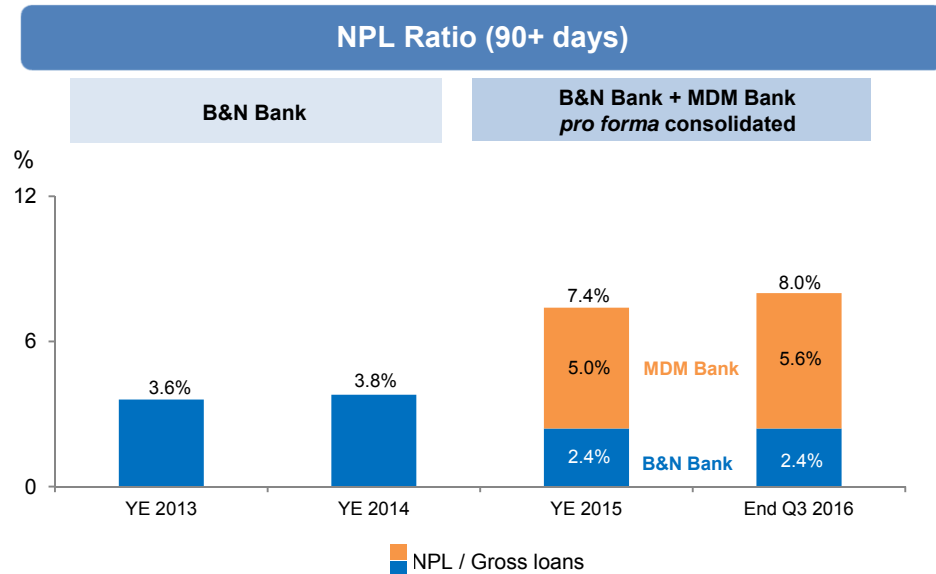


## Gross Loan Portfolio Breakdown by Sector, Q3 2016<sup>1</sup>



# Conservative provision coverage

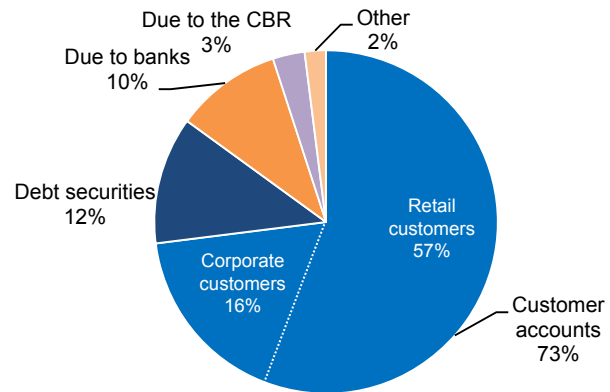
- The NPL ratio of the combined B&N Bank / MDM Bank, which is in line with the higher end of the peer group range, is primarily attributable to MDM Bank's legacy problem asset portfolio. Nonetheless, provision coverage of the combined Bank's NPLs (90 days +) is at a conservative level: 200% as at end Q3 2016
- Proactive problem loan management remains a key focus



<sup>1</sup>Cost of risk for FY 2015 is adjusted to exclude loan impairment losses related to deconsolidated Rost Bank (2015) and for 9M 2016 excludes provisions created in relation to interbank loans to Rost Bank

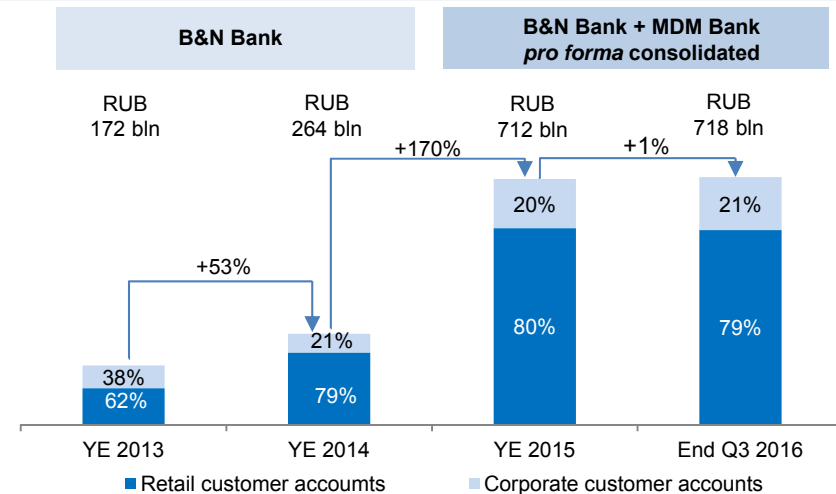
# Diversified funding underpinned by strong retail deposit base

