

# **Sovcombank Group**

## **Interim condensed consolidated financial statements**

*for the six-month period ended 30 June 2014*

## Contents

### Report on review of interim condensed consolidated financial statements

Interim condensed consolidated statement of comprehensive income.....	5
Interim condensed consolidated statement of financial position .....	6
Interim condensed consolidated statement of changes in net assets attributable to participants .....	7
Interim condensed consolidated statement of cash flows.....	8

### Notes to and forming part of the interim condensed consolidated financial statements

1. Background .....	9
2. Basis of preparation.....	9
3. Business combination.....	10
4. Provision for loan impairment.....	13
5. Fee and commission income .....	13
6. Other operating income .....	13
7. Other impairment and provisions.....	14
8. Personnel expenses.....	14
9. Other general administrative expenses .....	14
10. Income tax expense .....	14
11. Cash and cash equivalents .....	15
12. Financial instruments at fair value through profit or loss.....	15
13. Loans to customers .....	15
14. Current accounts and deposits from customers .....	20
15. Amounts due to the CBR.....	20
16. Deposits and balances from banks.....	20
17. Debt securities issued .....	20
18. Subordinated debt .....	21
19. Fair value of financial instruments .....	21
20. Charter capital and other capital contributions .....	24
21. Related party transactions.....	24
22. Share of investments in a joint venture.....	25
23. Principal subsidiaries.....	26
24. Events subsequent to the balance sheet date .....	26

## **Report on review of interim condensed consolidated financial statements**

To the Participants and Board of Directors of Sovcombank LLC

We have reviewed the accompanying interim condensed consolidated financial statements of Sovcombank LLC and its subsidiaries (together the "Group"), which comprise the interim condensed consolidated statement of financial position as at 30 June 2014 and the related interim condensed consolidated statements of comprehensive income for the three and six-month periods then ended, interim condensed consolidated statements of changes in net assets attributable to participants and of cash flows for the six-month period then ended and selected explanatory notes.

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### **Scope of review**

We conducted our review in accordance with the Federal law *On Auditing Activity*, Federal Rule (Standard) on Auditing No. 33 *Engagements to Review 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 condensed consolidated financial statements 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 the federal standards on auditing effective in 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.



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Совершенствуя бизнес,  
улучшаем мир

### **Conclusion**

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



A.V. Sorokin  
Partner  
Ernst & Young LLC

29 August 2014

### **Details of the entity**

Name: Sovcombank ICB LLC

Record made in the State Register of Legal Entities on 9 August 2002, State Registration Number 1024400001779.

Address: Russia 156000, Kostroma, prospect Tekstilschikov, 46.

### **Details of the practitioner**

Name: Ernst & Young LLC

Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.  
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.

Ernst & Young LLC is a member of Non Profit partnership "Russian Audit Chamber" ("NP APR"). Ernst & Young LLC is registered in the register of auditors and audit organizations of NP APR, number 3028, and also included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

**Interim condensed consolidated statement of comprehensive income**  
**for the six-month period ended 30 June 2014**

	Notes	For the three months ended 30 June (unaudited)		For the six months ended 30 June (unaudited)	
		2014	2013	2014	2013
		RUR'000	RUR'000	RUR'000	RUR'000
Interest income		7,276,083	4,378,589	14,273,506	8,504,261
Interest expense		(3,066,081)	(1,846,898)	(5,865,963)	(3,634,460)
<b>Net interest income</b>		<b>4,210,002</b>	<b>2,531,691</b>	<b>8,407,543</b>	<b>4,869,801</b>
Allowances for loan impairment	4	(2,738,645)	(1,658,321)	(5,473,276)	(3,301,907)
<b>Net interest income after allowances for loan impairment</b>		<b>1,471,357</b>	<b>873,370</b>	<b>2,934,267</b>	<b>1,567,894</b>
Fee and commission income	5	2,645,115	2,054,228	4,754,990	3,710,108
Fee and commission expense		(94,908)	(56,187)	(195,484)	(103,376)
<b>Net fee and commission income</b>		<b>2,550,207</b>	<b>1,998,041</b>	<b>4,559,506</b>	<b>3,606,732</b>
Net gain on financial instruments at fair value through profit or loss		(52,675)	(27,949)	(567,245)	167,748
Net gain from foreign currencies		(10,232)	38,228	34,575	75,412
Other impairment and provisions	7	(59,530)	(16,068)	(90,516)	(25,047)
Share of profit of car leasing joint venture		78	22,089	6,871	27,574
Other operating income	6	10,797	22,264	2,544,137	36,170
<b>Operating income</b>		<b>3,910,002</b>	<b>2,909,975</b>	<b>9,421,595</b>	<b>5,456,483</b>
Revaluation of buildings and investment property	24	(551,277)	–	(551,277)	–
Personnel expenses	8	(1,238,789)	(823,588)	(3,324,022)	(1,615,887)
Other general administrative expenses	9	(1,596,438)	(1,027,952)	(3,262,765)	(1,844,749)
<b>Income before taxes</b>		<b>523,498</b>	<b>1,058,435</b>	<b>2,283,531</b>	<b>1,995,847</b>
Income tax expense/benefit	10	(113,282)	(210,592)	43,490	(406,501)
<b>Income</b>		<b>410,216</b>	<b>847,843</b>	<b>2,327,021</b>	<b>1,589,346</b>
Revaluation of buildings, net of tax		(109,058)	–	(109,058)	–
<b>Other comprehensive income, net of tax</b>		<b>(109,058)</b>	<b>–</b>	<b>(109,058)</b>	<b>–</b>
<b>Total comprehensive income</b>		<b>301,158</b>	<b>847,843</b>	<b>2,217,963</b>	<b>1,589,346</b>

  
 Mr. Sergey Khotimsky  
 Chief Executive Officer

  
 Mr. Andrei Osnos  
 Chief Financial Officer

The interim condensed consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the interim condensed consolidated financial statements.

**Interim condensed consolidated statement of financial position****as at 30 June 2014**

	<b>Notes</b>	<b>30 June 2014 (unaudited) RUR'000</b>	<b>31 December 2013 RUR'000</b>
<b>Assets</b>			
Cash and cash equivalents	11	10,336,733	10,687,670
Mandatory cash balances with the CBR		993,370	772,536
Placements with banks		90,110	2,592,719
Financial instruments at fair value through profit or loss			
- held by the Group	12	22,340,357	16,621,120
- pledged under sale and repurchase agreements	12	40,538,689	27,710,336
Loans to customers	13	80,962,940	60,465,515
Assets held for sale	24	2,300,000	-
Investment in associates		-	3,000
Investment in car leasing joint venture		389,790	420,752
Investment property		103,373	1,829,002
Property, equipment and intangible assets		1,422,777	2,628,097
Goodwill		283,538	283,538
Deferred tax asset		1,165,873	5,492
Other assets		800,043	489,847
<b>Total assets</b>		<b>161,727,593</b>	<b>124,509,624</b>
<b>Liabilities</b>			
Amounts due to the CBR	15	36,915,395	24,024,784
Deposits and balances from banks	16	159,687	246,225
Current accounts and deposits from customers	14	100,182,661	80,775,104
Debt securities issued	17	4,083,558	4,077,782
Subordinated debt	18	4,079,000	1,615,734
Deferred tax liability		-	212,029
Other liabilities		1,491,611	740,358
<b>Total liabilities excluding net assets attributable to participants</b>		<b>146,911,912</b>	<b>111,692,016</b>
<b>Net assets attributable to participants</b>			
Charter capital	20	1,906,004	1,906,004
Other capital contributions		2,516,724	2,736,614
Revaluation reserve for property and equipment		24,580	133,637
Retained earnings		10,368,373	8,041,353
<b>Total net assets attributable to participants</b>		<b>14,815,681</b>	<b>12,817,608</b>
<b>Total liabilities</b>		<b>161,727,593</b>	<b>124,509,624</b>



