

Interim condensed financial statements  
**Expobank LLC**  
for the six-month period ended 30 June 2015

*With report on review*

## Interim condensed financial statements - Expobank LLC

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

To the Participants and Board of Directors of Expobank LLC

We have reviewed the accompanying interim condensed financial statements of Expobank LLC (the "Bank"), which comprise the interim condensed statement of financial position as at 30 June 2015, and the related interim condensed statement of comprehensive income, interim condensed statement of changes in equity and interim condensed statement of cash flows for six-month period then ended, and selected explanatory notes.

Management of the Bank is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed 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 the interim condensed financial statements consists of making inquiries of the Bank's personnel 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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### **Conclusion**

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

A.V. Sorokin  
Partner  
Ernst & Young LLC

31 August 2015

### **Details of the entity**

Name: Expobank LLC  
Record made in the State Register of Legal Entities on 5 November 2002, State Registration Number 1027739504760.  
Address: Russia, 107078, Moscow, ul. Kalanchevskaya, 29, building 2.

### **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 the Self-regulated Organization of Auditors Non-profit Partnership "Russian Audit Chamber" ("NP APR"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

**Expobank Limited Liability Company**  
**Interim condensed statement of financial position –**  
**30 June 2015**

	Notes	30 June 2015 (unaudited)	31 December 2014
<b>Assets</b>			
Cash and cash equivalents	4	5,279,139	8,173,843
Obligatory reserve with the CBR		373,302	320,511
Trading securities, including:	5	4,911,005	6,993,522
- non-pledged trading securities		4,911,005	4,702,545
- pledged trading securities sold under direct repurchase agreements		-	2,290,977
Amounts due from other banks	6	6,685,601	2,884,343
Loans to customers	7	29,985,265	26,472,193
Finance lease receivables	8	177,122	400,932
Investment securities available for sale	9	1,710,228	1,070,779
Investment securities held to maturity, including:	10	3,632,356	3,764,762
- non-pledged held-to-maturity securities		2,923,291	326,834
- pledged held-to-maturity securities sold under direct repurchase agreements		709,065	3,437,928
Property and equipment and intangible assets		2,193,469	1,658,793
Other assets		446,751	188,460
<b>Total assets</b>		<b>55,394,238</b>	<b>51,928,138</b>
<b>Liabilities</b>			
Amounts due to banks	11	8,474,135	11,780,109
Amounts due to customers	12	35,824,954	31,259,071
Debt securities issued	13	2,656,916	1,601,904
Current income tax liabilities		119,697	-
Deferred tax liabilities		63,462	19,172
Other liabilities		237,514	333,247
<b>Total liabilities</b>		<b>47,376,678</b>	<b>44,993,503</b>
<b>Equity</b>			
Share capital	14	10,413,412	10,413,412
Share premium		548,256	548,256
Accumulated loss		(3,378,523)	(4,599,137)
Unrealized gain on revaluation of investment securities available for sale		95,397	117,805
Revaluation reserve for property and equipment		339,018	454,299
<b>Total equity</b>		<b>8,017,560</b>	<b>6,934,635</b>
<b>Total liabilities and equity</b>		<b>55,394,238</b>	<b>51,928,138</b>

Signed on behalf of the Management Board on 31 August 2015.

  
K.V. Nifontov  
Chairman of the Management Board



  
O.N. Kasatkina  
Acting Chief Accountant

The accompanying selected notes 1-7 are an integral part of these interim condensed financial statements.

**Expobank Limited Liability Company**  
**Interim condensed statement of comprehensive income –**  
**30 June 2015**

	Notes	Six months ended 30 June 2015 (unaudited)	Six months ended 30 June 2014 (unaudited)
Interest income	15	3,261,189	2,425,292
Interest expense	15	(1,840,122)	(1,164,176)
<b>Net interest income</b>		<b>1,421,067</b>	<b>1,261,116</b>
Provision charge for impairment of amounts due from other banks, loans to customers and finance lease receivables	6, 7, 8	(16,291)	(35,465)
<b>Net interest income after provision charge for impairment of amounts due from other banks, loans to customers and finance lease receivables</b>		<b>1,404,776</b>	<b>1,225,651</b>
Fee and commission income		244,776	189,662
Fee and commission expense		(32,850)	(48,603)
Gains less losses / (losses net of gains) from trading securities		150,272	(88,854)
Gains less losses from foreign currencies		239,442	46,945
(Losses net of gains) / gains less losses from foreign currency translation		(105,076)	54,348
(Losses net of gains) / gains from derivative financial instruments		(2,014)	48,587
(Losses net of gains) / gains less losses on sale of investment securities available for sale		(47,922)	997
Other operating income		163,659	68,568
Other gains from impairment and provisions		32,329	2,272
Administrative and other operating expenses	16	(1,093,198)	(647,010)
Gain on bargain purchase of acquired company	22	475,203	–
<b>Profit before tax</b>		<b>1,429,397</b>	<b>852,563</b>
Income tax expense	17	(208,783)	(200,440)
<b>Profit for the period</b>		<b>1,220,614</b>	<b>652,123</b>
<b>Other comprehensive loss</b>			
<i>Items which can be subsequently reclassified to profit or loss</i>			
Unrealized losses on investment securities available for sale, net of tax		(22,408)	(18,537)
<i>Items which will not be subsequently reclassified to profit or loss</i>			
Revaluation of property and equipment, net of tax		(115,281)	–
<b>Other comprehensive loss for the period</b>		<b>(137,689)</b>	<b>(18,537)</b>
<b>Total comprehensive income for the period</b>		<b>1,082,925</b>	<b>633,586</b>

The accompanying selected notes 1-22 are an integral part of these interim condensed financial statements.

**Expobank Limited Liability Company**  
**Interim condensed statement of changes in equity –**  
**30 June 2015**

	Notes	Share capital	Share premium	Unrealized gain (loss) on revaluation of available-for-sale securities	Revaluation reserve for property and equipment	Retained earnings / (accumulated loss)	Total equity
<b>Balance at 1 January 2014</b>		<b>10,413,412</b>	<b>548,256</b>	<b>–</b>	<b>424,490</b>	<b>(3,204,088)</b>	<b>8,182,070</b>
Profit for the period (unaudited)		–	–	–	–	652,123	<b>652,123</b>
Other comprehensive loss (unaudited)		–	–	(18,537)	–	–	<b>(18,537)</b>
<b>Balance at 30 June 2014 (unaudited)</b>	14	<b>10,413,412</b>	<b>548,256</b>	<b>(18,537)</b>	<b>424,490</b>	<b>(2,551,965)</b>	<b>8,815,656</b>
<b>Balance at 1 January 2015</b>		<b>10,413,412</b>	<b>548,256</b>	<b>117,805</b>	<b>454,299</b>	<b>(4,599,137)</b>	<b>6,934,635</b>
Profit for the period (unaudited)		–	–	–	–	1,220,614	<b>1,220,614</b>
Other comprehensive loss (unaudited)		–	–	(22,408)	(115,281)	–	<b>(137,689)</b>
<b>Balance at 30 June 2015 (unaudited)</b>	14	<b>10,413,412</b>	<b>548,256</b>	<b>95,397</b>	<b>339,018</b>	<b>(3,378,523)</b>	<b>8,017,560</b>

The accompanying selected notes 1-22 are an integral part of these interim condensed financial statements.