Liability Structure, Q3 2016<sup>1</sup>

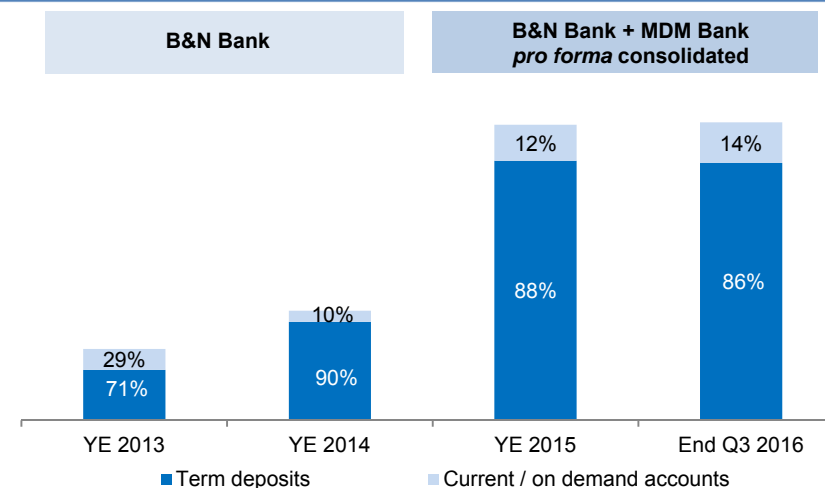


- Significant 2015 customer funding growth is attributable to a combination of organic growth of retail market share and inorganic expansion of the client base through the consolidation of acquired banks
- Retail customer accounts continue to represent the lion's share of total customer accounts (79% as at end Q3 2016)
- The Bank is targeting to grow its share of current accounts in total customer accounts to >20% by 2019-20

Customer Funding by Segment

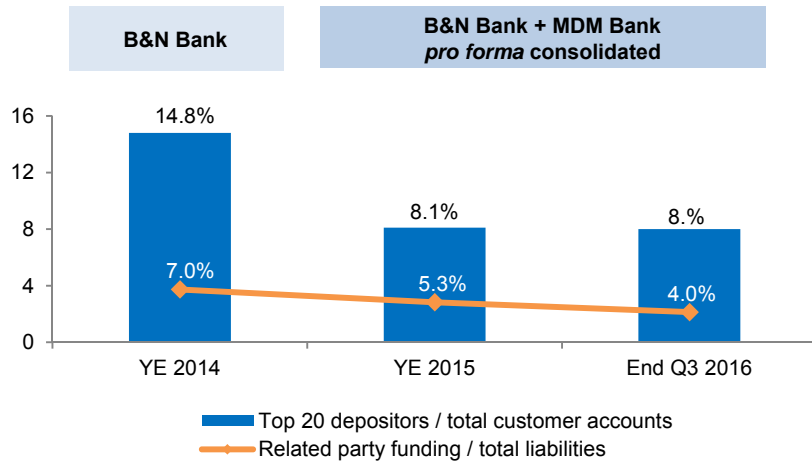


Customer Funding by Account Type

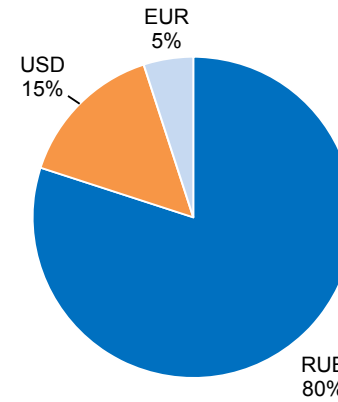


# Decreasing deposit concentration and related party funding

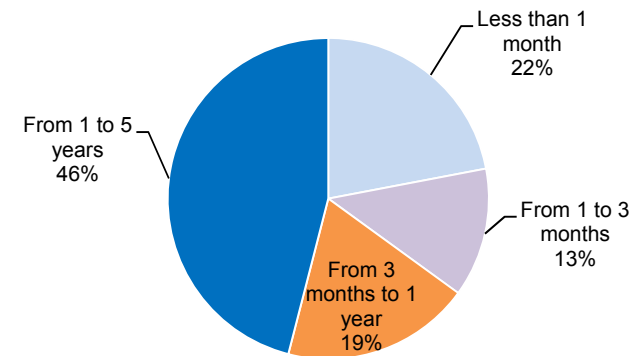
## Deposit Concentration and Related Party Funding