Mr. Sergey Khotimsky  
Chief Executive Officer



Mr. Andrei Osnos  
Chief Financial Officer

## Interim condensed consolidated statement of changes in net assets attributable to participants

for the six-month period ended 30 June 2014


	<i>Attributable to participants of the parent</i>				
	<i>Charter capital RUR'000</i>	<i>Other capital contributions RUR'000</i>	<i>Revaluation reserve for property RUR'000</i>	<i>Retained earnings (accumulated losses) RUR'000</i>	<i>Total net assets RUR'000</i>
<b>Balance as at 1 January 2013</b>	<b>1,906,004</b>	<b>2,736,614</b>	<b>60,846</b>	<b>4,501,026</b>	<b>9,204,490</b>
Total comprehensive income	–	–	–	1,589,346	1,589,346
<b>Balance as at 30 June 2013</b>	<b>1,906,004</b>	<b>2,736,614</b>	<b>60,846</b>	<b>6,090,372</b>	<b>10,793,836</b>
<b>Balance as at 1 January 2014</b>	<b>1,906,004</b>	<b>2,736,614</b>	<b>133,637</b>	<b>8,041,353</b>	<b>12,817,608</b>
Total comprehensive income (Note 24)	–	–	(109,057)	2,327,020	2,217,963
Dividends paid (Note 20)	–	(219,890)	–	–	(219,890)
<b>Balance as at 30 June 2014</b>	<b>1,906,004</b>	<b>2,516,724</b>	<b>24,580</b>	<b>10,368,373</b>	<b>14,815,681</b>

  
 Mr. Sergey Khotimsky  
 Chief Executive Officer

  
 Mr. Andrei Oshes  
 Chief Financial Officer

**Interim condensed consolidated statement of cash flows**  
**for the six-month period ended 30 June 2014**

	<b>30 June 2014</b>	<b>30 June 2013</b>
	<b>RUR'000</b>	<b>RUR'000</b>
<b>Notes</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
Cash flows from operating activities	8,001,214	6,194,687
(Increase)/decrease in operating assets	(19,100,518)	(14,784,236)
Increase/(decrease) in operating liabilities	11,592,686	9,352,526
<b>Net cash provided from operating activities before taxes paid</b>	<b>493,382</b>	<b>762,977</b>
Taxes paid	(440,084)	(465,951)
<b>Cash flows from operations</b>	<b>53,298</b>	<b>297,026</b>
Cash flows from investing activities	(3,209,048)	(240,343)
Cash flows from financing activities	2,690,850	(1,125,507)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(464,900)</b>	<b>(1,068,824)</b>
Effect of changes in exchange rates on cash and cash equivalents	113,963	317,109
Cash and cash equivalents at the beginning of the year	10,687,670	9,422,509
<b>Cash and cash equivalents at the end of the period</b>	<b>10,336,733</b>	<b>8,670,794</b>

  
 Mr. Sergey Khotimsky  
 Chief Executive Officer

  
 Mr. Andrei Osipov  
 Chief Financial Officer



## 1. Background

### *Principal activities*

These consolidated financial statements include the financial statements of Sovcombank LLC (the "Bank" or "Sovcombank") and its subsidiaries (together referred to as the "Group" or "Sovcombank Group"). The list of principal consolidated subsidiaries of Sovcombank Group is disclosed in Note 23.

Sovcombank, the parent company of the Group, was originally established in Kostroma as a limited liability company in 1990. The Bank's registered legal address is 156000, Kostroma, Russia, 46 prospect Tekstilschikov. The Bank operates under general banking license № 963 issued by the Central Bank of the Russian Federation (the "CBR"). The Bank also has licenses for operations with securities and custody services issued by the Federal Securities Market Commission (the "FSMC") on 7 February 2006. The Bank is a member of the state deposit insurance system in the Russian Federation.

The Bank accepts deposits from the public and extends credit, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Group is headquartered in Kostroma. As at 30 June 2014, the Bank operates in 901 cities, towns and villages across 49 subjects of Russian Federation. The Bank had 9,037 employees as at 30 June 2014 (6,673 as at 31 December 2013).

### *Shareholders*

As at 30 June 2014 and 31 December 2013, the Group's ownership was as follows:

	<u>Ownership, %</u>	<u>Ownership, %</u>
	<u>30 June 2014</u>	<u>31 December 2013</u>
SovCo Capital Partners B.V.	100.0000%	100.0000%

There is no single ultimate legal entity or individual that exercised control over the Group as at 30 June 2014 and as at 31 December 2013.

SovCo Capital Partners B.V., a legal entity incorporated in the Netherlands, is the participant of the Group since 2003. SovCo Capital Partners B.V. is controlled by a group of Russian businessmen, including key members of Management.

### *Russian business environment*

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis and recent political events have resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

## 2. Basis of preparation

### **General**

The interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013.

## 2. Basis of preparation (continued)

### Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of new Standards and Interpretations as at 1 January 2014, noted below:

#### *Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)*

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group, since no entities in the Bank qualified to be an investment entity under IFRS 10.

#### *IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*

These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments had no impact on the Group's financial position.

#### *IFRIC Interpretation 21 Levies (IFRIC 21)*

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. This IFRIC had no material impact on the Group's financial statements.

#### *IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. This amendment is not relevant to the Group, since the Group has not novated its derivatives during the current period.

#### *Recoverable Amount Disclosures for Non-financial Assets – Amendments to IAS 36*

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments had no impact on the Group's financial position or performance.

## 3. Business combination

### *Background*

On 6 February 2014 (the “acquisition date”), the Bank acquired from DRB Holdings B.V. 100% of the voting shares of CJSC GE Money Bank (“GEMB”) following required regulatory approvals by Federal Antimonopoly Service and the Central Bank of the Russian Federation. DRB Holdings B.V. is a wholly owned subsidiary of GE Capital International Financing Corporation, located in Stamford, Connecticut, United States of America. This company in turn is ultimately owned by General Electric Company, located at Fairfield, United States of America.

GEMB specialises in unsecured consumer lending, credit cards and deposit products. At the acquisition date, GEMB's network comprised 51 offices and 90 points of sale and was present in 52 Russian predominantly large cities (Moscow, Saint Petersburg, Nizhny Novgorod, Kazan, Ekaterinburg, Krasnodar, Novosibirsk, Samara, Rostov-on-Don, Chelyabinsk, Ufa and others).

For the Bank, the rationale for the acquisition was to become a federal bank present in the majority of federal subjects of Russian Federation, procure high quality, low risk retail loan portfolio, acquire a range of intellectual properties, IT technologies and market leading retail banking practices (corporate governance, risk, etc.) as well as increase capital.

As at the acquisition date, the Bank had two interbank deposits of RUR 2,558,734 thousand in total placed with GEMB, which are not included in calculation of the identifiable net assets.