**Expobank Limited Liability Company**  
**Interim condensed statement of cash flows –**  
**30 June 2015**

	Notes	Six months ended 30 June 2015 (unaudited)	Six months ended 30 June 2014 (unaudited)
<b>Cash flows from operating activities</b>			
Interest received		3,259,701	2,379,304
Interest paid		(1,736,038)	(1,188,359)
Fees and commissions received		244,776	189,662
Fees and commissions paid		(32,850)	(48,603)
Losses from trading securities		(113,315)	(88,854)
Gains from foreign currencies		239,442	46,945
Proceeds from sale of loans to customers and finance lease receivables	7, 8	25,788	40,372
Other operating income received		126,058	54,764
Administrative and other operating expenses paid		(1,020,298)	(570,585)
Income tax paid		(16,332)	(9,635)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>976,932</b>	<b>805,011</b>
Net decrease/(increase) in obligatory reserve with the CBR		37,981	(38,216)
Net decrease in trading securities		2,328,826	896,580
Net (increase)/decrease in amounts due from other banks		(4,495,500)	500,911
Net (increase)/decrease in loans to customers and finance lease receivables		(3,132,220)	4,746,361
Net increase in other assets		(20,835)	(33,700)
Net decrease in amounts due to banks		(2,275,047)	(486,894)
Net increase/(decrease) in amounts due to customers		3,006,709	(117,600)
Net increase in debt securities issued		679,114	43,655
Net decrease in other liabilities		(55,836)	(200,697)
<b>Net cash (used in)/from operating activities</b>		<b>(2,949,876)</b>	<b>6,115,411</b>
<b>Cash flows from investing activities</b>			
Acquisition of a subsidiary, net of cash acquired	22	212,600	–
Purchase of investment securities available for sale		(600,260)	(3,687,504)
Proceeds from sale and redemption of investment securities available for sale		179,810	108,682
Purchase of property and equipment		(10,456)	(26,700)
Proceeds from sale of property and equipment		34,528	13,699
Purchase of intangible assets		(7,591)	(3,202)
<b>Net cash used in investing activities</b>		<b>(191,369)</b>	<b>(3,595,025)</b>
<b>Cash flows from financing activities</b>			
Proceeds from placement of previously purchased bonds		223,095	–
<b>Net cash from financing activities</b>		<b>223,095</b>	<b>–</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>23,446</b>	<b>138,367</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,894,704)</b>	<b>2,658,753</b>
Cash and cash equivalents, beginning	4	8,173,843	6,808,070
<b>Cash and cash equivalents, ending</b>	<b>4</b>	<b>5,279,139</b>	<b>9,466,823</b>

The accompanying selected notes 1-22 are an integral part of these interim condensed financial statements.



## 1 Principal activities

Expobank Limited Liability Company (Expobank LLC) (hereinafter, the Bank) is a commercial bank which is owned by participants whose responsibility is limited with their shares. The Bank was set up in accordance with Russian regulations. As of 30 June 2015 and 31 December 2014, the Bank's shares were owned by:

Participant	30 June 2015 %	31 December 2014 %
Igor Vladimirovich Kim	66.6	66.6
German Alekseevich Tsoy	17.6	17.6
AVTOBAN Road Construction Company OJSC	8.8	8.8
Kirill Vladimirovich Nifontov	2.7	2.5
Morelam Holdings Limited (Cyprus)	1.8	1.8
Oleg Igorevich Kirillov	1.1	1.1
Yuri Igorevich Koropachinsky	1.1	1.1
Other	0.3	0.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

As of 30 June 2015, members of the Board of Directors and Management Board controlled 86.9% shares in the Bank (31 December 2014: 86.7%).

**Principal activities.** Business priorities of the Bank include comprehensive services for corporate clients and wealthy individuals, as well as mergers and acquisitions of banking assets. The Bank operates under general banking license No. 2998 issued by the Central Bank of Russia (CBR) on 6 February 2012. The Bank is a member of the state deposit insurance program approved by Federal Law No. 177-FZ *On Insurance of Individuals' Deposits in Banks of the Russian Federation* dated 23 December 2003. The state deposit insurance system guarantees to pay a 100% compensation under deposits totaling up to RUB 1,400 thousand per one individual in case the CBR revokes the banking license or enforces a moratorium on payments.

On 26 February 2015, Expobank LLC acquired 100% of voting shares in Mirninsky Commercial Bank MAK-Bank Limited Liability Company (hereinafter, MAK-Bank LLC). Starting from February 2015, the Bank obtained control over financing and operating activities of the subsidiary. On 22 June 2015, MAK-Bank LLC was merged with the Bank (Note 22).

As of 30 June 2015, the Bank has 6 branches (31 December 2014: 4 branches). All branches are located in the Russian Federation.

The Bank also operates through its additional offices and operating outlets in the Russian Federation. As of 30 June 2015, the Bank has 15 offices (31 December 2014: 15 offices).

As of 30 June 2015, the Bank employed 538 people (31 December 2014: 482 people).

## 2 Basis of preparation

### General

These interim condensed financial statements of the Bank for the six months ended 30 June 2015 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2014.

These interim condensed financial statements are presented in thousands of Russian rubles ("RUB thousand"), unless otherwise indicated.

### Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2014, except for the adoption of new standards effective as of 1 January 2015 noted below. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## **2. Basis of preparation (continued)**

### ***Changes in accounting policies (continued)***

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2015, they do not have a material effect on the annual statements of the Bank or the interim condensed financial statements of the Bank. The nature and the impact of each new standard or amendment are described below:

#### *Amendments to IAS 19 Defined Benefit Plans: Employee Contributions*

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. The amendments are effective for annual periods beginning on or after 1 July 2014. The amendments are not relevant to the Bank, since the Bank does not have defined benefit plans with contributions from employees or third parties.

#### ***Annual improvements 2010-2012 Cycle***

These improvements are effective from 1 July 2014 and the Bank has applied these amendments for the first time in these interim condensed financial statements. They include:

##### *IFRS 2 Share-based Payment*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- ▶ A performance condition must contain a service condition;
- ▶ A performance target must be met while the counterparty is rendering service;
- ▶ A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- ▶ A performance condition may be a market or non-market condition;
- ▶ If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

The amendments are not relevant to the Bank, since the Bank had no share-based payments in the period.

##### *IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Bank's current accounting policy, and thus this amendment does not impact the Bank's accounting policy.

##### *IFRS 8 Operating Segments*

The amendments are applied retrospectively and clarify that:

- ▶ An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- ▶ The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Bank has not applied the aggregation criteria provided in IFRS 8.12.

## **2. Basis of preparation (continued)**

### **Annual improvements 2010-2012 Cycle (continued)**

#### *IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13*

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This is consistent with the Bank's current accounting policy, and thus this amendment does not impact the Bank's accounting policy.

#### *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. In the first half of 2015, the Bank remeasured its assets by reference to the net carrying amount; and this amendment had no impact on the value of the Bank's assets.

#### *IAS 24 Related Party Disclosures*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Bank as it does not receive any management services from other entities.

### **Annual improvements 2011-2013 Cycle**

These improvements are effective from 1 July 2014 and the Bank has applied these amendments for the first time in these interim condensed financial statements. They include:

#### *IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- ▶ Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- ▶ This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The Bank is not and does not conduct the joint arrangement, and thus this amendment is not relevant for the Bank.

#### *IFRS 13 Fair Value Measurement*

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 (for the entities holding a group of financial assets and financial liabilities (portfolio) and managing it as a whole) can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Group does not apply the portfolio exception provided in IFRS 13.

#### *IAS 40 Investment Property*

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. In previous periods, the Bank relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Bank.

#### *Meaning of effective IFRSs – Amendments to IFRS 1*

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided that either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 had no impact on the Bank, since the Bank is an existing IFRS preparer.