## Customer Accounts FX Structure, Q3 2016<sup>1</sup>



## Customer Accounts Maturity Structure, Q3 2016<sup>2</sup>



- Ongoing decrease in deposit concentration and improvement in the granularity of the customer deposit base. Top 20 deposits at less than 10% of total customer funding compares favourably to the sector average for Russia of 38%<sup>3</sup>
- As at end Q3 2016, circa 46% of total customer accounts had a maturity of one year or more
- FX-denominated customer accounts as a share of total were circa 20% as at end Q3 2016

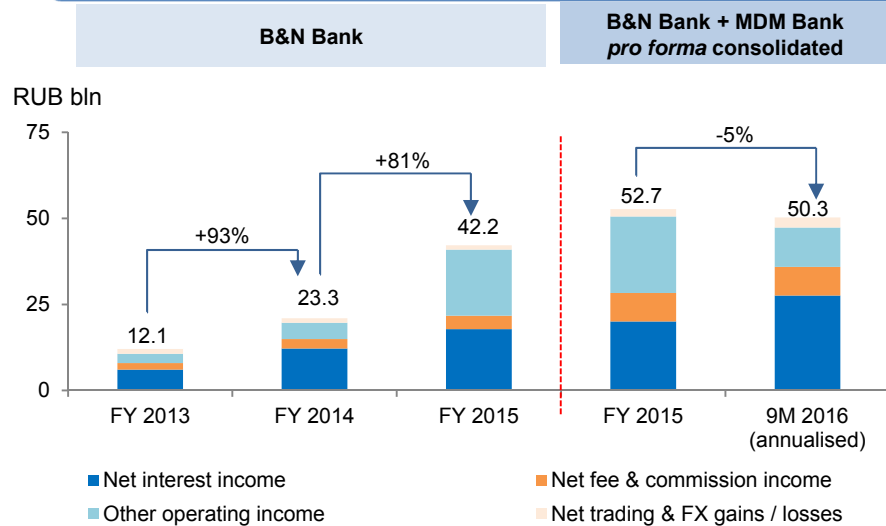
<sup>1</sup> End Q3 2016 B&N Bank / MDM Bank management data on a *pro forma* consolidated basis

<sup>2</sup> End Q3 2016 B&N Bank / MDM Bank IFRS data on a *pro forma* consolidated basis

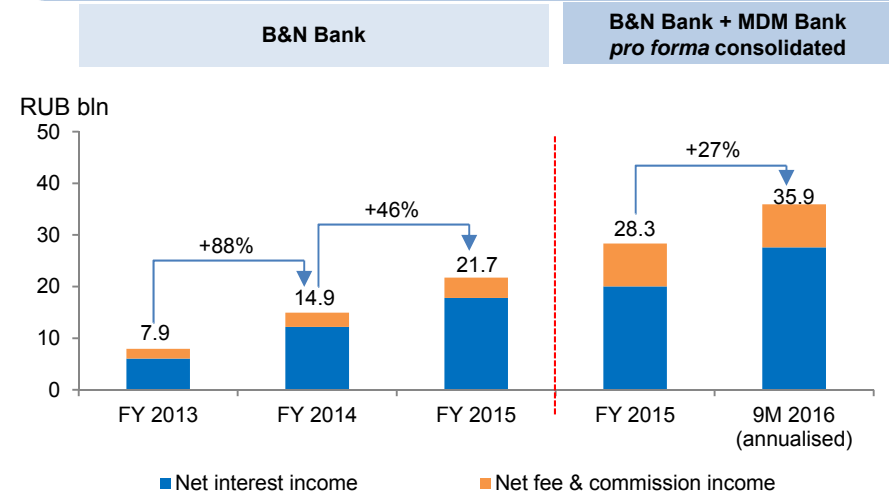
<sup>3</sup> Source: Moody's research report "Banks – Commonwealth of Independent States – Single-client and related party loan concentrations still amongst highest globally" (10 November 2016)