**3. Business combination (continued)***Fair value of GEMB's net identifiable assets and liabilities*

The Bank estimated the fair value of GEMB net identifiable assets and liabilities based on the results of an independent valuation to ensure that the identification of assets and liabilities was complete and that measurements appropriately reflected consideration of all available information in compliance with IFRS 3 *Business Combinations*. The fair value of GEMB net identifiable assets and liabilities acquired as at the acquisition date was:

	<u>RUR'000</u>
<b>Assets</b>	
Cash and cash equivalents	2,214,134
Mandatory cash balances with the Central Bank of the Russian Federation	155,868
Placements with banks	107,183
Loans to customers	22,529,796
Property, equipment and intangible assets	74,827
Tax prepayment	231,677
Deferred tax asset	417,232
Other assets	217,091
<b>Total assets</b>	<b><u>25,947,808</u></b>
<b>Liabilities</b>	
Deposits and balances from banks	714,662
Current accounts and deposits from customers	7,803,915
Other borrowed funds	6,922,636
Other liabilities	145,645
<b>Total liabilities</b>	<b><u>15,586,858</u></b>
<b>Identifiable net assets</b>	<b><u><u>10,360,950</u></u></b>

*Bargain purchase gain*

Because the fair value of GEMB net identifiable assets exceeded consideration transferred to DRB Holdings B.V., the Bank recognised "bargain purchase gain" in profit or loss as a part of Other operating income (Note 6). The bargain purchase gain from the acquisition as at the acquisition date was:

	<u>RUR'000</u>
Consideration transferred	5,294,909
Interbank deposits placed in GEMB	2,558,734
GEMB's equity as at the acquisition date	(10,360,950)
<b>Bargain purchase gain (Note 6)</b>	<b><u><u>(2,507,307)</u></u></b>

Consideration transferred is presented by cash paid to DRB Holdings B.V.

**3. Business combination (continued)***GEMB profit and loss statement for the six months ended 30 June 2014*

GEMB earned a profit of 2,864,325 thousand for the period from the acquisition date to 30 June 2014. This profit is included in the Group's consolidated statement of comprehensive income for the six months ended 30 June 2014.

	<u>RUR'000</u>
Interest income	3,295,663
Interest expense	(458,844)
<b>Net interest income</b>	<b>2,836,819</b>
Provision for loan impairment	2,481,340
<b>Net interest income after allowances for loan impairment and other impairment</b>	<b>5,318,159</b>
Fee and commission income	329,238
Fee and commission expense	(31,958)
<b>Net fee and commission income</b>	<b>297,280</b>
Net foreign exchange gain	607
Other impairment and provisions	(10,512)
Other operating income	12,872
<b>Operating income</b>	<b>5,618,406</b>
Personnel expenses	(903,539)
Other general administrative expenses	(903,915)
<b>Profit before income tax expense</b>	<b>3,810,952</b>
Income tax benefit	(946,627)
<b>Profit for the period</b>	<b>2,864,325</b>

*One-off and non-recurring transaction and restructuring costs as a result of business combination*

The Group recognised the following one-off and non-recurring provisions and post-acquisition costs directly related to the acquisition of GEMB:

	<u>RUR'000</u>
Personnel expenses	(557,672)
Other general administrative expenses	(234,584)
<b>Total provisions and expenses</b>	<b>(792,256)</b>

- ▶ Personnel expenses:
  - ▶ Personnel expenses which relate to GE Group – specific employee redundancy arrangements to which the Group committed under the sale and purchase agreement with DRB Holdings B.V.; consist of:
    - ▶ a provision of RUR 225,454 thousands; and
    - ▶ an expense of RUR 316,628 thousands.
  - ▶ Staff costs and bonuses which relate to additional staff costs and bonuses of RUR 15,590 thousands which the Group incurred in relation to the integration of GEMB into the Bank.
- ▶ Other general administrative expenses:
  - ▶ Rent of unused premises\*: relates to the non-cancellable until September 2014 rental agreement in relation to unused premises in "Avrora" business centre in Moscow which were previously used as GEMB's head offices; consists of:
    - ▶ a provision of RUR 14,966 thousands; and
    - ▶ an expense of RUR 89,119 thousands.
  - ▶ IT services (TSA): expenses of RUR 106,715 thousands which relate to IT services provided by General Electric Capital Corporation to GEMB under Transitional Service Agreement ("TSA") after the acquisition date through to 30 June 2014.
  - ▶ Rebranding and restructuring: expenses of RUR 12,160 thousands which relate to rebranding and restructuring GEMB's distribution network.
  - ▶ Consulting services: expenses of RUR 11,624 thousands which relate valuation and legal services provided by third parties directly in relation to the acquisition of GEMB by the Group.

\* In compliance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Group has recognised rent of unused premises and personnel expenses as a provision.

**3. Business combination (continued)***Cash outflow on acquisition of the subsidiary*

Net cash acquired with the subsidiary (included in cash flows from investing activities)	2,214,314
Cash paid (included in cash flows from investing activities)	(5,294,909)
<b>Net cash outflow</b>	<b>(3,080,595)</b>

As required by the share purchase agreement between the Bank and DRB Holdings B.V., GEMB changed the name to CJSC "Sovremenniy Kommercheskiy Bank" (Sovremenniy Kommercheskiy Bank) in accordance with the decision of the General meeting of shareholders on 27 March 2014.

**4. Provision for loan impairment**

	<i>For the three months ended</i>		<i>For the six months ended</i>	
	<i>30 June (unaudited)</i>		<i>30 June (unaudited)</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	<i>RUR'000</i>	<i>RUR'000</i>	<i>RUR'000</i>	<i>RUR'000</i>
Provision charge for loans to individuals (Note 13)	(2,747,790)	(1,681,558)	(5,491,342)	(3,290,336)
Reversal of provision / (charge) for loans to corporate entities and finance lease receivables (Note 13)	9,145	23,237	18,066	(11,571)
	<b>(2,738,645)</b>	<b>(1,658,321)</b>	<b>(5,473,276)</b>	<b>(3,301,907)</b>

**5. Fee and commission income**

	<i>For the three months ended</i>		<i>For the six months ended</i>	
	<i>30 June (unaudited)</i>		<i>30 June (unaudited)</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	<i>RUR'000</i>	<i>RUR'000</i>	<i>RUR'000</i>	<i>RUR'000</i>
Financial protection programme membership fees	2,313,875	1,832,547	4,108,301	3,289,132
Credit card operations	266,776	156,007	511,046	290,763
Settlement operations	33,080	25,836	68,150	49,294
Cash withdrawal	19,295	17,782	38,945	32,570
Guarantee issued	4,973	6,570	10,898	12,198
Foreign exchange operations	4,716	4,199	9,499	7,679
Operations with securities	1,324	1,447	2,495	2,907
Cash transfers	653	1,439	1,392	2,705
Other	423	8,401	4,264	22,860
	<b>2,645,115</b>	<b>2,054,228</b>	<b>4,754,990</b>	<b>3,710,108</b>

**6. Other operating income**

	<i>For the three months ended</i>		<i>For the six months ended</i>	
	<i>30 June (unaudited)</i>		<i>30 June (unaudited)</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	<i>RUR'000</i>	<i>RUR'000</i>	<i>RUR'000</i>	<i>RUR'000</i>
Bargain purchase gain (Note 3)	–	–	2,507,307	–
Disposal of foreclosed property	6,461	883	17,181	4,611
Income on operating sublease	–	18,173	7,543	23,996
Operating lease	1,134	1,171	2,266	2,282
Disposal of fixed assets	1,023	32	1,582	501
Other	2,179	2,005	8,258	4,780
	<b>10,797</b>	<b>22,264</b>	<b>2,544,137</b>	<b>36,170</b>