### **3 Significant accounting estimates and judgments in applying accounting policies**

The Bank makes estimates and assumptions that affect the reported amounts and the carrying values of assets and liabilities in the following financial year. Estimates and assumptions are continuously assessed and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Impairment losses on loans to customers.** The Bank regularly reviews its loans to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the period, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**Initial recognition of transactions with related parties.** In the normal course of business the Bank enters into transactions with related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party transactions are disclosed in Note 21.

**Valuation of buildings.** The Bank's buildings are recorded at fair value which is determined based on the valuation report prepared by an independent appraiser. The recent revaluation of the Bank's buildings was performed as at 30 June 2015. The market value of property is determined based on the sales comparison approach that includes analysis of market sales prices for similar property. As a result of the revaluation of the Bank's buildings, the decrease in the fair value recorded in other comprehensive income amounted to RUB 144,101 thousand before the deferred tax effect as of 30 June 2015.

### **4 Cash and cash equivalents**

	<b>30 June 2015 (unaudited)</b>	<b>31 December 2014</b>
Cash on hand	830,426	911,884
Cash balances with the CBR (other than obligatory reserve)	936,919	1,330,905
Settlement accounts with financial institutions	405,411	1,014,122
Correspondent accounts and overnight deposits with other banks	1,857,556	4,716,815
Reverse repurchase agreements with credit institutions up to 90 days	1,248,827	200,117
<b>Total cash and cash equivalents</b>	<b>5,279,139</b>	<b>8,173,843</b>

Settlement accounts with financial institutions are mainly represented by settlements with the Clearing Center and payment systems.

Correspondent accounts and overnight deposits with other banks are represented by placements with Russian and foreign banks.

As of 30 June 2015, reverse repurchase agreements with credit institutions up to 90 days are represented by deposits with a Russian bank placed for one day with an interest rate ranging from 12.35% p.a. to 12.44% p.a. These agreements are collateralized by shares and bonds with a fair value of RUB 1,341,809 thousand.

As of 31 December 2014, reverse repurchase agreements with credit institutions up to 90 days are represented by deposits with a Russian bank placed for 13 days with an interest rate of 21.5% p.a. These agreements are collateralized by shares in a Russian entity with a fair value of RUB 270,649 thousand.

**5 Trading securities**

	<b>30 June 2015 (unaudited)</b>	<b>31 December 2014</b>
Bonds of banks	3,420,945	3,189,513
Corporate bonds	1,338,755	1,189,803
Bonds of subjects of the Russian Federation	151,305	117,550
Corporate shares	–	205,679
<b>Total non-pledged trading securities</b>	<b>4,911,005</b>	<b>4,702,545</b>
Bonds of banks	–	806,132
Corporate bonds	–	1,410,229
Bonds of subjects of the Russian Federation	–	74,616
<b>Total pledged trading securities sold under direct repurchase agreements</b>	<b>–</b>	<b>2,290,977</b>
<b>Total trading securities</b>	<b>4,911,005</b>	<b>6,993,522</b>

Trading securities are carried at fair values which are determined based on observable market data using average-weighted quotation on the Moscow Exchange.

Bonds of banks are represented by RUB-denominated interest-bearing debt securities issued by major Russian banks and traded in the Russian market.

Corporate bonds are RUB-denominated interest-bearing securities issued by large Russian companies and traded in the Russian market.

Bonds of subjects of the Russian Federation are represented by RUB-denominated interest-bearing debt securities issued by regional authorities of the Russian Federation and traded in the Russian market.

Pledged trading securities as of 31 December 2014 were represented by securities in the amount of RUB 2,290,977 thousand, which were sold under repurchase agreements and which could be sold or repledged by the counterparty according to contractual terms or established practice. Repurchase agreements were of short-term nature and were fully completed in due time before 14 January 2015. The Central Bank of the Russian Federation was the counterparty bank under most of the repurchase agreements as of 31 December 2014.

As of 30 June 2015, trading securities in the amount of RUB 470,557 thousand (31 December 2014: RUB 514,912 thousand) were blocked according to the General Loan Agreement with the Bank of Russia with the overdraft limit of RUB 3,500,000 thousand (31 December 2014: RUB 3,500,000 thousand).

**6 Amounts due from other banks**

As of 30 June 2015, amounts due from other banks are represented by Eurobonds of banks in the amount of RUB 6,688,655 thousand (31 December 2014: RUB 2,884,343 thousand) which are interest-bearing debt securities denominated in RUB and foreign currency (USD, EUR), issued by large Russian banks and traded in European stock markets.

The primary factor that the Bank considers in determining whether amounts due from other banks are impaired is their past due status.

**6 Amounts due from other banks (continued)**

The movements in the allowance for impairment of amounts due from other banks for the six-month period ended 30 June 2015 were as follows:

	<b>30 June 2015 (unaudited)</b>
<b>Allowance for impairment as of 1 January 2015</b>	–
Allowance for impairment charged during the period	3,054
<b>Allowance for impairment as of 30 June 2015 (unaudited)</b>	<b>3,054</b>

**7 Loans to customers**

	<b>30 June 2015 (unaudited)</b>	<b>31 December 2014</b>
Large businesses	9,484,329	2,789,561
Medium businesses	7,736,873	3,313,381
Small businesses	5,442,909	5,506,651
Loans to individuals	8,084,336	15,623,037
<b>Total loans to customers before allowance for loan impairment</b>	<b>30,748,447</b>	<b>27,232,630</b>
Less: allowance for loan impairment	(763,182)	(760,437)
<b>Total loans to customers</b>	<b>29,985,265</b>	<b>26,472,193</b>

Loans recorded by the Bank are subdivided into:

- ▶ Loans to large businesses (annual revenue of more than RUB 2 billion);
- ▶ Loans to medium businesses (annual revenue from RUB 400 million to RUB 2 billion);
- ▶ Loans to small businesses (annual revenue of up to and including RUB 400 million);
- ▶ Retail loans – consumer loans issued to individual customers.

As of 31 December 2014, loans to large businesses comprise accounts receivable under repurchase agreements, which represent claims for repayment of funds under reverse repurchase agreements in the amount of RUB 189,176 thousand.

As of 30 June 2015 and 31 December 2014, loans to large businesses comprise Eurobonds in the amount of RUB 5,675,508 thousand (31 December 2013: RUB 412,188 thousand) represented by interest-bearing debt securities denominated in foreign currency (USD), issued by large Russian and foreign companies and traded in European stock markets.

The analysis of movements in allowance for loan impairment during the six-month period ended 30 June 2015 is as follows:

	<b>Large businesses</b>	<b>Medium businesses</b>	<b>Small businesses</b>	<b>Loans to individuals</b>	<b>Total</b>
<b>Allowance for loan impairment as of 1 January 2015</b>	<b>21,389</b>	<b>35,196</b>	<b>484,573</b>	<b>219,279</b>	<b>760,437</b>
Provision charge / (reversal) for impairment during the period	35,330	37,545	(21,886)	(13,541)	<b>37,448</b>
Write-off against allowance on sale of loans	–	–	(33,613)	(1,090)	<b>(34,703)</b>
<b>Allowance for loan impairment as of 30 June 2015 (unaudited)</b>	<b>56,719</b>	<b>72,741</b>	<b>429,074</b>	<b>204,648</b>	<b>763,182</b>

## 7 Loans to customers (continued)

In 2015, the Bank sold loans with a nominal value of RUB 60,491 thousand and an allowance for impairment of RUB 34,703 thousand for RUB 25,788 thousand.

As of 30 June 2015, loans net of allowance for impairment in the amount of RUB 6,835,235 thousand (31 December 2014: RUB 12,895,192 thousand) were purchased from banks that were not under common control. Counterparty banks guaranteed the repurchase of principle amounts and interest accrued thereon in case of borrowers' failure to repay the debt.

