

Interim condensed financial statements of  
**Expobank LLC**  
for the period from 1 January till 30 June 2014  
*with report on review of interim condensed financial statements*  
*August 2014*

## 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, which comprise the interim condensed statement of financial position as of 30 June 2014, and the related interim condensed statements of comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes.

Management of the entity is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. 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 *Review of 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, 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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### **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

29 August 2014

### **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 auditor**

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.

**Expobank Limited Liability Company**  
**Interim condensed statement of financial position – 30 June 2014**

<i>(in thousands of Russian Rubles)</i>	Notes	30 June 2014 (unaudited)	31 December 2013
<b>Assets</b>			
Cash and cash equivalents	4	9,466,823	6,808,070
Obligatory reserve with the CBR		286,356	248,140
Trading securities, including:	5	7,185,670	8,065,424
- non-pledged trading securities		2,906,456	3,107,958
- pledged trading securities sold under direct repurchase agreements		4,279,214	4,957,466
Amounts due from other banks	6	589,278	1,085,545
Loans to customers	7	23,804,247	27,803,096
Finance lease receivables	8	780,203	1,443,367
Investment securities available for sale, including:	5	3,902,350	288,865
- non-pledged available-for-sale securities		1,007,686	106,958
- pledged available-for-sale securities sold under direct repurchase agreements		2,894,664	181,907
Income tax prepayment		16,787	20,482
Deferred tax assets	15	236,721	419,195
Property and equipment and intangible assets		1,664,745	1,720,166
Other assets		163,356	115,625
<b>Total assets</b>		<b>48,096,536</b>	<b>48,017,975</b>
<b>Liabilities</b>			
Amounts due to banks	9	10,653,890	11,102,390
Amounts due to customers	10	26,115,042	26,135,998
Debt securities issued	11	2,340,787	2,290,773
Other liabilities		171,161	306,744
<b>Total liabilities</b>		<b>39,280,880</b>	<b>39,835,905</b>
<b>Equity</b>			
Share capital	12	10,413,412	10,413,412
Share premium		548,256	548,256
Accumulated loss		(2,551,965)	(3,204,088)
Unrealized losses on revaluation of investment securities available for sale		(18,537)	–
Revaluation reserve for property and equipment		424,490	424,490
<b>Total equity</b>		<b>8,815,656</b>	<b>8,182,070</b>
<b>Total liabilities and equity</b>		<b>48,096,536</b>	<b>48,017,975</b>

Signed on behalf of the Management Board on 29 August 2014.

D.S. Ganushkin  
Acting Chairman of the Management Board



G.M. Ulanova  
Chief Accountant

**Expobank Limited Liability Company**  
**Interim condensed statement of comprehensive income – 30 June 2014**

<i>(in thousands of Russian Rubles)</i>	Notes	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Interest income	13	2,425,292	1,813,871
Interest expense	13	(1,164,176)	(868,823)
<b>Net interest income</b>		<b>1,261,116</b>	<b>945,048</b>
Provision for impairment of loans to customers and finance lease receivables	7, 8	(35,465)	(66,924)
<b>Net interest income after provision for impairment of loans to customers and finance lease receivables</b>		<b>1,225,651</b>	<b>878,124</b>
Fee and commission income		189,662	130,603
Fee and commission expense		(48,603)	(82,764)
(Losses net of gains)/gains less losses from trading securities		(88,854)	1,785
Gains less losses/(losses net of gains) from foreign currencies		46,945	(48,295)
Gains less losses from foreign currency translation		54,348	148,116
Gains less losses from derivative financial instruments		48,587	–
Loss on sale of loans to customers	7	–	(35,043)
Gains less losses on sale of investment securities available for sale		997	6,472
Other operating income		68,568	90,375
Other gains/(losses) from impairment and provisions		2,272	(3,759)
Administrative and other operating expenses	14	(647,010)	(888,072)
<b>Profit before tax</b>		<b>852,563</b>	<b>197,542</b>
Income tax expense	15	(200,440)	(82,019)
<b>Profit for the period</b>		<b>652,123</b>	<b>115,523</b>
<b>Other comprehensive income (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		(18,537)	(1,718)
<i>Items which will not be subsequently reclassified to profit or loss</i>			
Revaluation of property and equipment		–	90,969
Income tax recognized directly in other comprehensive income		–	(18,194)
<b>Other comprehensive income (loss) for the period</b>		<b>(18,537)</b>	<b>71,057</b>
<b>Total comprehensive income for the period</b>		<b>633,586</b>	<b>186,580</b>