**7. Other impairment and provisions**

	<i>For the three months ended 30 June (unaudited)</i>		<i>For the six months ended 30 June (unaudited)</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	<i>RUR'000</i>	<i>RUR'000</i>	<i>RUR'000</i>	<i>RUR'000</i>
Other assets	(26,422)	(28,629)	(29,368)	(26,727)
Litigations	(33,108)	11,675	(61,148)	397
Other	–	886	–	1,283
	<b>(59,530)</b>	<b>(16,068)</b>	<b>(90,516)</b>	<b>(25,047)</b>

**8. Personnel expenses**

	<i>For the three months ended 30 June (unaudited)</i>		<i>For the six months ended 30 June (unaudited)</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	<i>RUR'000</i>	<i>RUR'000</i>	<i>RUR'000</i>	<i>RUR'000</i>
Employee compensation, including bonuses	(930,182)	(649,172)	(2,661,026)	(1,256,051)
Payroll related taxes	(308,607)	(174,416)	(662,996)	(359,836)
	<b>(1,238,789)</b>	<b>(823,588)</b>	<b>(3,324,022)</b>	<b>(1,615,887)</b>

**9. Other general administrative expenses**

	<i>For the three months ended 30 June (unaudited)</i>		<i>For the six months ended 30 June (unaudited)</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	<i>RUR'000</i>	<i>RUR'000</i>	<i>RUR'000</i>	<i>RUR'000</i>
Rent	(339,393)	(182,519)	(722,081)	(364,717)
Advertising and marketing	(320,469)	(203,581)	(575,327)	(335,424)
Professional and encashment services	(186,070)	(144,165)	(410,168)	(237,784)
Communications and information services	(106,820)	(65,119)	(239,397)	(117,308)
Miscellaneous IT expenses	(131,450)	(29,659)	(251,589)	(47,174)
Depreciation and amortization	(102,197)	(83,737)	(218,644)	(158,964)
Maintenance	(86,036)	(70,100)	(174,273)	(109,157)
Obligatory deposits insurance	(81,410)	(56,785)	(167,547)	(112,141)
Office stationery	(52,490)	(63,375)	(130,516)	(121,639)
Security	(58,788)	(43,259)	(114,976)	(85,806)
Transport	(59,306)	(30,542)	(102,645)	(53,049)
Taxes other than on income	(26,665)	(24,159)	(60,275)	(48,076)
Property insurance	(7,406)	(6,811)	(29,764)	(13,063)
Other	(37,938)	(24,141)	(65,563)	(40,447)
	<b>(1,596,438)</b>	<b>(1,027,952)</b>	<b>(3,262,765)</b>	<b>(1,844,749)</b>

**10. Income tax expense**

	<i>For the three months ended 30 June (unaudited)</i>		<i>For the six months ended 30 June (unaudited)</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	<i>RUR'000</i>	<i>RUR'000</i>	<i>RUR'000</i>	<i>RUR'000</i>
<b>Current tax expense</b>				
Current tax expense	(529,574)	(232,347)	(744,172)	(441,505)
	<b>(529,574)</b>	<b>(232,347)</b>	<b>(744,172)</b>	<b>(441,505)</b>
<b>Deferred tax expense</b>				
Origination of temporary differences	416,292	21,755	787,662	35,004
<b>Total income tax (expense)/benefit</b>	<b>(113,282)</b>	<b>(210,592)</b>	<b>43,490</b>	<b>(406,501)</b>

The applicable tax rate for current tax is 20%.

**11. Cash and cash equivalents**

	<b>30 June 2014</b> <b>RUR'000</b> <b>(unaudited)</b>	<b>31 December 2013</b> <b>RUR'000</b>
Nostro accounts with OECD banks	4,182,369	3,225,387
Cash on hand	3,429,844	3,892,148
Short-term placements and reverse REPO deals less than 90 days with Russian banks	1,383,691	632,246
Due from the CBR	695,375	2,413,582
Nostro accounts with Russian banks	645,454	524,307
	<b>10,336,733</b>	<b>10,687,670</b>

**12. Financial instruments at fair value through profit or loss**

	<b>30 June 2014</b> <b>RUR'000</b> <b>(unaudited)</b>	<b>31 December 2013</b> <b>RUR'000</b>
<b>Held by the Group</b>		
Government and municipal bonds	8,910,377	5,238,352
Bonds of companies with state participation	7,267,912	3,511,250
Corporate bonds	6,162,068	7,871,518
<b>Total financial instruments at fair value through profit or loss held by the Group</b>	<b>22,340,357</b>	<b>16,621,120</b>
<b>Pledged under sale and repurchase agreements</b>		
Corporate bonds	17,701,680	8,705,177
Bonds of companies with state participation	13,488,266	10,335,029
Government and municipal bonds	9,348,743	8,670,130
<b>Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements</b>	<b>40,538,689</b>	<b>27,710,336</b>
<b>Total financial instruments at fair value through profit or loss</b>	<b>62,879,046</b>	<b>44,331,456</b>

**13. Loans to customers**

	<b>30 June 2014</b> <b>RUR'000</b> <b>(unaudited)</b>	<b>31 December 2013</b> <b>RUR'000</b>
<b>Loans to individuals</b>		
Consumer loans	75,979,970	56,498,908
Credit cards	10,039,305	4,804,139
Mortgage loans	343,810	164,620
Other	140,793	212,226
<b>Total loans to individuals</b>	<b>86,503,878</b>	<b>61,679,893</b>
<b>Loans to corporate entities and finance lease receivables</b>		
Loans to corporate entities	2,946,497	4,676,021
Loans to small and medium size companies	301,184	389,909
Finance lease receivables	79,920	108,008
<b>Total loans to corporate entities and finance lease receivables</b>	<b>3,327,601</b>	<b>5,173,938</b>
<b>Gross loans to customers</b>	<b>89,831,479</b>	<b>66,853,831</b>
Less: provision for loan impairment	(8,868,539)	(6,388,316)
<b>Net loans to customers</b>	<b>80,962,940</b>	<b>60,465,515</b>

**13. Loans to customers (continued)**

Movements in the loan impairment provision for six-month periods ended 30 June 2014 and 30 June 2013 are as follows:

	<i>Corporate</i>	<i>Small and medium size companies</i>	<i>Finance lease receivables</i>	<i>Consumer lending</i>	<i>Credit cards</i>	<i>Mortgage</i>	<i>Car</i>	<i>Other loans to individuals</i>	<i>Total</i>
<b>At 1 January 2014</b>	<b>(81,620)</b>	<b>(56,232)</b>	<b>(9,602)</b>	<b>(5,572,181)</b>	<b>(659,122)</b>	<b>(4,253)</b>	–	<b>(5,306)</b>	<b>(6,388,316)</b>
(Charge)/reversal for the year	20,404	4,443	(6,781)	(4,615,511)	(856,283)	(17,974)	(2,015)	441	<b>(5,473,276)</b>
Recoveries	–	(3,707)	(16)	(21)	–	(2,871)	(970)	(334)	<b>(7,919)</b>
Loans written off as uncollectible	76	26,155	16	2,678,631	292,239	751	2,985	119	<b>3,000,972</b>
<b>At 30 June 2014</b>	<b>(61,140)</b>	<b>(29,341)</b>	<b>(16,383)</b>	<b>(7,509,082)</b>	<b>(1,223,166)</b>	<b>(24,347)</b>	–	<b>(5,080)</b>	<b>(8,868,539)</b>