# Stable core operating income growth

## Adjusted Operating Income<sup>1</sup>

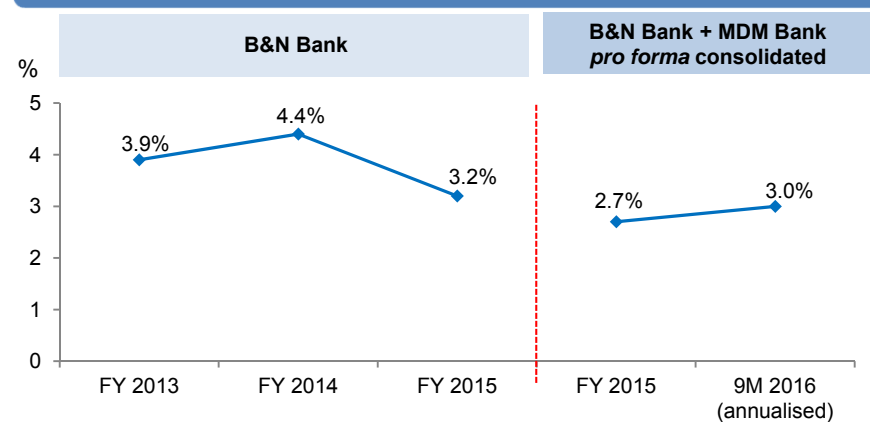


## Core Operating Income

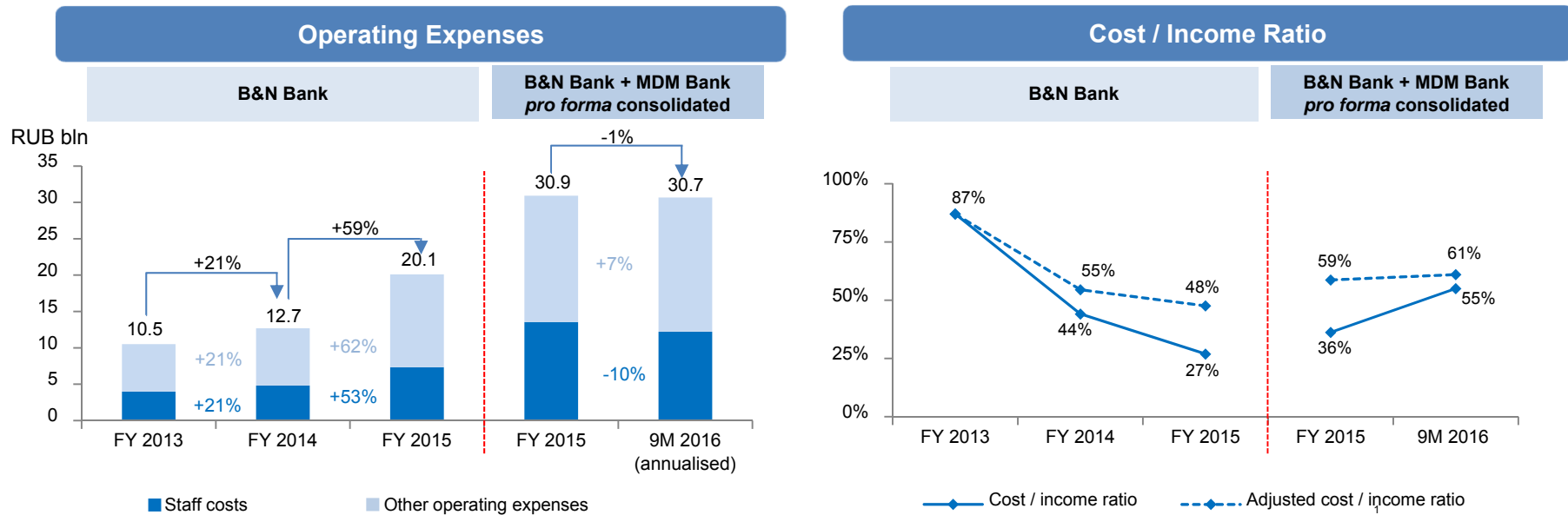


- The Bank's core operating income has demonstrated stable growth, *inter alia* due to the material increase in business volumes over the past 12-24 months
- 9M 2016 core operating income accounted for >60% of total operating income
- In line with broader sector trends, the Bank's net interest margin (NIM) contracted materially due to the impact on funding costs of the CBR's sharp key rate hike in December 2014, however it is gradually recovering

## Net Interest Margin



# Integration delivering a reduction in underlying cost base



<sup>1</sup> Adjusted cost / income ratio calculated excluding: B&N Bank's one-off income gains from the consolidation and deconsolidation of subsidiary banks (2015), as well as gain on initial recognition of financial instruments (2014); and MDM Bank's one-off gain from subordinated debt forgiveness (2016)

- Pro forma consolidated annualised 9M 2016 operating expenses decreased by 1% compared to 2015. In Q4 2016, further cost reduction is expected.
- B&N Bank is in the process of implementing an integration plan, which is forecast to deliver a significant reduction in the underlying cost base through synergies. The Bank is targeting an operating expenses / assets ratio of 2.2% by 2020, compared to a forecast ratio of ~2.7% for FY 2016