In 2015 and in previous periods, the Bank had loans in the amount of RUB 60,491 thousand (31 December 2014: RUB 62,223 thousand), which were transferred to a party that was not under common control. The Bank is not exposed to non-payment risk as it provided no guarantee for the payment of interest and principal debt. These loans were derecognized in full on the date when the agreement was signed.

The analysis of movements in allowance for loan impairment during the six-month period ended 30 June 2014 is as follows:

	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
<b>Allowance for loan impairment as of 1 January 2014</b>	<b>17,904</b>	<b>72,187</b>	<b>416,545</b>	<b>176,705</b>	<b>683,341</b>
Provision charge / (reversal) for impairment during the period	(67)	(24,855)	21,898	22,350	<b>19,326</b>
Write-off against allowance on sale of loans	–	–	(11,349)	–	<b>(11,349)</b>
<b>Allowance for loan impairment as of 30 June 2014 (unaudited)</b>	<b>17,837</b>	<b>47,332</b>	<b>427,094</b>	<b>199,055</b>	<b>691,318</b>

In 2014, the Bank sold loans with a nominal value of RUB 51,719 thousand and an allowance for impairment of RUB 11,349 thousand for RUB 40,370 thousand.

The loan portfolio by industry is as follows:

	30 June 2015 (unaudited)		31 December 2014	
	Amount	%	Amount	%
Individuals	8,084,336	26.3	15,623,037	57.4
Finance	7,388,387	24.0	1,055,323	3.9
Manufacturing	4,214,132	13.7	1,924,613	7.1
Residential construction	2,730,456	8.9	3,201,379	11.8
Retail real estate	2,721,181	8.9	2,264,693	8.3
Wholesale trade	2,107,458	6.9	1,094,631	4.0
Oil and gas industry	1,436,985	4.7	852,874	3.1
Services	928,143	3.0	403,738	1.5
Office real estate	289,449	0.9	101,776	0.4
Retail trade	225,624	0.7	2,141	0.0
Infrastructure construction	196,910	0.6	168,946	0.6
Catering	107,420	0.4	75,580	0.3
Warehousing property	73,218	0.2	67,056	0.2
Transport and logistics	25,850	0.1	82,918	0.3
Telecommunications	24,552	0.1	83,166	0.3
Auto dealer	–	0.0	109,888	0.4
Other	194,346	0.6	120,871	0.4
<b>Total loans to customers (before allowance for loan impairment)</b>	<b>30,748,447</b>	<b>100%</b>	<b>27,232,630</b>	<b>100%</b>

As of 30 June 2015, outstanding balance under loans issued to 30 major borrowers amounted to RUB 18,404,479 thousand before allowance for loan impairment (31 December 2014: RUB 11,854,510 thousand), or 60% (31 December 2014: 44%) of the total amount of loans to customers.

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**7 Loans to customers (continued)**

The analysis of loans to customers by credit quality as of 30 June 2015 is as follows (unaudited):

	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Neither past due nor impaired	8,723,736	7,695,308	4,477,749	7,474,331	28,371,124
Past due but not impaired	760,593	41,565	47,425	495,134	1,344,717
Individually impaired loans	–	–	917,735	114,871	1,032,606
<b>Total loans to customers (before allowance for loan impairment)</b>	<b>9,484,329</b>	<b>7,736,873</b>	<b>5,442,909</b>	<b>8,084,336</b>	<b>30,748,447</b>
Less: allowance for impairment	(56,719)	(72,741)	(429,074)	(204,648)	(763,182)
<b>Total loans to customers</b>	<b>9,427,610</b>	<b>7,664,132</b>	<b>5,013,835</b>	<b>7,879,688</b>	<b>29,985,265</b>

The analysis of loans to customers by credit quality as of 31 December 2014 is as follows:

	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Neither past due nor impaired	2,789,561	3,313,381	4,877,731	15,033,865	26,014,538
Past due but not impaired	–	–	–	466,327	466,327
Individually impaired loans	–	–	628,920	122,845	751,765
<b>Total loans to customers (before allowance for loan impairment)</b>	<b>2,789,561</b>	<b>3,313,381</b>	<b>5,506,651</b>	<b>15,623,037</b>	<b>27,232,630</b>
Less: allowance for impairment	(21,389)	(35,196)	(484,573)	(219,279)	(760,437)
<b>Total loans to customers</b>	<b>2,768,172</b>	<b>3,278,185</b>	<b>5,022,078</b>	<b>15,403,758</b>	<b>26,472,193</b>

**8 Finance lease receivables**

As of 30 June 2015 and 31 December 2014, net investment in leases comprised:

	30 June 2015 (unaudited)	31 December 2014
Gross investment in finance leases	266,046	526,430
Unearned future finance income on finance leases	(23,923)	(36,286)
<b>Net investment in leases before allowance</b>	<b>242,123</b>	<b>490,144</b>
Allowance for impairment	(65,001)	(89,212)
<b>Net investment in leases</b>	<b>177,122</b>	<b>400,932</b>

The analysis of movements in allowance for impairment of finance lease receivables is as follows:

	30 June 2015 (unaudited)	30 June 2014 (unaudited)
<b>Allowance for impairment as of 1 January</b>	<b>89,212</b>	<b>121,553</b>
(Reversal) / provision charge for impairment during the period	(24,211)	16,139
Write-off against allowance on sale of lease receivables	–	(14,994)
<b>Allowance for impairment of finance lease receivables as of 30 June (unaudited)</b>	<b>65,001</b>	<b>122,698</b>

In 2014, the Bank sold finance lease receivables with a nominal value of RUB 14,996 thousand and allowance for impairment of RUB 14,994 thousand for RUB 2 thousand.



## 8 Finance lease receivables (continued)

The analysis of finance lease receivables as of 30 June 2015 is as follows:

	Not later than 1 year	Later than 1 year and not later than 5 years	Total
Gross investment in finance leases	188,893	77,153	<b>266,046</b>
Unearned future finance income on finance leases	(16,987)	(6,936)	<b>(23,923)</b>
<b>Net investment in leases before allowance</b>	<b>171,906</b>	<b>70,217</b>	<b>242,123</b>

The analysis of finance lease receivables as of 31 December 2014 is as follows:

	Not later than 1 year	Later than 1 year and not later than 5 years	Total
Gross investment in finance leases	406,512	119,918	<b>526,430</b>
Unearned future finance income on finance leases	(28,020)	(8,266)	<b>(36,286)</b>
<b>Net investment in leases before allowance</b>	<b>378,492</b>	<b>111,652</b>	<b>490,144</b>

## 9 Investment securities available for sale

	30 June 2015 (unaudited)	31 December 2014
Corporate shares	934,621	1,070,779
Bonds of Russian banks	389,919	–
Corporate bonds	385,688	–
<b>Total investment securities available for sale</b>	<b>1,710,228</b>	<b>1,070,779</b>

Investment securities available for sale are carried at fair values which are determined based on observable market data using weighted average quotations on the Moscow Exchange.

## 10 Investment securities held to maturity

	30 June 2015 (unaudited)	31 December 2014
Federal loan bonds (OFZ)	2,923,291	163,718
Bonds of Russian banks	–	163,116
<b>Total non-pledged investment securities held to maturity</b>	<b>2,923,291</b>	<b>326,834</b>
Federal loan bonds (OFZ)	709,065	3,420,826
Bonds of Russian banks	–	17,102
<b>Total pledged investment securities sold under direct repurchase agreements</b>	<b>709,065</b>	<b>3,437,928</b>
<b>Total investment securities held to maturity</b>	<b>3,632,356</b>	<b>3,764,762</b>

The primary factor that the Bank considers in determining whether debt securities held to maturity are impaired is their past due status. As of 30 June 2015 and 31 December 2014, the Bank had no past due debt securities held to maturity.