	<i>Corporate</i>	<i>Small and medium size companies</i>	<i>Finance lease receivables</i>	<i>Consumer lending</i>	<i>Credit cards</i>	<i>Mortgage</i>	<i>Car</i>	<i>Other loans to individuals</i>	<i>Total</i>
<b>At 1 January 2013</b>	<b>(283,506)</b>	<b>(70,971)</b>	<b>(16,835)</b>	<b>(3,203,795)</b>	<b>(489,984)</b>	<b>(7,820)</b>	<b>(3,757)</b>	<b>(9,546)</b>	<b>(4,086,214)</b>
(Charge)/reversal for the year	(8,195)	(6,208)	2,832	(2,996,973)	(299,549)	2,949	1,752	1,485	<b>(3,301,907)</b>
Recoveries	–	(12,613)	–	(5,639)	–	(5,689)	(2,084)	(749)	<b>(26,774)</b>
Loans written off as uncollectible	116,097	32,993	–	1,750,389	218,327	2,742	3,904	1,308	<b>2,125,760</b>
<b>At 30 June 2013</b>	<b>(175,604)</b>	<b>(56,799)</b>	<b>(14,003)</b>	<b>(4,456,018)</b>	<b>(571,206)</b>	<b>(7,818)</b>	<b>(185)</b>	<b>(7,502)</b>	<b>(5,289,135)</b>



**13. Loans to customers (continued)****Credit quality of loans to individuals**

The credit quality of loans to individuals is assessed and managed by the Group based on the number of days overdue. The tables below show the credit quality of loans to individuals based on the number of days overdue as at 30 June 2014 and 31 December 2013.

As at 30 June 2014:

	<b>Gross loans</b> <b>RUR'000</b>	<b>Impairment</b> <b>RUR'000</b>	<b>Net loans</b> <b>RUR'000</b>	<b>Impairment</b> <b>to gross loans</b> <b>%</b>
<b>Consumer loans</b>				
- Not past due	63,739,630	(526,686)	63,212,944	0.83%
- Overdue less than 30 days	3,707,933	(742,990)	2,964,943	20.04%
- Overdue 30-89 days	2,268,098	(1,228,574)	1,039,524	54.17%
- Overdue 90-179 days	2,609,099	(1,900,990)	708,109	72.86%
- Overdue 180-360 days	3,655,210	(3,109,842)	545,368	85.08%
<b>Total consumer loans</b>	<b>75,979,970</b>	<b>(7,509,082)</b>	<b>68,470,888</b>	<b>9.88%</b>
<b>Credit cards</b>				
- Not past due	7,883,976	(72,014)	7,811,962	0.91%
- Overdue less than 30 days	648,897	(100,516)	548,381	15.49%
- Overdue 30-89 days	431,812	(199,116)	232,696	46.11%
- Overdue 90-179 days	451,864	(313,276)	138,588	69.33%
- Overdue 180-360 days	622,756	(538,244)	84,512	86.43%
<b>Total credit cards loans</b>	<b>10,039,305</b>	<b>(1,223,166)</b>	<b>8,816,139</b>	<b>12.18%</b>
<b>Mortgage loans</b>				
- Not past due	217,838	(2,178)	215,660	1.00%
- Overdue less than 30 days	57,455	(2,873)	54,582	5.00%
- Overdue 30-89 days	10,975	(1,098)	9,877	10.00%
- Overdue 90-179 days	16,019	(3,204)	12,815	20.00%
- Overdue 180-360 days	28,836	(8,651)	20,185	30.00%
- Overdue more than 360 days	12,687	(6,343)	6,344	50.00%
<b>Total mortgage loans</b>	<b>343,810</b>	<b>(24,347)</b>	<b>319,463</b>	<b>7.08%</b>
<b>Other loans to individuals</b>				
- Not past due	130,080	(2,325)	127,755	1.79%
- Overdue less than 30 days	7,117	(242)	6,875	3.40%
- Overdue 30-89 days	831	(83)	748	9.99%
- Overdue more than 360 days	2,765	(2,430)	335	87.88%
<b>Total other loans to individuals</b>	<b>140,793</b>	<b>(5,080)</b>	<b>135,713</b>	<b>3.61%</b>
<b>Total loans to individuals</b>	<b>86,503,878</b>	<b>(8,761,675)</b>	<b>77,742,203</b>	<b>10.13%</b>

As at 30 June 2014 gross loans to individuals includes fair value of loans acquired in business combination with Sovremenniy Kommercheskiy Bank.

As at 30 June 2014, the gross amount of NPL (Non-Performing Loans – overdue more than 90 days) the respective total impairment and the NPL coverage ratio of consumer loans and credit cards were as follows:

	<b>NPL gross amount</b>	<b>Total impairment</b>	<b>NPL ratio</b>
Consumer loans	6,264,309	(7,509,082)	119.9%
Credit cards	1,074,620	(1,223,166)	113.8%

Had the Group not applied IFRS 3 as at 30 June 2014, the gross amount of NPL, total impairment and the NPL coverage ratio of consumer loans and credit cards would have been as follows:

	<b>NPL gross amount</b>	<b>Total impairment</b>	<b>NPL ratio</b>
Consumer loans	7,777,379	(10,321,179)	132.7%
Credit cards	1,355,154	(1,619,570)	119.5%

**13. Loans to customers (continued)****Credit quality of loans to individuals (continued)**

As at 31 December 2013:

	<b>Gross loans RUR'000</b>	<b>Impairment RUR'000</b>	<b>Net loans RUR'000</b>	<b>Impairment to gross loans %</b>
<b>Consumer loans</b>				
- Not past due	47,463,967	(467,049)	46,996,918	0.98%
- Overdue less than 30 days	2,647,498	(422,708)	2,224,790	15.97%
- Overdue 30-89 days	1,666,728	(849,659)	817,069	50.98%
- Overdue 90-179 days	1,778,849	(1,311,124)	467,725	73.71%
- Overdue 180-360 days	2,941,866	(2,521,641)	420,225	85.72%
<b>Total consumer loans</b>	<b>56,498,908</b>	<b>(5,572,181)</b>	<b>50,926,727</b>	<b>9.86%</b>
<b>Credit cards</b>				
- Not past due	3,785,863	(50,657)	3,735,206	1.34%
- Overdue less than 30 days	269,036	(46,809)	222,227	17.40%
- Overdue 30-89 days	203,729	(109,042)	94,687	53.52%
- Overdue 90-179 days	205,211	(156,507)	48,704	76.27%
- Overdue 180-360 days	340,300	(296,107)	44,193	87.01%
<b>Total credit cards</b>	<b>4,804,139</b>	<b>(659,122)</b>	<b>4,145,017</b>	<b>13.72%</b>
<b>Mortgage loans</b>				
- Not past due	144,184	(1,442)	142,742	1.00%
- Overdue less than 30 days	10,590	(529)	10,061	5.00%
- Overdue 30-89 days	1,272	(127)	1,145	9.98%
- Overdue 90-179 days	4,672	(934)	3,738	19.99%
- Overdue 180-360 days	3,651	(1,095)	2,556	29.99%
- Overdue more than 360 days	251	(126)	125	50.20%
<b>Total mortgage loans</b>	<b>164,620</b>	<b>(4,253)</b>	<b>160,367</b>	<b>2.58%</b>
<b>Other loans to individuals</b>				
- Not past due	207,439	(2,699)	204,740	1.30%
- Overdue less than 30 days	551	(55)	496	9.98%
- Overdue 30-89 days	939	(94)	845	10.01%
- Overdue 180-360 days	1,736	(1,227)	509	70.68%
- Overdue more than 360 days	1,561	(1,231)	330	78.86%
<b>Total other loans to individuals</b>	<b>212,226</b>	<b>(5,306)</b>	<b>206,920</b>	<b>2.50%</b>
<b>Total loans to individuals</b>	<b>61,679,893</b>	<b>(6,240,862)</b>	<b>55,439,031</b>	<b>10.12%</b>