# Appendices



# B&N Bank: balance sheet summary

## Balance Sheet Summary (IFRS), RUB mln

	B&N Bank + MDM Bank <i>pro forma consolidated</i>		Change end Q3 2016 / YE 2015	B&N Bank	
	End Q3 2016	YE 2015		YE 2014	Change YE 2015 / YE 2014
<b>Assets</b>					
Cash and cash equivalents <sup>1</sup>	82 500	85 808	-3.9%	34 832	146.3%
Due from banks <sup>2</sup>	565 540	438 089	29.1%	117 494	272.9%
Investment securities / Financial assets AFVTPL	88 614	139 872	-36.6%	45 641	206.5%
Loans and advances to customers	262 010	365 641	-28.3%	214 177	70.7%
<i>Corporate loans</i>	204 124	293 203	-30.4%	171 157	71.3%
<i>Retail loans</i>	57 886	72 438	-20.1%	43 020	68.4%
Other	68 527	47 912	43.0%	12 665	278.3%
<b>Total assets</b>	<b>1 067 191</b>	<b>1 077 323</b>	<b>-0.9%</b>	<b>424 809</b>	<b>153.6%</b>
<b>Liabilities</b>					
Due to banks <sup>2</sup>	125 652	119 580	5.1%	64 616	85.1%
Customer accounts	718 329	711 780	0.9%	263 908	169.7%
<i>Retail customer accounts</i>	564 174	569 421	-0.9%	209 386	171.9%
<i>Corporate customer accounts</i>	154 155	142 359	8.3%	54 522	161.1%
Debt securities in issue	118 358	120 079	-1.4%	23 480	411.4%
Subordinated debt	4 958	10 354	-52.1%	13 988	-26.0%
Deposits from Deposit Insurance Agency	9 948	27 998	-64.5%	25 372	10.3%
Other	13 399	15 106	-11.3%	2 728	453.7%
<b>Total liabilities</b>	<b>990 645</b>	<b>1 004 896</b>	<b>-1.4%</b>	<b>394 093</b>	<b>155.0%</b>
<b>Total equity</b>	<b>76 546</b>	<b>72 427</b>	<b>5.7%</b>	<b>30 716</b>	<b>135.8%</b>
<b>Key ratios</b>					
NPL ratio	8.0%	7.4%	0.6 pp	3.8%	3.6 pp
Provision coverage ratio	199.8%	184.1%	15.7 pp	117.5%	66.6 pp
Tier 1 Capital ratio (Basel II)	8.8%	9.0%	-0.2 pp	7.7%	1.3 pp
Total Capital ratio (Basel II)	10.3%	10.4%	-0.1 pp	10.9%	-0.5 pp
CBR N1.1 ratio (Basel III)	7.3%	6.1%	1.2 pp	8.0%	-1.9 pp
CBR N1.2 ratio (Basel III)	9.3%	8.4%	0.9 pp	8.0%	0.4 pp
CBR N1.0 ratio (Basel III)	12.6%	11.4%	1.2 pp	12.8%	-1.4 pp