**10 Investment securities held to maturity (continued)**

Pledged investment securities held to maturity as of 30 June 2015 are represented by securities in the amount of RUB 709,065 thousand (31 December 2014: RUB 3,437,928 thousand), which were sold under repurchase agreements and which can be sold or repledged by the counterparty according to contractual terms or established practice. The short-term repurchase agreements were signed with the central counterparty and were fully completed in due time before 1 July 2015.

**11 Amounts due to banks**

	<b>30 June 2015 (unaudited)</b>	<b>31 December 2014</b>
Direct repurchase agreements with the Bank of Russia	5,039,227	3,988,799
Direct repurchase agreements with other banks	673,216	2,554,294
Deposits of other banks	985,467	754,612
Correspondent accounts and overnight deposits of other banks	1,776,225	4,482,404
<b>Total amounts due to banks</b>	<b>8,474,135</b>	<b>11,780,109</b>

As of 30 June 2015, deposits of other banks include deposits of foreign banks in the amount of RUB 90,005 thousand (31 December 2014: RUB 65,405 thousand) maturing in 2015 and 2016 (31 December 2014: January 2015) and bearing contractual interest rates from 3% to 6% p.a. for USD-denominated deposits and from 11.3% to 11.4% p.a. for RUB-denominated deposits (31 December 2014: 2.50% p.a. for USD- and EUR-denominated deposits).

As of 30 June 2015, amounts due to banks included liabilities in the amount of RUB 5,039,227 thousand under direct repurchase agreements with the Bank of Russia for securities maturing in 2016 and bearing contractual interest rates from 1.14% to 2.71% for USD-denominated agreements.

As of 31 December 2014, amounts due to banks included liabilities in the amount of RUB 3,988,799 thousand under direct repurchase agreements with the Bank of Russia for securities maturing in January 2015 and bearing contractual interest rates of 0.70% for USD- and EUR-denominated agreements and 17.20% for RUB-denominated agreements.

As of 30 June 2015 and 31 December 2014, correspondent accounts and overnight deposits represented amounts placed by Russian and foreign banks.

As of 30 June 2015, minimum balances on correspondent accounts of other banks in the amount of RUB 1,436,373 thousand (31 December 2014: RUB 3,833,315 thousand) represented collateral under loans to individual.

**12 Amounts due to customers**

	<b>30 June 2015 (unaudited)</b>	<b>31 December 2014</b>
<b>State and public organizations</b>		
- Current/settlement accounts	7,848	12,851
- Time deposits	55,525	56,258
<b>Legal entities</b>		
- Current/settlement accounts	3,690,305	3,811,964
- Time deposits	11,489,449	8,641,973
<b>Individuals</b>		
- Current accounts / demand accounts	2,240,533	2,773,563
- Time deposits	18,341,294	15,962,462
<b>Total amounts due to customers</b>	<b>35,824,954</b>	<b>31,259,071</b>

State and public organizations do not include commercial enterprises owned by the state.

## 12 Amounts due to customers (continued)

A breakdown of amounts due to customers by economic sector is as follows:

	30 June 2015 (unaudited)		31 December 2014	
	Amount	%	Amount	%
Individuals	20,581,827	57.5	18,736,025	59.9
Construction	2,970,584	8.3	2,943,474	9.4
Consulting services	2,642,289	7.4	2,074,780	6.6
Oil and gas industry	2,006,175	5.6	–	–
Trade	1,916,324	5.3	1,983,235	6.4
Financial services	1,225,312	3.4	2,325,891	7.5
Real estate	901,512	2.5	1,021,634	3.3
Mining industry	751,585	2.1	35,225	0.1
Manufacturing	513,995	1.4	529,972	1.7
Transport	265,574	0.7	245,490	0.8
Non-for-profit organizations	91,668	0.3	104,344	0.3
Advertising and mass media	67,993	0.2	59,648	0.2
Food industry	46,116	0.1	43,540	0.1
Telecommunications	32,821	0.1	22,136	0.1
Other	1,811,179	5.1	1,133,677	3.6
<b>Total amounts due to customers</b>	<b>35,824,954</b>	<b>100%</b>	<b>31,259,071</b>	<b>100%</b>

As of 30 June 2015, amounts due to 10 largest customers totaled RUB 8,457,515 thousand (31 December 2014: RUB 7,597,849 thousand), or 24% (31 December 2014: 24%) of the amounts due to customers.

As of 30 June 2015, time deposits of legal entities in the amount of RUB 1,664,170 thousand (31 December 2014: RUB 1,646,955 thousand) represented collateral under corporate loans granted by the Bank amounting to RUB 1,660,435 thousand (31 December 2014: RUB 1,636,356 thousand).

## 13 Debt securities issued

	30 June 2015 (unaudited)	31 December 2014
Domestic bonds issued	1,499,098	1,276,365
Promissory notes	753,371	164,008
Deposit certificates	404,447	161,531
<b>Total debt securities issued</b>	<b>2,656,916</b>	<b>1,601,904</b>

As of 30 June 2015, debt securities issued comprised RUB-denominated bonds in the amount of RUB 1,499,098 thousand (31 December 2014: RUB 1,276,365 thousand). The nominal value of bonds issued was RUB 1,500,000 thousand (31 December 2014: RUB 1,275,601 thousand). These bonds mature on 3 July 2016 and bear a coupon rate of 11.5%.

## 14 Share capital

As of 30 June 2015, the authorized, issued and fully paid share capital amounted to RUB 10,413,412 thousand (31 December 2014: RUB 10,413,412 thousand).

In accordance with Russian Accounting Standards, as of 30 June 2015 and 31 December 2014, the share capital amounted to RUB 3,537,460 thousand.

The Bank is a limited liability company. According to applicable Russian legislation, every participant of a limited liability company has the number of votes proportionate to the participant's interest in the company's share capital.

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**15 Interest income and expense**

	<b>30 June 2015 (unaudited)</b>	<b>30 June 2014 (unaudited)</b>
<b>Interest income</b>		
Loans to customers	2,358,026	1,966,986
Amounts due from other banks	403,535	44,588
Investment securities available for sale	43,708	139,656
Investment securities held to maturity	172,787	–
<b>Interest income on financial assets not measured at fair value through profit or loss</b>	<b>2,978,056</b>	<b>2,151,230</b>
Trading securities	283,133	274,062
<b>Total interest income</b>	<b>3,261,189</b>	<b>2,425,292</b>
<b>Interest expense</b>		
Amounts due to customers	1,289,415	812,465
Amounts due to banks	452,641	249,873
Debt securities issued	98,066	101,838
<b>Total interest expense</b>	<b>1,840,122</b>	<b>1,164,176</b>
<b>Net interest income</b>	<b>1,421,067</b>	<b>1,261,116</b>

**16 Administrative and other operating expenses**

	<b>30 June 2015 (unaudited)</b>	<b>30 June 2014 (unaudited)</b>
Staff costs	668,422	399,385
Rent expenses	62,170	61,138
Depreciation of property and equipment and write-off of leasehold improvements	46,236	27,755
Taxes other than income tax	39,369	27,810
Loss from disposal of property, write-off of low-value assets and accounts receivable	30,499	5,314
Other expenses related to property and equipment	26,225	19,233
Contribution to the state deposit insurance system	19,137	14,499
Business travel and related expenses	17,740	6,832
Decrease in the market value of other non-financial assets	16,392	–
Telecommunication and information services	14,620	11,660
Expenses related to security services	13,464	8,023
Amortization and write-off of software and other intangible assets	7,740	27,446
Insurance	2,365	1,979
Advertising and marketing services	2,213	942
Professional services	2,111	3,060
Other	124,495	31,934
<b>Total administrative and other operating expenses</b>	<b>1,093,198</b>	<b>647,010</b>

Staff costs include insurance contributions in the amount of RUB 127,434 thousand (30 June 2014: RUB 77,131 thousand), of which RUB 90,895 thousand (30 June 2014: RUB 70,419 thousand) represent contributions to the pension fund. The information on related party transactions is disclosed in Note 21.