**Expobank Limited Liability Company**  
**Interim condensed statement of changes in equity – 30 June 2014**

<i>(in thousands of Russian Rubles)</i>	Notes	Share capital	Share premium	Unrealized losses on revaluation of investment securities available for sale	Revaluation reserve for property and equipment	Retained earnings/ (accumulated loss)	Total equity attributable to owners of the Bank	Equity instrument to be issued	Total equity
<b>Balance at 1 January 2013</b>		<b>10,319,835</b>	<b>407,623</b>	<b>(1,039)</b>	<b>329,723</b>	<b>(4,320,363)</b>	<b>6,735,779</b>	<b>234,210</b>	<b>6,969,989</b>
Merger with a subsidiary	12	93,577	140,633	–	–	–	<b>234,210</b>	(234,210)	–
Profit for the period		–	–	–	–	115,523	<b>115,523</b>	–	<b>115,523</b>
Other comprehensive income for the period		–	–	(1,718)	72,775	–	<b>71,057</b>	–	<b>71,057</b>
<b>Balance at 30 June 2013 (unaudited)</b>		<b>10,413,412</b>	<b>548,256</b>	<b>(2,757)</b>	<b>402,498</b>	<b>(4,204,840)</b>	<b>7,156,569</b>	–	<b>7,156,569</b>
<b>Balance at 1 January 2014</b>		<b>10,413,412</b>	<b>548,256</b>	–	<b>424,490</b>	<b>(3,204,088)</b>	<b>8,182,070</b>	–	<b>8,182,070</b>
Profit for the period		–	–	–	–	652,123	<b>652,123</b>	–	<b>652,123</b>
Other comprehensive loss		–	–	(18,537)	–	–	<b>(18,537)</b>	–	<b>(18,537)</b>
<b>Balance at 30 June 2014 (unaudited)</b>	12	<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>8,815,656</b>

**Expobank Limited Liability Company**  
**Interim condensed statement of cash flows – 30 June 2014**

<i>(in thousands of Russian Rubles)</i>	Notes	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
<b>Cash flows from operating activities</b>			
Interest received		2,379,304	1,452,046
Interest paid		(1,188,359)	(555,446)
Fees and commissions received		189,662	327,146
Fees and commissions paid		(48,603)	(82,737)
(Losses)/gains from trading securities		(88,854)	1,785
Gains/(losses) from foreign currencies		46,945	(48,295)
Proceeds from sale of loans to customers and finance lease receivables	7, 8	40,372	234,467
Other operating income received		54,764	71,074
Administrative and other operating expenses paid		(570,585)	(784,177)
Income tax (paid)/recovered		(9,635)	441
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>805,011</b>	<b>616,304</b>
Net (increase)/decrease in obligatory reserve with the CBR		(38,216)	2,816
Net decrease/(increase) in trading securities		896,580	(1,228,175)
Net decrease in amounts due from other banks		500,911	1,144,861
Net decrease/(increase) in loans to customers and finance lease receivables		4,746,361	(4,160,448)
Net (increase)/decrease in other assets		(33,700)	191,574
Net decrease in amounts due to banks		(486,894)	(5,604,083)
Net (decrease)/increase in amounts due to customers		(117,600)	946,305
Net increase in debt securities issued		43,655	754,512
Net decrease in other liabilities		(200,697)	(699,227)
<b>Net cash from/(used in) operating activities</b>		<b>6,115,411</b>	<b>(8,035,561)</b>
<b>Cash flows from investing activities</b>			
Purchase of investment securities available for sale		(3,687,504)	(217,846)
Proceeds from sale and redemption of investment securities available for sale		108,682	644,186
Purchase of property and equipment		(26,700)	(10,403)
Proceeds from sale of property and equipment		13,699	7,215
Purchase of intangible assets		(3,202)	(8,973)
<b>Net cash (used in)/from investing activities</b>		<b>(3,595,025)</b>	<b>414,179</b>
<b>Cash flows from financing activities</b>			
Proceeds from bonds issued in the domestic market		–	1,500,000
<b>Net cash from financing activities</b>		<b>–</b>	<b>1,500,000</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>138,367</b>	<b>(152)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,658,753</b>	<b>(6,121,534)</b>
Cash and cash equivalents, beginning	4	6,808,070	11,387,290
<b>Cash and cash equivalents, ending</b>		<b>9,466,823</b>	<b>5,265,756</b>



## **1 Introduction**

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 legislation. As of 30 June 2014, 68.6% of the Bank's shares were owned by Igor Vladimirovich Kim (31 December 2013: 68.6%); 17.6% – by German Alekseevich Tsoy (31 December 2013: 17.6%); 8.8% – by AVTOBAN Road Construction Company, OJSC (31 December 2013: 8.8%); 2.3% – by AVINDALE INVESTMENTS SPF S.A. (31 December 2013: 0%); 1.8% – by Morelam Holdings Limited (Cyprus) (31 December 2013: 1.8%); 0.9% – by Kirill Vladimirovich Nifontov (31 December 2013: 0.9%), 0% – by Yuri Igorevich Koropachinsky (31 December 2013: 2.3%).