**13. Loans to customers (continued)****Credit quality of loans to corporate entities**

The following table provides information on the credit quality of the loans to legal entities and finance lease receivables as at 30 June 2014:

	<b>Gross loans RUR'000</b>	<b>Impairment RUR'000</b>	<b>Net loans RUR'000</b>	<b>Impairment to gross loans %</b>
<b>Loans to corporate entities and finance lease receivables</b>				
Unimpaired loans and finance lease receivables	2,962,716	(39,065)	2,923,651	1.32%
<b>Impaired loans and finance lease receivables</b>				
- Overdue less than 90 days	987	(358)	629	36.27%
- Overdue more than 90 days and less than 1 year	326,596	(37,957)	288,639	11.62%
- Overdue more than 1 year	37,302	(29,484)	7,818	79.04%
<b>Total impaired loans and finance lease receivables</b>	<b>364,885</b>	<b>(67,799)</b>	<b>297,086</b>	<b>18.58%</b>
Individual impairment	311,517	(26,703)	284,814	8.57%
Collective impairment	53,368	(41,096)	12,272	77.00%
<b>Total loans to corporate entities and finance lease receivables</b>	<b>3,327,601</b>	<b>(106,864)</b>	<b>3,220,737</b>	<b>3.21%</b>

The following table provides information on the credit quality of the loans to legal entities and finance lease receivables as at 31 December 2013:

	<b>Gross loans RUR'000</b>	<b>Impairment RUR'000</b>	<b>Net loans RUR'000</b>	<b>Impairment to gross loans %</b>
<b>Loans to corporate entities and finance lease receivables</b>				
Unimpaired loans and finance lease receivables	4,180,554	(50,625)	4,129,929	1.21%
<b>Impaired loans and finance lease receivables</b>				
- Overdue less than 90 days	891,982	(39,290)	852,692	4.40%
- Overdue more than 90 days and less than 1 year	44,461	(21,329)	23,132	47.97%
- Overdue more than 1 year	56,941	(36,210)	20,731	63.59%
<b>Total impaired loans and finance lease receivables</b>	<b>993,384</b>	<b>(96,829)</b>	<b>896,555</b>	<b>9.75%</b>
Individual impairment	315,526	(31,829)	283,697	10.09%
Collective impairment	677,858	(65,000)	612,858	9.59%
<b>Total loans to corporate entities and finance lease receivables</b>	<b>5,173,938</b>	<b>(147,454)</b>	<b>5,026,484</b>	<b>2.85%</b>

**14. Current accounts and deposits from customers**

	<b>30 June 2014</b> <b>RUR'000</b> <b>(unaudited)</b>	<b>31 December 2013</b> <b>RUR'000</b>
<b>Individuals</b>		
Current accounts and demand deposits	2,814,897	1,663,078
Term deposits	90,204,863	72,433,317
<b>Corporates</b>		
Current accounts and demand deposits	3,799,013	4,112,173
Term deposits	3,230,388	2,537,624
Liabilities under sale and repurchase agreements	133,500	28,912
	<b>100,182,661</b>	<b>80,775,104</b>

**15. Amounts due to the CBR**

	<b>30 June 2014</b> <b>RUR'000</b> <b>(unaudited)</b>	<b>31 December 2013</b> <b>RUR'000</b>
Sale and repurchase agreements	35,927,765	22,446,018
Loans secured by guarantee	987,630	973,212
Lombard loans received from the CBR	–	605,554
	<b>36,915,395</b>	<b>24,024,784</b>

**16. Deposits and balances from banks**

	<b>30 June 2014</b> <b>RUR'000</b> <b>(unaudited)</b>	<b>31 December 2013</b> <b>RUR'000</b>
Loro accounts	111,645	107,442
Deposits	48,042	138,783
	<b>159,687</b>	<b>246,225</b>

**17. Debt securities issued**

	<b>30 June 2014</b> <b>RUR'000</b> <b>(unaudited)</b>	<b>31 December 2013</b> <b>RUR'000</b>
Domestic bonds issued	2,829,933	1,995,695
Promissory notes	1,253,625	2,082,087
	<b>4,083,558</b>	<b>4,077,782</b>

On 23 June 2014, the Group repaid bonds of RUR 1,241,127 thousand, including accumulated coupon yield of RUR 1,574 thousand.

## 18. Subordinated debt

During the six months period ended 30 June 2014, the Group received from SovCo Capital Partners B.V. three tranches of subordinated loan of total USD 72,170 thousand with an annual interest rate of 14%

<i>Principal '000</i>	<i>Currency</i>	<i>Counterparty</i>	<i>Interest rate</i>	<i>Issue date</i>	<i>Maturity date</i>	<i>30 June 2014 RUR'000</i>	<i>31 December 2013 RUR'000</i>
25,000	USD	FMO*	3m Libor + 6.5%**	24 October 2008			
				22 January 2009	15 October 2018	880,518	881,615
94,470	USD	SovCo Capital Partners B.V.	14.0%	16 December 2013	16 December 2073	3,198,482	734,119
						<b>4,079,000</b>	<b>1,615,734</b>

\* Nederlandse Financierings-Maatschappijvoor Ontwikkelingslanden N.V. ("FMO").

\*\* According to the Subordinated term facility agreement with FMO the interest rate was 3 Month LIBOR + 4.5 per cent. per annum until and including 31 December 2013 and 3 month LIBOR + 6.5 per cent. per annum thereafter.

According to the terms of the Subordinated term facility agreement with Nederlandse Financierings-Maatschappijvoor Ontwikkelingslanden N.V. ("FMO"), FMO is additionally entitled to additional fees of two per cent of the profit before income tax expense. As at 30 June 2014, the Group accrued additional fees of RUR 31,787 thousand (RUR 59,470 thousand as at 31 December 2013) payable to FMO in accordance with terms of the Subordinated term facility agreement with FMO. Additional fees were accounted for as a part of subordinated debt effective interest rate.

On 15 July 2014, the Bank prepaid the full outstanding amount of the Subordinated term facility agreement with FMO (see also Note 24).