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**17 Income tax**

Income tax expense for the period comprises:

	Six months ended 30 June 2015 (unaudited)	Six months ended 30 June 2014 (unaudited)
Current income tax expense	175,264	13,330
Deferred income tax expense	33,519	187,110
<b>Income tax expense for the period</b>	<b>208,783</b>	<b>200,440</b>

The current income tax rate applicable to the majority of the Bank's 2015 and 2014 income is 20%.

**18 Segment analysis**

Operating segments are components of the company which are engaged in financial and business activities as a result of which they can receive profit or incur expenses. The results of their operating activity are regularly reviewed by the chief operating decision maker, and separate financial information is available on them. A person or a group of persons responsible for the allocation of resources and assessment of the company's performance may act as the chief operating decision maker. The functions of the chief operating decision maker are performed by the Chairman of the Management Board and executive directors from the Bank's Board of Directors. The segment reporting is based on management accounting data which is based on the RAS accounting policy of the Bank.

The information on reporting segments as of 30 June 2015 is presented in the table below (unaudited):

	Corporate banking	Retail banking	Treasury	Total
<b>Total segment assets</b>	<b>17,566,455</b>	<b>9,410,523</b>	<b>28,751,831</b>	<b>55,728,809</b>
<b>Total segment liabilities</b>	<b>(16,523,855)</b>	<b>(22,103,868)</b>	<b>(8,992,679)</b>	<b>(47,620,402)</b>

The information on reporting segments as of 31 December 2014 is presented in the table below (unaudited):

	Corporate banking	Retail banking	Treasury	Total
<b>Total segment assets</b>	<b>14,025,137</b>	<b>15,720,992</b>	<b>22,035,094</b>	<b>51,781,223</b>
<b>Total segment liabilities</b>	<b>(12,798,937)</b>	<b>(18,482,229)</b>	<b>(13,817,008)</b>	<b>(45,098,174)</b>

As of 30 June 2015 and 31 December 2014, the Bank had no contractual capital expenditure commitments for reconstruction of buildings and acquisition of equipment.

	Corporate banking	Retail banking	Treasury	Total
<b>Six months ended 30 June 2015 (unaudited)</b>				
<i>External income:</i>				
- Interest income	1,058,116	187,969	1,707,502	<b>2,953,587</b>
- Fee and commission income	325,889	10,968	-	<b>336,857</b>
<i>Income from other segments:</i>				
- Interest income	(422,882)	1,020,871	(597,989)	-
<b>Total income</b>	<b>961,123</b>	<b>1,219,808</b>	<b>1,109,513</b>	<b>3,290,444</b>
Interest expense	(524,824)	(797,542)	(467,705)	<b>(1,790,071)</b>
Provision for loan impairment	89,786	60,985	90,856	<b>241,627</b>
Depreciation and amortization	(24,805)	(13,427)	(14,055)	<b>(52,287)</b>
Fee and commission expense	(5,532)	3,439	(7,894)	<b>(9,987)</b>
Gains less losses from trading securities	-	-	152,659	<b>152,659</b>
Gains less losses from foreign currencies	-	-	190,503	<b>190,503</b>
Gains less losses from foreign currency translation	-	-	(195,276)	<b>(195,276)</b>
Administrative and other operating expenses	(349,275)	(189,055)	(197,905)	<b>(736,235)</b>
<b>Segment results</b>	<b>146,473</b>	<b>284,208</b>	<b>660,696</b>	<b>1,091,377</b>

**18 Segment analysis (continued)**

	Corporate banking	Retail banking	Treasury	Total
<b>Six months ended 30 June 2014 (unaudited)</b>				
<i>External income:</i>				
- Interest income	740,240	124,203	1,625,366	<b>2,489,809</b>
- Fee and commission income	147,485	22,109	259	<b>169,853</b>
<i>Income from other segments:</i>				
- Interest income	(241,170)	836,213	(595,043)	–
<b>Total income</b>	<b>646,555</b>	<b>982,525</b>	<b>1,030,582</b>	<b>2,659,662</b>
Interest expense	(250,942)	(593,157)	(335,664)	<b>(1,179,763)</b>
Provision for loan impairment	100,533	4,325	(41,554)	<b>63,304</b>
Depreciation and amortization	(23,267)	(12,594)	(13,183)	<b>(49,044)</b>
Fee and commission expense	(19,161)	5,677	(6,086)	<b>(19,570)</b>
Gains less losses from trading securities	–	–	(88,854)	<b>(88,854)</b>
Gains less losses from foreign currencies	–	–	51,925	<b>51,925</b>
Gains less losses from foreign currency translation	–	–	45,877	<b>45,877</b>
Gains less losses on disposal of investment securities available for sale	–	–	997	<b>997</b>
Administrative and other operating expenses	(299,791)	(162,270)	(169,865)	<b>(631,926)</b>
<b>Segment results</b>	<b>153,927</b>	<b>224,506</b>	<b>474,175</b>	<b>852,608</b>

The reconciliation of segment profit with profit before tax for the reporting year is presented below:

	Six months ended 30 June 2015 (unaudited)	Six months ended 30 June 2014 (unaudited)
<b>Segment profit</b>	<b>1,091,377</b>	<b>852,608</b>
Excess of acquiree's net assets over cost of investments	475,203	–
Reversal of RAS provisions and accrual of IFRS provisions	(279,596)	(98,543)
Adjustment of securities held to maturity to their amortized cost	148,529	–
RAS-to-IFRS adjustment of financial assets available for sale	101,124	–
Amortization of fee and commission income	(89,681)	18,428
Other	(17,559)	80,070
<b>Profit/(loss) before tax</b>	<b>1,429,397</b>	<b>852,563</b>

The Bank has no clients that bring more than 10% of the Bank's total income. The Bank carries out a significant part of its operations, receives income and incurs losses, and has assets and liabilities within the territory of the Russian Federation.

**19 Contingencies**

**Operating environment.** Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The 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.

In 2015, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by several countries in 2014. The ruble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

**19 Contingencies (continued)**

**Legal proceedings.** In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of the Bank's future operations.

**Taxation.** The Bank's business activity is carried out in the Russian Federation. Some provisions in the current Russian tax, currency and customs legislation lack precision and are quite ambiguous, which often makes them open to diverse interpretations (which may apply to past legal relations, inter alia), selective and inconsistent application, as well as to frequent and often highly unpredictable changes. Therefore, management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal regulatory authorities at any time in the future. The tax authorities may be taking a more assertive position in their interpretation and application of this legislation, in performing tax reviews and assessing additional taxes. It is therefore possible that the tax authorities may challenge transactions, operations and tax accounting methods of the Bank that have not been challenged in the past. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

Tax field audits of the accuracy of tax accruals and payments conducted by tax authorities may cover three calendar years immediately preceding the year in which the decision to perform the tax review was taken. Under certain circumstances, audits may cover earlier periods.

The current Russian transfer pricing legislation allows the Russian tax authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market price. The list of "controlled" transactions includes transactions performed with related parties (both domestic and cross-border transactions) and certain types of transactions with non-related parties that are treated as "controlled" transactions.

The current Russian transfer pricing rules have considerably increased the compliance administration burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2015 but also to the prior transactions if related income and expenses were recognized in 2015 (except for several types of transactions). Special transfer pricing rules apply to transactions with securities and derivatives.