**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 (the 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 700 thousand per one individual in case the CBR revokes the banking license or enforces a moratorium on payments.

As of 30 June 2014, the Bank had 4 branches (31 December 2013: 6 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 2014, the Bank had 13 offices (31 December 2013: 11 offices).

As of 30 June 2014, the Bank employed 475 people (31 December 2013: 474 people).

On 1 July 2014, Rus-Rating agency confirmed the national credit rating of A+ and the international credit rating of BB+ with the outlook "possible increase".

On 27 May 2014, FitchRatings (the international rating agency) upgraded the national long-term rating of the Bank from BBB- to BBB with a stable outlook and confirmed the rating of the Bank at B (international scale) with a stable outlook.

**Registered address and place of business.** The Bank is registered at: Russian Federation 107078, Moscow, Kalanchevskaya ulitsa, 29, building 2.

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

## **2 Basis of preparation**

### **General**

These interim condensed financial statements of the Bank 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 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 2013.

### **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 2013, except as noted below:

#### *Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27*

The 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. The amendments had no impact on the Bank, since the Bank does not qualify to be an investment entity under IFRS 10.

## 2 Basis of preparation (continued)

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

#### *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. The amendments are effective for annual periods beginning on or after 1 January 2014. The amendments had no impact on the Bank’s financial position.

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

IFRIC 21 clarifies that an entity recognizes 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 Bank’s financial statements.

#### *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. These amendments had no impact on the Bank, since the Bank 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 recognized or reversed during the period. These amendments had no impact on the Bank’s financial position or performance.

### **Changes in presentation**

Where necessary, corresponding figures have been adjusted to clarify classification of assets, cash flows, income and expenses.

The effect of the reclassification on amounts presented in the financial statements was as follows:

	<b>As previously reported at 31 December 2013</b>	<b>Reclassification</b>	<b>After reclassification at 31 December 2013</b>
<i>Loans to customers</i>			
Medium businesses	4,243,917	(120,319)	4,123,598
Small businesses	3,181,734	120,319	3,302,053
Allowance for loan impairment (medium businesses)	(73,025)	838	(72,187)
Allowance for loan impairment (small businesses)	(415,707)	(838)	(416,545)
<i>Note on industry sectors</i>			
Auto dealers	1,119,809	(1,000,000)	119,809
Oil and gas industry	759,354	275,713	1,035,067
Manufacturing	535,666	724,287	1,259,953

## 2 Basis of preparation (continued)

### Changes in presentation (continued)

	As previously reported for the six months ended 30 June 2013 (unaudited)	Reclassification	After reclassification for the six months ended 30 June 2013 (unaudited)
<i>Statement of cash flows</i>			
Proceeds from bonds issued in the domestic market	1,502,370	(2,370)	1,500,000
Interest paid	(557,816)	2,370	(555,446)
Other operating income received	78,289	(7,215)	71,074
Proceeds from sale of property and equipment	–	7,215	7,215
Sale of investment securities available for sale	426,340	(426,340)	–
Purchase of investment securities available for sale	–	(217,846)	(217,846)
Proceeds from sale and redemption of investment securities available for sale	–	644,186	644,186
Administrative and other operating expenses paid	(801,672)	17,495	(784,177)
Interest received	1,469,541	(17,495)	1,452,046
<i>Statement of comprehensive income</i>			
Administrative and other operating expenses	(905,567)	17,495	(888,072)
Interest income	1,831,366	(17,495)	1,813,871

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## 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. A 10% increase or decrease in the actual loss compared to the estimated loss would result in an increase or decrease in loan impairment losses of RUB 69,132 thousand (31 December 2013: RUB 68,334 thousand), respectively. Impairment loss on individually significant loans is determined based on the estimated amounts of discounted future cash flows on these loans considering loan maturity and sale of assets collateralized under the relevant loan. A 10% increase or decrease in the actual loss compared to the estimated future cash flows, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of RUB 49,219 thousand (31 December 2013: RUB 50,463 thousand), respectively.