## 19. Fair value of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IFRS 7 *Financial Instruments: Disclosures*. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction other than in forced sale or liquidation. As no readily available market exists for a large part of the Group's financial instruments (specifically extended loans) at which such financial assets would be traded on a regular basis, judgment is necessary in arriving at fair value based on current economic conditions and the specific risks attributable to a given instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

**19. Fair value of financial instruments (continued)**

The following table shows an analysis of financial instruments recorded at fair value measurement at the end of reporting period by level of the fair value hierarchy:

<b>As at 30 June 2014 (unaudited)</b>	<b>Fair value measurement using</b>			<b>Total</b>
	<b>Quoted prices in active markets (Level 1)</b>	<b>Significant observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	
<b>Assets measured at fair value</b>				
Financial instruments at fair value through profit or loss	31,719,160	31,159,886	–	<b>62,879,046</b>
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	10,336,733	–	–	<b>10,336,733</b>
Mandatory reserves with the Central Bank of the Russian Federation	–	–	993,370	<b>993,370</b>
Placements with banks and other financial institutions	–	–	90,110	<b>90,110</b>
Loans to customers	–	–	80,321,701	<b>80,321,701</b>
Other assets	–	–	800,043	<b>800,043</b>
<b>Liabilities for which fair values are disclosed</b>				
Amounts due to the CBR	–	–	36,915,395	<b>36,915,395</b>
Deposits and balances from banks	–	–	159,687	<b>159,687</b>
Current accounts and deposits from customers	–	–	97,756,007	<b>97,756,007</b>
Debt securities issued	2,760,447	–	1,253,625	<b>4,014,072</b>
Subordinated debt	–	–	4,079,000	<b>4,079,000</b>
Other liabilities	–	–	1,491,611	<b>1,491,611</b>

<b>As at 31 December 2013</b>	<b>Fair value measurement using</b>			<b>Total</b>
	<b>Quoted prices in active markets (Level 1)</b>	<b>Significant observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	
<b>Assets measured at fair value</b>				
Financial instruments at fair value through profit or loss	38,660,408	5,671,048	–	<b>44,331,456</b>
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	10,687,670	–	–	<b>10,687,670</b>
Mandatory reserves with the Central Bank of the Russian Federation	–	–	772,536	<b>772,536</b>
Placements with banks and other financial institutions	–	–	2,592,719	<b>2,592,719</b>
Loans to customers	–	–	60,345,030	<b>60,345,030</b>
Other assets	–	–	489,847	<b>489,847</b>
<b>Liabilities for which fair values are disclosed</b>				
Amounts due to the CBR	–	–	24,024,784	<b>24,024,784</b>
Deposits and balances from banks	–	–	246,225	<b>246,225</b>
Current accounts and deposits from customers	–	–	78,573,796	<b>78,573,796</b>
Debt securities issued	2,000,000	–	2,082,087	<b>4,082,087</b>
Subordinated debt	–	–	1,615,734	<b>1,615,734</b>
Other liabilities	–	–	740,358	<b>740,358</b>

**Financial instruments recorded at fair value**

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

**19. Fair value of financial instruments (continued)****Financial assets at fair value through profit or loss**

Trading securities valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and nonobservable 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.

*Transfers between level 1 and 2*

The following tables show transfers between level 2 and level 1 of the fair value hierarchy for financial assets measured at fair value on a recurring basis during the six-months periods ended 30 June 2014:

	<b>Transfers from level 2 to level 1 RUR'000</b>
<b>Financial instruments at fair value through profit or loss</b>	
Corporate bonds	111,872

The above financial instruments were transferred from level 2 to level 1 as they became actively traded during the reporting period and fair values were consequently determined using quoted prices in an active market. There have been no transfers from level 2 to level 1 in 2013.

	<b>Transfers from level 1 to level 2 RUR'000</b>
<b>Financial instruments at fair value through profit or loss</b>	
Bonds of companies with state participation	4,140,004
Corporate bonds	1,504,309
Government and municipal bonds	5,490,387

The above financial instruments were transferred from level 1 to level 2 as they ceased to be actively traded during the period and fair values were consequently obtained using valuation techniques using observable market inputs. There have been no transfers from level 1 to level 2 in 2013.

*Fair value of financial assets and liabilities not carried at fair value*

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of nonfinancial assets and nonfinancial liabilities.

	<b>30 June 2014 RUR'000</b>	<b>30 June 2014 RUR'000</b>	<b>30 June 2014 RUR'000</b>	<b>31 December 2013 RUR'000</b>	<b>31 December 2013 RUR'000</b>	<b>31 December 2013 RUR'000</b>
	<b>Carrying value</b>	<b>Fair value</b>	<b>Unrecognised gain/(loss)</b>	<b>Carrying value</b>	<b>Fair value</b>	<b>Unrecognised gain/(loss)</b>
<b>Assets</b>						
Cash and cash equivalents	10,336,733	10,336,733	–	10,687,670	10,687,670	–
Mandatory reserves with CBR	993,370	993,370	–	772,536	772,536	–
Placements with banks	90,110	90,110	–	2,592,719	2,592,719	–
Loans to customers	80,962,940	80,321,701	(641,239)	60,465,515	60,345,030	(120,485)
Other assets	800,043	800,043	–	489,847	489,847	–
<b>Liabilities</b>						
Amounts due to the CBR	36,915,395	36,915,395	–	24,024,784	24,024,784	–
Deposits and balances from banks	159,687	159,687	–	246,225	246,225	–
Current accounts and deposits from customers	100,182,661	97,756,007	2,426,654	80,775,104	78,573,796	2,201,308
Debt securities issued	4,083,558	4,014,072	69,486	4,077,782	4,082,087	(4,305)
Subordinated debt	4,079,000	4,079,000	–	1,615,734	1,615,734	–
Other liabilities	1,491,611	1,491,611	–	740,358	740,358	–
			<b>1,854,901</b>			<b>2,076,518</b>

## 20. Charter capital and other capital contributions

As at 30 June 2014 and 31 December 2013, the charter capital was RUR 1,906,004 thousand.

## 21. Related party transactions

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 as defined by International Financial Reporting Standard IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Total remuneration included in employee compensation (refer to Note 8).

	<b>30 June 2014</b> <b>RUR'000</b>	<b>30 June 2013</b> <b>RUR'000</b>
Members of the Board of Directors	15,321	17,357
Other key management personnel	69,032	44,326
	<b>84,353</b>	<b>61,683</b>

The outstanding balances with related parties as at 30 June 2014 (unaudited) were as follows:

	<b>Participants of Parent Group</b> <b>RUR'000</b>	<b>Joint venture*</b> <b>RUR'000</b>	<b>Key management personnel</b> <b>RUR'000</b>	<b>Other</b> <b>RUR'000</b>	<b>Total</b> <b>RUR'000</b>
<b>Loans outstanding at 30 June, gross</b>	–	<b>96,583</b>	<b>36,350</b>	<b>640,078</b>	<b>773,011</b>
Less: allowance for impairment at 30 June	–	(1,159)	(455)	(8,075)	(9,689)
<b>Loans outstanding at 30 June, net</b>	–	<b>95,424</b>	<b>35,895</b>	<b>632,003</b>	<b>763,322</b>
Deposits at 30 June	255	–	529,894	265,764	<b>795,913</b>
Financial instruments at fair value through profit or loss at 30 June	262,502	–	–	–	<b>262,502</b>
Current accounts at 30 June	55,563	–	7,292	72,717	<b>135,572</b>
Subordinated debt at 30 June	3,198,482	–	–	–	<b>3,198,482</b>
Guarantees received	–	–	39,319	1,507,619	<b>1,546,938</b>

\* Joint venture is a contractual arrangement whereby the Group and the LLC "Sollers" undertake an economic activity that is subject to joint control for LLC "Sollers-Finance" (Note 22).

\*\* Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group; the Group's key management personnel are the members of Management and the Board of Directors.