In 2015, the Bank determined its tax liabilities arising from "controlled" transactions using actual transaction prices. Management believes that the Bank fully complies with transfer pricing rules, and prices applied in "controlled" transactions in 2015 are consistent with market prices. New tax legislation on transfer pricing requires that the Bank should, within the statutory period established in the Russian Tax Code, submit to the Russian tax authorities a duly completed notice in respect of controlled transactions and prepare documents to support the use of transfer prices in controlled transactions.

Due to the uncertainty and absence of established practice of application of the current Russian transfer pricing legislation, the Russian tax authorities may challenge the level of prices applied by the Bank under the "controlled" transactions and accrue additional tax liabilities unless the Bank is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

As of 30 June 2015, management believes that its interpretation of the relevant legislation is appropriate and that the Bank will be able to defend its tax, currency and customs positions.

**Operating lease commitments.** Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2015 (unaudited)	31 December 2014
Less than 1 year	67,029	97,206
From 1 to 5 years	81,910	91,423
<b>Total operating lease commitments</b>	<b>148,939</b>	<b>188,629</b>

## 19 Contingencies (continued)

**Credit-related commitments.** The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees and letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to undrawn loan commitments, the Bank is potentially exposed to loss in an amount equal to the total unused commitments if unused amounts should have been used. However, the likely amount of losses is less than the total amount of unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit-related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Credit-related commitments comprise:

	<b>30 June 2015 (unaudited)</b>	<b>31 December 2014</b>
Guarantees issued	3,535,566	1,582,790
Import letters of credit issued	–	142,205
Less allowance for credit-related commitments	(26,965)	(32,642)
<b>Total credit-related commitments</b>	<b>3,508,601</b>	<b>1,692,353</b>

The total outstanding contractual amount of letters of credit and guarantees does not necessarily represent future cash requirements, as these liabilities may expire or terminate without being funded.

As of 30 June 2015, the unused limits on guarantees amounted to RUB 214,611 thousand (31 December 2014: RUB 264,606 thousand).

As of 30 June 2015 and 31 December 2014, according to the agreements, the Bank has the right to deny providing new tranches under undrawn credit lines depending on the financial position of the borrower.

## 20 Fair values of financial instruments

### (a) Fair values of financial instruments carried at amortized cost

Fair values of financial instruments carried at amortized cost are presented below:

	<b>30 June 2015 (unaudited)</b>			<b>31 December 2014</b>		
	<b>Carrying value</b>	<b>Fair value</b>	<b>Unrecognized gain/(loss)</b>	<b>Carrying amount</b>	<b>Fair value</b>	<b>Unrecognized gain/(loss)</b>
<b>Financial assets</b>						
Cash and cash equivalents	5,279,139	5,279,139	–	8,173,843	8,173,843	–
Obligatory reserve with the CBR	373,302	373,302	–	320,511	320,511	–
Amounts due from other banks	6,685,601	7,297,164	611,563	2,884,343	2,821,220	(63,123)
Loans to customers	29,985,265	27,953,046	(2,032,219)	26,472,193	26,367,944	(104,249)
Finance lease receivables	177,122	177,122	–	400,932	400,932	–
Investment securities held to maturity	3,632,356	3,590,606	(41,750)	3,764,762	3,507,506	(257,256)
Other assets	109,365	109,365	–	99,409	99,409	–
<b>Total financial assets carried at amortized cost</b>	<b>46,242,150</b>	<b>44,779,744</b>	<b>(1,462,406)</b>	<b>42,115,993</b>	<b>41,691,365</b>	<b>(424,628)</b>
<b>Financial liabilities</b>						
Amounts due to banks	8,474,135	8,478,044	(3,909)	11,780,109	11,763,809	16,300
Amounts due to customers	35,824,954	35,670,016	154,938	31,259,071	31,194,126	64,945
Debt securities issued	2,656,916	2,725,431	(68,515)	1,601,904	1,776,394	(174,490)
Other liabilities	32,137	32,137	–	9,758	9,758	–
<b>Total financial liabilities carried at amortized cost</b>	<b>46,988,142</b>	<b>46,905,628</b>	<b>82,514</b>	<b>44,650,842</b>	<b>44,744,087</b>	<b>(93,245)</b>



**20 Fair values of financial instruments (continued)**

**(b) Analysis by fair value hierarchy of financial instruments carried at fair value**

The Bank applies the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – Valuation techniques for which the lowest level inputs that are significant to the fair value measurement are directly or indirectly observable;
- ▶ Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For financial instruments carried at fair value, the levels in the fair value hierarchy into which the fair values are categorized are as follows:

	30 June 2015 (unaudited)			31 December 2014		
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Significant observable inputs (Level 3)	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Significant observable inputs (Level 3)
<b>Financial assets at fair value</b>						
<b>Trading securities</b>	<b>812,485</b>	<b>4,098,520</b>	–	<b>2,986,358</b>	<b>1,716,187</b>	–
- Bonds of banks	806,350	2,614,595	–	1,707,593	1,481,920	–
- Corporate bonds	6,135	1,332,620	–	1,073,086	116,717	–
- Bonds of subjects of the Russian Federation	–	151,305	–	–	117,550	–
- Corporate shares	–	–	–	205,679	–	–
<b>Pledged trading securities sold under direct repurchase agreements</b>	–	–	–	<b>1,328,070</b>	<b>962,907</b>	–
- Bonds of banks	–	–	–	373,831	432,301	–
- Corporate bonds	–	–	–	954,239	455,990	–
- Bonds of subjects of the Russian Federation	–	–	–	–	74,616	–
<b>Investment securities available for sale</b>	<b>694,903</b>	<b>93,995</b>	<b>921,330</b>	<b>62,251</b>	–	<b>1,008,528</b>
- Corporate shares	13,291	–	921,330	62,251	–	1,008,528
- Bonds of Russian banks	295,924	93,995	–	–	–	–
- Corporate bonds	385,688	–	–	–	–	–
<b>Other financial assets</b>	–	–	–	–	<b>4,928</b>	–
- Derivative financial instruments (SWAP deals)	–	–	–	–	4,928	–
<b>Total financial assets at fair value</b>	<b>1,507,388</b>	<b>4,192,515</b>	<b>921,330</b>	<b>4,376,679</b>	<b>2,684,022</b>	<b>1,008,528</b>
<b>Financial liabilities at fair value</b>						
<b>Other financial liabilities</b>	–	–	–	–	<b>66,229</b>	–
- Derivative financial instruments (SWAP deals)	–	–	–	–	66,229	–
<b>Total financial liabilities at fair value</b>	–	–	–	–	<b>66,229</b>	–

During the first half of 2015, the Bank transferred trading securities in the amount of RUB 2,161,178 thousand (as of 30 June 2015) from Level 1 to Level 2 of the fair value hierarchy due to a significant decline in market activity.

Changes in fair values of financial assets transferred to Level 3 in the first half of 2015 are the effect of translation of foreign currencies in which financial assets are denominated. These changes are recognized in other comprehensive income.

## 20 Fair values of financial instruments (continued)

### (b) Analysis by fair value hierarchy of financial instruments carried at fair value (continued)

Management uses professional judgments based on objective evidence of market activity to allocate financial instruments to a particular level of the fair value hierarchy. If observable inputs requiring significant adjustments are used in fair value measurement, this measurement is included in Level 2.

### (c) Methods and assumptions applied in determining fair values

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Fair value is best evidenced by the active quoted market price of a financial instrument. Where quoted market prices are not available, the Bank uses valuation techniques. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and maturity.

## 21 Related party disclosures

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

For the purpose of related party disclosures, participants comprise entities or individuals directly owning an interest in the share capital that gives them significant influence over the Bank.