**Note:** Capital adequacy ratios for all periods, B&N Bank only

<sup>1</sup>Including Mandatory cash balances with the CBR

<sup>2</sup>Including Due to the CBR

# B&N Bank: income statement summary

## Income Statement Summary (IFRS), RUB mln









	B&N Bank + MDM Bank <i>pro forma consolidated</i>			B&N Bank		
	9M 2016 annualised	9M 2016	FY 2015	Change ann. 9M 2016 / FY 2015	FY 2014	Change FY 2015 / FY 2014
<b>Net interest income</b>	<b>27 603</b>	<b>20 702</b>	<b>20 040</b>	<b>37.7%</b>	<b>12 176</b>	<b>64.6%</b>
Gains less losses from trading, available-for-sale financial assets and foreign exchange, net	11 437	8 578	21 803	-47.5%	4 773	356.8%
<b>Net fee and commission income</b>	<b>8 313</b>	<b>6 235</b>	<b>8 307</b>	<b>0.1%</b>	<b>2 757</b>	<b>201.3%</b>
Other income, net	8 414	6 311	35 160	-76.1%	9 044	288.8%
<i>including one-offs</i>	<i>n.a.</i>	<i>4 132</i>	<i>32 624</i>	<i>n.a.</i>	<i>5 461</i>	<i>497.4%</i>
<b>Total operating income</b>	<b>55 768</b>	<b>41 826</b>	<b>85 309</b>	<b>-34.6%</b>	<b>28 750</b>	<b>196.7%</b>
<b>Operating expenses</b>	<b>(30 681)</b>	<b>(23 010)</b>	<b>(30 911)</b>	<b>-0.7%</b>	<b>(12 682)</b>	<b>143.7%</b>
<i>Staff costs</i>	<i>(12 200)</i>	<i>(9 150)</i>	<i>(13 555)</i>	<i>-10.0%</i>	<i>(4 808)</i>	<i>181.9%</i>
<i>Administrative and other operating costs</i>	<i>(18 480)</i>	<i>(13 860)</i>	<i>(17 356)</i>	<i>6.5%</i>	<i>(7 874)</i>	<i>120.4%</i>
<b>Net operating income before impairment losses</b>	<b>25 087</b>	<b>18 815</b>	<b>54 398</b>	<b>-53.9%</b>	<b>16 068</b>	<b>238.6%</b>
Loan impairment losses	(25 961)	(19 471)	(74 397)	-65.1%	(9 979)	n.m.
Other (impairment losses)/provision reversals	(120)	(90)	(1 820)	-93.4%	(84)	n.m.
Loss on fair value adjustment for financial instruments	0	0	(864)	n.m.	-	n.m.
Loss from investment property	37	28	(1 996)	n.m.	-	n.m.
<b>Profit before tax</b>	<b>(957)</b>	<b>(717)</b>	<b>(24 678)</b>	<b>-96.1%</b>	<b>6 004</b>	<b>n.m.</b>
<b>Profit after tax</b>	<b>(1 948)</b>	<b>(1 461)</b>	<b>(21 364)</b>	<b>-90.9%</b>	<b>4 635</b>	<b>n.m.</b>
Other comprehensive income/(loss)	142.8	107.1	6 314	-97.7%	(713)	n.m.
<b>Total comprehensive income / (loss)</b>	<b>(1 805)</b>	<b>(1 354)</b>	<b>(15 050)</b>	<b>-88.0%</b>	<b>3 922</b>	<b>n.m.</b>
<b>Key ratios</b>						
Return on average equity (based on total comprehensive income)	-2.4%		-22.0%	19.6 pp	15.7%	n.m.
Return on average equity (based on net income)	-2.6%		-31.2%	28.6 pp	18.6%	n.m.
Net interest margin (NIM)	3.0%		2.7%	0.3 pp	4.7%	-2.0 pp
Cost / Income ratio (CIR)	55.0%		36.2%	18.8 pp	44.1%	-7.9 pp
Adjusted cost / income ratio (CIR) <sup>1</sup>	61.0%		58.7%	2.3 pp	54.5%	4.2 pp
Cost of risk <sup>2</sup>	3.3%		7.8%	-4.5 pp	5.6%	2.2 pp

<sup>1</sup>Adjusted cost / income ratio calculated excluding: B&N Bank's gain on initial recognition of financial instruments (2014) and one-off income gains from the consolidation and deconsolidation of subsidiary banks (2015), as well as MDM Bank's one-off gain from subordinated debt forgiveness (2016)


<sup>2</sup>Cost of risk for FY 2015 is adjusted to exclude loan impairment losses related to deconsolidated Rost Bank (2015) and for 9M 2016 excludes provisions created in relation to interbank loans to Rost Bank

# Overview of B&N Bank group banks

## B&N Bank

Bank	Status
 BashInvestBank	Merger completed in Dec. 2013
 Bank Kedr	Merger completed in Jun. 2016
 SKA Bank	Merger completed in Jun. 2016
 Akkobank	Merger completed in Jun. 2016
 Tveruniversalbank	Merger completed in Nov. 2016
 DNB Bank	Merger completed in Nov. 2016
 MDM Bank	Merger completed in Nov. 2016
<i>Euoplan Bank</i> (B&N Bank Stolitsa)	Merger completed in Mar. 2017
 Uralprivatbank	Planned merger

## B&N Bank Digital

Bank	New name	Status
 Moscomprivatbank	B&N Bank Digital	Consolidated under IFRS since YE 2014

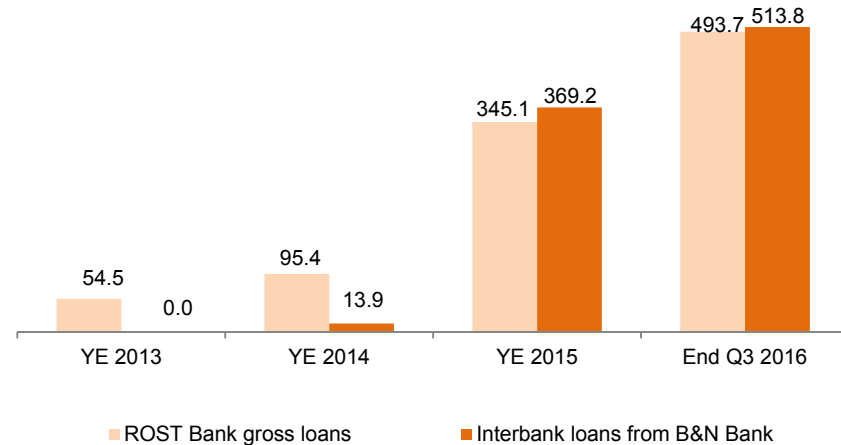
# B&N Bank interbank funding of Rost Bank