The outstanding balances as at 31 December 2013 with related parties are as follows:

	<b>Participants of Parent Group</b> <b>RUR'000</b>	<b>Joint venture*</b> <b>RUR'000</b>	<b>Key management personnel</b> <b>RUR'000</b>	<b>Other</b> <b>RUR'000</b>	<b>Total</b> <b>RUR'000</b>
<b>Loans outstanding at 31 December, gross</b>	–	<b>13,856</b>	<b>65,896</b>	<b>725,234</b>	<b>804,986</b>
Less: allowance for impairment at 31 December	–	(159)	(813)	(9,644)	(10,616)
<b>Loans outstanding at 31 December, net</b>	–	<b>13,697</b>	<b>65,083</b>	<b>715,590</b>	<b>794,370</b>
Deposits at 31 December	–	–	257,342	385,402	<b>642,744</b>
Financial instruments at fair value through profit or loss at 31 December	8,264	–	–	–	<b>8,264</b>
Current accounts at 31 December	82,770	1,693	81,277	369,811	<b>535,551</b>
Subordinated debt at 31 December	734,119	–	–	–	<b>734,119</b>
Guarantees received	–	–	–	388	<b>388</b>

\* Joint venture is a contractual arrangement whereby the Group and the LLC "Sollers" undertake an economic activity that is subject to joint control for LLC "Sollers-Finance" (Note 22).

\*\* Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group; the Group's key management personnel are the members of Management and the Board of Directors.



**21. Related party transactions (continued)**

Amounts included in the consolidated income statement for the six-month period ended 30 June 2014 (unaudited) in relation to related party transactions were as follows:

	<i>Participants of Parent Group RUR'000</i>	<i>Joint venture* RUR'000</i>	<i>Key management personnel RUR'000</i>	<i>Other RUR'000</i>	<i>Total RUR'000</i>
Interest income	–	3,144	5,150	45,847	<b>54,141</b>
Interest expense on deposits	(221)	–	(7,611)	(8,983)	<b>(16,815)</b>
Interest expense on subordinated loans	(122,164)	–	–	–	<b>(122,164)</b>
Provision for loans impairment	–	(21,943)	322	9,153	<b>(12,468)</b>
Fee and commission income	245	46	827	446	<b>1,564</b>
Other income	6,276	–	177	3,893	<b>10,346</b>
General administrative expenses	–	–	(899)	–	<b>(899)</b>

\* Joint venture is a contractual arrangement whereby the Group and the LLC “Sollers” undertake an economic activity that is subject to joint control for LLC “Sollers-Finance” (Note 22).

\*\* Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group; the Group’s key management personnel are the members of Management and the Board of Directors.

Amounts included in the consolidated income statement for the six-month period ended 30 June 2013 (unaudited) in relation to related party transactions were as follows:

	<i>Participants of Parent Group RUR'000</i>	<i>Joint venture* RUR'000</i>	<i>Key management personnel RUR'000</i>	<i>Other RUR'000</i>	<i>Total RUR'000</i>
Interest income	1,786	3,757	7,119	33,885	<b>46,547</b>
Interest expense on deposits	(36)	–	(2,549)	(5,748)	<b>(8,333)</b>
Interest expense on subordinated loans	(29,868)	–	–	–	<b>(29,868)</b>
Provision for loans impairment	–	(4,389)	18,829	26,634	<b>41,074</b>
Fee and commission income	116	23	336	115	<b>590</b>
Other income	(205)	2	1	166	<b>(36)</b>
General administrative expenses	(348)	–	(766)	(28)	<b>(1,142)</b>

**22. Share of investments in a joint venture**

The Group has a 50% interest in LLC “Sollers-Finance” which provides car leasing services for the legal entities in Russian Federation. Under IAS 31 *Investment in Joint Ventures* (prior to the transition to IFRS 11), the Group’s interest in LLC “Sollers-Finance” was classified as a jointly controlled entity and the Group’s share of the assets, liabilities, revenue, income and expenses were proportionately consolidated in the consolidated financial statements. Upon adoption of IFRS 11, the Group has determined its interest to be a joint venture and it is required to be accounted for using the equity method.

The summarised financial information of Sollers Finance LLC is presented below:

	<i>As at 30 June 2014 RUR'000</i>	<i>As at 31 December 2013 RUR'000</i>
Cash and cash equivalents	10,480	3,790
Loans to customers	1,869,284	2,133,605
Property and equipment	54,080	47,876
Other assets	142,453	143,165
<b>Total assets</b>	<b>2,076,297</b>	<b>2,328,436</b>
Due to credit institutions	1,256,749	1,439,026
Amounts due to customers	–	116
Other liabilities	126,186	134,009
<b>Total liabilities</b>	<b>1,382,935</b>	<b>1,573,151</b>
<b>Net assets</b>	<b>693,362</b>	<b>755,285</b>
Group’s share in net assets	346,681	377,643
Goodwill included in the carrying amount of the investment	43,109	43,109
<b>Carrying value of the investment in car leasing joint venture</b>	<b>389,790</b>	<b>420,752</b>

**22. Share of investments in a joint venture (continued)**

	<i>For the three months ended 30 June (unaudited)</i>		<i>For the six months ended 30 June (unaudited)</i>	
	<i>2014 RUR'000</i>	<i>2013 RUR'000</i>	<i>2014 RUR'000</i>	<i>2013 RUR'000</i>
Interest income	135,856	146,258	278,349	279,359
Interest expense	(34,657)	(39,204)	(71,845)	(76,909)
Allowance for loan impairment	(12,640)	(20,343)	(67,076)	(58,662)
Non-interest income	19,145	18,257	34,449	31,871
Non-interest expense	(61,789)	(60,788)	(118,601)	(116,506)
<b>Profit for the year</b>	<b>45,915</b>	<b>44,180</b>	<b>55,276</b>	<b>59,153</b>
Dividends received from the car leasing joint venture during the period	–	–	37,833	20,020

**23. Principal subsidiaries**

Included in the table below is the list of the principal consolidated subsidiaries, joint ventures and associate of the Group as at 30 June 2014 and 31 December 2013:

	<i>Relationship</i>	<i>Voting rights</i>	
		<i>30 June 2014</i>	<i>31 December 2013</i>
LLC "Regionalnaya Lisingovaya Compania"	Subsidiary	100.00%	100.00%
CJSC "Sovremenniy Kommercheskiy Bank"	Subsidiary	100.00%	–
LLC "Miria"	Subsidiary	100.00%	–
LLC "Investicii v nedvizhimost"	Subsidiary	–	100.00%
LLC "Sollers-Finance"	Joint venture	50.00%	50.00%
LLC "Avtozaim"	Subsidiary	100.00%	100.00%

**24. Events subsequent to the balance sheet date**

On 4 July 2014, the Group sold to a third party an office building with total area of more than 12 thousand square metre, located at the address: Krasnopresnenskaya emb., 14, block 1, Moscow, Russian Federation for RUR 2.3 billion. As at 30 June 2014, the total value of the building was RUR 2.9 billion recognised in the statement as of financial position as follows:

- ▶ Property, equipment and intangible assets: RUR 1,187,868 thousand;
- ▶ Investment property: RUR 1,745,682 thousand.

As the result of the sale, the Group recognised an impairment loss of RUR 497,277 thousand (Note 6) in statement of profit and loss and decrease of revaluation reserve by RUR 109,058 thousand in statement of other comprehensive income. In addition, the Group paid a finding fee and an agency commission of total RUR 54,050 thousand to a third party. The finding fee and agency commission were recognised as the impairment loss in statement of profit and loss.

On 15 July 2014, the Group repaid prior to maturity the subordinated term facility of USD 25,425 thousand, including accumulated interest of USD 425 thousand, to Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ("FMO"). In accordance with the subordinated term facility agreement, the Group paid to FMO prepayment fees of RUR 17,156 thousand (2% of the subordinated term facility amount).

On 19 August 2014, in accordance with terms of the Prospectus, the Board of Directors approved redemption of RUR 1.9 billion of the BO-01-series bonds.

Mr. Sergey Khotimskiy  
Chief Executive Officer

Mr. Andrei Osnos  
Chief Financial Officer