Other related parties comprise close relatives of individuals and key management personnel who can have influence on or can be influenced by such individuals in relation to transactions with the Bank.

As of 30 June 2015, the outstanding balances with related parties were as follows (unaudited):

	Participants	Key management personnel	Entities under common control	Other related parties
Cash and cash equivalents	–	–	25,744	–
Investment securities available for sale	–	–	921,330	–
Total amount of loans to customers (contractual interest rate: 9.0%-18.0%)	6	44,388	203,490	318
Other non-financial assets	–	280	137	–
Amounts due to banks (contractual interest rate: 6.0%)	–	–	355,256	–
Amounts due to customers (contractual interest rate: 0.1%-17.0%)	1,697,224	402,459	512,544	23,363
Debt securities issued	301,685	–	–	–
Other financial liabilities	–	4,813	–	–
Other non-financial liabilities	7,350	24,144	9	192

Income and expenses arising from transactions with related parties for the six months ended 30 June 2015 are disclosed below:

	Participants	Key management personnel	Entities under common control	Other related parties
Interest income	–	3,261	18,435	41
Interest expense	(66,112)	(13,200)	(27,356)	(1,028)
Provision for loan impairment	–	37	2,533	7
Gains less losses from foreign currencies	62	183	35,305	46
Losses net of gains from foreign currency translation	68,588	854	(9,563)	24
Gains less losses from derivative financial instruments	–	–	(18,084)	–
Fee and commission income	759	329	2,371	31
Fee and commission expense	–	–	(211)	–
Other operating income	–	8	700	–
Administrative and other operating expenses	(23,576)	(159,233)	(6,915)	(2,133)

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**21 Related party disclosures (continued)**

Contingencies under transactions with related parties as of 30 June 2015 were as follows:

	Participants	Key management personnel	Entities under common control	Other related parties
Guarantees issued by the Bank	–	–	136,234	–
Guarantees received by the Bank	229,717	62,860	907,582	16,186
Other contingencies	1,994	930	–	166

Aggregate amounts lent to and repaid by related parties during the six months ended 30 June 2015 were as follows:

	Participants	Key management personnel	Entities under common control	Other related parties
Amounts lent to related parties during the period	1,065	11,272	205,479	1,798
Amounts repaid by related parties during the period	1,060	18,401	268,346	2,259

As of 31 December 2014, the outstanding balances with related parties were as follows:

	Participants	Key management personnel	Entities under common control	Other related parties
Cash and cash equivalents	–	–	2,190,432	–
Equity investment securities available for sale	–	–	1,008,528	–
Loans to customers (contractual interest rate: 9.0%-26.0%)	–	51,525	263,825	776
Other non-financial assets	–	297	139	–
Amounts due to banks (contractual interest rate: 2.5%)	–	–	415,536	–
Amounts due to customers (contractual interest rate: 0.1%-18.0%)	1,547,481	282,714	1,059,761	29,741
Other financial liabilities	–	5,268	10,065	–
Other non-financial liabilities	5,366	16,674	9	75

Income and expenses arising from transactions with related parties for the six months ended 30 June 2014 are disclosed below:

	Participants	Key management personnel	Entities under common control	Other related parties
Interest income	8,729	2,436	60,466	247
Interest expense	(28,501)	(20,006)	(66,454)	(328)
Provision for loan impairment	(33)	10	(2,783)	(4)
Gains less losses from foreign currencies	64	93	(46,954)	19
Losses net of gains from foreign currency translation	(431)	(4,895)	(58,399)	(51)
Gains less losses from derivative financial instruments	–	–	45,239	–
Gains from sale of loans to customers	(1,918)	–	–	–
Fee and commission income	4,146	257	5,784	52
Fee and commission expense	(596)	–	(829)	–
Other operating income	3	3	1,462	–
Administrative and other operating expenses	(13,790)	(106,954)	(1,758)	(1,564)

## 21 Related party disclosures (continued)

Contingencies under transactions with related parties as of 31 December 2014 were as follows:

	Participants	Key management personnel	Entities under common control	Other related parties
Guarantees issued by the Bank	–	–	166,094	–
Guarantees received by the Bank	387,585	101,710	1,133,317	114,986
Other contingencies	2,000	1,314	7,763	166

Aggregate amounts lent to and repaid by related parties during the year ended 31 December 2014 were as follows:

	Participants	Key management personnel	Entities under common control	Other related parties
Amounts lent to related parties during the year	19,655	40,058	3,257,395	3,064
Amounts repaid by related parties during the year	206,191	30,917	3,003,038	3,617

Short-term payments to key management are presented below:

	30 June 2015 (unaudited)	30 June 2014 (unaudited)
<i>Short-term payments:</i>		
- Salaries	145,356	96,261
- Short-term bonuses	3,785	3,565
<b>Total</b>	<b>149,141</b>	<b>99,826</b>

Short-term bonuses are payable in full within twelve months after the period when management provided the respective services.

## 22 Business combinations

On 26 February 2015, Expobank LLC purchased 100% of voting shares in MAK-Bank LLC, following the approval given by the appropriate regulatory authorities. Starting from February 2015, the Bank obtained control over financing and operating activities of the subsidiary.

Name	Nature of business	Country of registration
<b>Subsidiary</b> MAK-Bank LLC	Commercial bank	Russian Federation

Key activities of the acquired bank include retail, mortgage and corporate lending, dealing with securities, raising deposits from legal entities and individuals, issuance and servicing of plastic cards, and maintenance of legal entity settlements. MAK-Bank LLC was acquired mainly to implement the strategy for the consolidation of bank assets.

## 22 Business combinations (continued)

For the purpose of the Bank's financial statements, the fair value of MAK-Bank's assets and liabilities was determined based on the report prepared by independent appraisers. The acquired assets and liabilities and gain from bargain purchase (negative goodwill) arising from acquisition of MAK-Bank LLC are as follows:

	<b>Fair value recognized on acquisition</b>
<b>Assets</b>	
Cash and cash equivalents	613,517
Obligatory reserve with the CBR	90,772
Amounts due from credit institutions	12,702
Trading securities	3,351
Loans to customers	1,242,803
Property and equipment	932,886
Other assets	60,077
<b>Total assets</b>	<b>2,956,108</b>
<b>Liabilities</b>	
Amounts due to banks	10,532
Amounts due to customers	1,993,212
Deferred tax liability	45,113
Other liabilities	31,131
<b>Total liabilities</b>	<b>2,079,988</b>
<b>Total identifiable net assets</b>	<b>876,120</b>
Transferred consideration	200,917
Derecognition of pre-existing relationship	200,000
Less: fair value of the subsidiary's identifiable net assets	(876,120)
<b>Gain on bargain purchase of acquired company</b>	<b>(475,203)</b>

Derecognition of pre-existing relationship in the amount of RUB 200,000 thousand is represented by cash transferred to the subsidiary as a loan. The fair value of the financial liability matches its carrying amount.

On 20 March 2015, the general meeting of the participants decided to reorganize Expobank LLC by merging it with MAK-Bank LLC. On 22 June 2015, MAK-Bank LLC was merged with the Bank.

The fair value of loans to customers amounted to RUB 1,242,803 thousand. The contracted amount of loans to customers before allowance for impairment totaled RUB 1,089,692 thousand. The best estimate of the contractual cash flows not expected to be collected was RUB 198,264 thousand at the acquisition date.

### *Cash flows on acquisition of the subsidiary*

Net cash acquired with the subsidiary (included in cash flows from investing activities)	613,517
Cash paid on acquisition (included in cash flows from investing activities)	(400,917)
<b>Net cash inflow</b>	<b>212,600</b>