- In December 2015, Rost Bank was transferred to Mikail Shishkhanov as the “investor” responsible for financial rehabilitation of the bank
- Since 2015, the assets on Rost Bank’s balance sheet have increased significantly, primarily attributable to the transfer of loan portfolios / borrowers from B&N Bank which, per plan, will enable Rost Bank to generate an adequate return and eliminate its capital deficit during the financial rehabilitation period up to the end of 2025

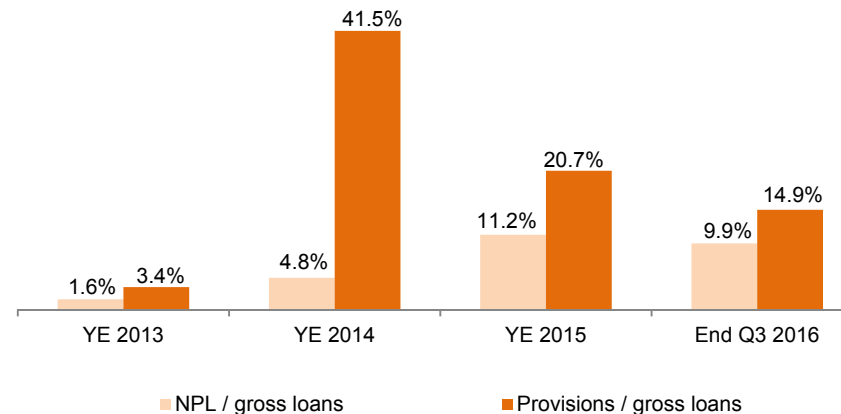
Rost Bank “old” / problem loan portfolio	Rost Bank “new” loan portfolio
<ul style="list-style-type: none"> <li>Problem loan portfolio is provisioned on a conservative basis: <b>NPL provision coverage ratio of 150% as at end Q3 2016</b></li> <li>Potential release of provisions per implementation of asset recovery plan</li> </ul>	<ul style="list-style-type: none"> <li>Performing assets</li> <li>Expected yield of “new” loan portfolio to enable Rost Bank to eliminate its capital deficit by 2025</li> </ul>

- Since Rost Bank stopped taking deposits from the public in 2014, its main sources of funding have been: shareholder funding, deposits from the Deposit Insurance Agency and interbank loans from B&N Bank on market terms (RUB 514 billion as at end Q3 2016)
- In line with the market trend, it is forecast that Rost Bank’s cost of funding will gradually decrease and its net interest margin expand
- B&N Bank’s interbank lending to Rost Bank is to decrease as loans mature per plan

Rost Bank key indicators, RUB billion (IFRS)



Rost Bank NPL and provisioning ratios (IFRS)



# DIA / CBR funding and capital injections in the context of financial rehabilitation tenders and recapitalisation of the banking system

## Funding

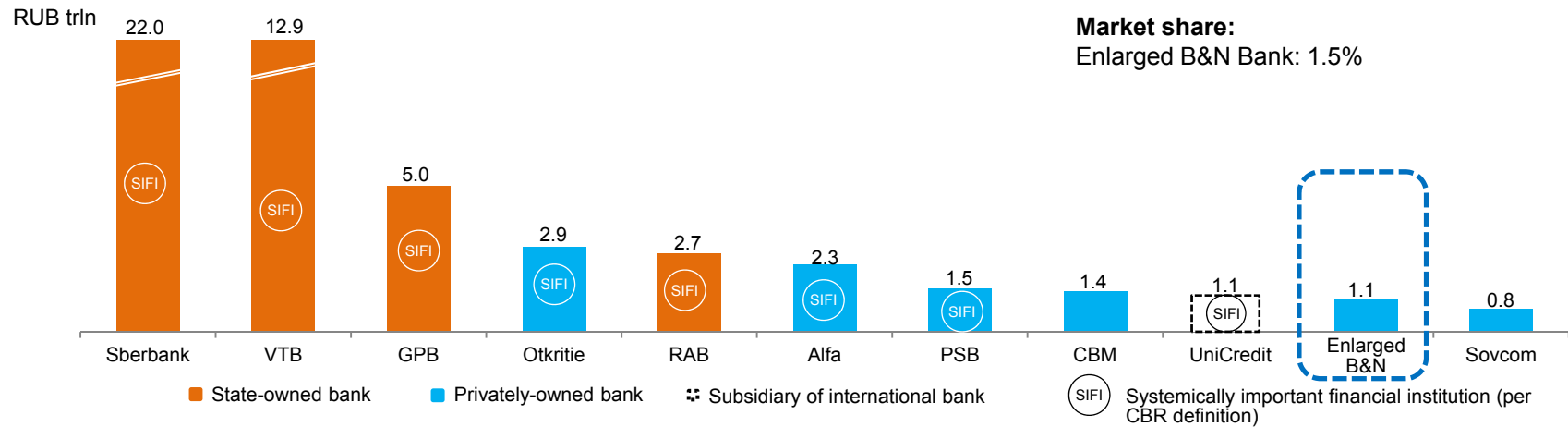
Recipient	Amount RUB mln	Date Received	%	Tenor	Maturity Date	Comments
B&N Bank	3 000	April 2014	6.5%	1 year	Redeemed in April 2015	• Purpose of loan to cover the short-term liquidity deficit of Moscomprivatbank
B&N Bank	9 000	April 2014	4.0%	4 years	April 2018	• Purpose of loan to ensure the long-term liquidity position of Moscomprivatbank, as well as supporting the creation of independent IT infrastructure
B&N Bank	17 500	December 2014	6.01%	6 years	December 2020	• Purpose of loan to support the liquidity of the investor undertaking the recapitalisation and / or to support the liquidity of the Rost group of banks • In January 2016, due to the change of investor responsible for financial rehabilitation of Rost Bank, RUB 11.84 bln of the loan was repaid early by B&N Bank (the funds were transferred to the new investor, Mikail Shishkhanov)
Rost Bank	18 400	December 2014	0.51%	10 years	December 2024	• Purpose of the loan to cover the difference between the fair value of assets and the book value of liabilities of the bank under rehabilitation

## Tier 2 Capital Injections

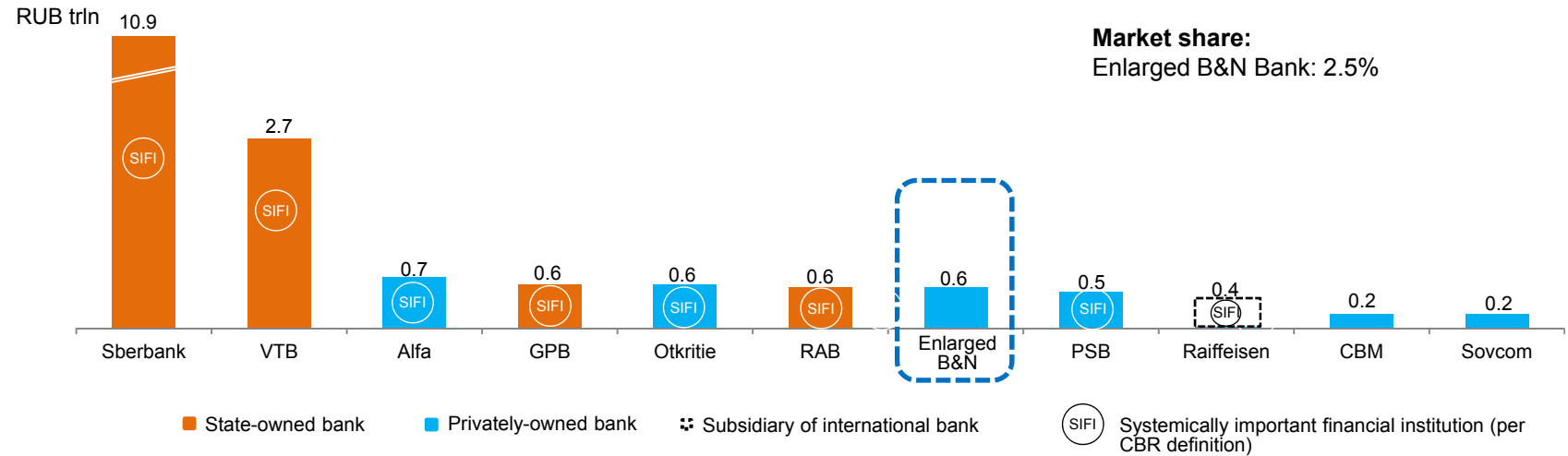
Recipient	Amount RUB mln	Date Received	%	Tenor	Maturity Date	Comments
B&N Bank	8 801	August 2015	Coupon +1%	10-19 years	2025–2034	• Tier 2 capital injection from the DIA in the form of Federal Loan Bonds (OFZ) as part of the State's recapitalisation programme
MDM Bank	9 006	October 2015	Coupon +1%	10-19 years	2025–2034	• Tier 2 capital injection from the DIA in the form of Federal Loan Bonds (OFZ) as part of the State's recapitalisation programme

# B&N ranks amongst largest privately-owned Russian banks

## Top 10 Russian Banks by Total Assets



## Top 10 Russian Banks by Retail Deposits



# Ownership structure of enlarged B&N Bank