**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 19.

### **3 Significant accounting estimates and judgments in applying accounting policies (continued)**

**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 31 December 2013. The market value of property is determined based on the sales comparison approach that includes analysis of market sales prices for similar property. If, based on the valuation, the fair value of the Bank's premises increases or decreases by 10%, the carrying value of these items of property will increase or decrease by RUB 154,350 thousand (before deferred tax recognition) as of 30 June 2014 and 31 December 2013.

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

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<b>(unaudited)</b>	
Cash on hand	708,079	601,788
Cash balances with the CBR (other than obligatory reserve)	1,020,032	2,345,573
Settlement accounts with financial institutions	159,852	110,575
Correspondent accounts and overnight deposits with other banks	6,479,504	2,949,996
Loans issued to other banks with original maturities of less than three months	1,000,000	800,138
Reverse repurchase agreements with credit institutions up to 90 days	99,356	–
<b>Total cash and cash equivalents</b>	<b>9,466,823</b>	<b>6,808,070</b>

As of 30 June 2014, 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 as of 30 June 2014 are represented by placements with Russian and foreign banks.

Loans issued to other banks with original maturities of less than three months are mainly represented by RUB-denominated loans issued to large Russian banks with a contractual interest rate from 8.4% to 8.6% p.a. as of 30 June 2014 maturing on 1 July 2014 (as of 31 December 2013: from 6.0% to 6.5% p.a. maturing on 9 January 2014).

As of 30 June 2014 reverse repurchase agreements with credit institutions up to 90 days are represented by deposits with a Russian bank for a one-day term with an interest rate of 8.5% p.a. These agreements are collateralized by bonds of the Russian bank with a fair value of RUB 109,668 thousand.

**5 Securities**

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<b>(unaudited)</b>	
<b>Trading securities</b>		
Bonds of banks	1,804,693	2,516,987
Corporate bonds	567,291	585,073
Bonds of subjects of the Russian Federation	215,100	5,898
Corporate shares	319,372	–
<b>Total non-pledged trading securities</b>	<b>2,906,456</b>	<b>3,107,958</b>
Bonds of banks	2,355,085	3,066,514
Corporate bonds	1,826,676	1,485,039
Bonds of subjects of the Russian Federation	97,453	405,913
<b>Total pledged trading securities sold under direct repurchase agreements</b>	<b>4,279,214</b>	<b>4,957,466</b>
<b>Total trading securities</b>	<b>7,185,670</b>	<b>8,065,424</b>
<b>Investment securities available for sale</b>		
Russian state bonds (OFZ)	1,007,686	–
Bonds of Russian banks	–	1,082
Promissory notes of Russian banks	–	105,876
<b>Total non-pledged investment securities available for sale</b>	<b>1,007,686</b>	<b>106,958</b>
Russian state bonds (OFZ)	2,713,484	–
Bonds of Russian banks	181,180	181,907
<b>Total pledged investment securities available for sale</b>	<b>2,894,664</b>	<b>181,907</b>
<b>Total investment securities available for sale</b>	<b>3,902,350</b>	<b>288,865</b>
<b>Total securities</b>	<b>11,088,020</b>	<b>8,354,289</b>

Trading securities and investment securities available for sale are carried at fair values which are determined based on observable market data using bid quotations 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.

## 5 Securities (continued)

Pledged trading securities as of 30 June 2014 are represented by securities in the amount of RUB 4,279,214 thousand (31 December 2013: RUB 4,957,466 thousand), which were sold under repurchase agreements and which can 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 on 2 July 2014. The Central Bank of the Russian Federation is the counterparty bank under all repurchase agreements as of 30 June 2014.

As of 30 June 2014, trading securities in the amount of RUB 489,954 thousand (31 December 2013: RUB 450,526 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 2014, amounts due from other banks are represented by Eurobonds of banks in the amount of RUB 589,278 thousand (31 December 2013: RUB 1,085,545 thousand) which are interest-bearing debt securities denominated in RUB and foreign currency (USD), 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.

As of 30 June 2014 and 31 December 2013, the allowance for impairment of amounts due from other banks was not required.

## 7 Loans to customers

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<b>(unaudited)</b>	
Large businesses	4,307,914	7,553,337
Medium businesses	2,609,962	4,123,598
Small businesses	3,228,117	3,302,053
Loans to individuals	14,349,572	13,507,449
<b>Total loans to customers before allowance for loan impairment</b>	<b>24,495,565</b>	<b>28,486,437</b>
Less: allowance for loan impairment	(691,318)	(683,341)
<b>Total loans to customers</b>	<b>23,804,247</b>	<b>27,803,096</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 30 June 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 1,749,438 thousand (31 December 2013: RUB 2,509,485 thousand) secured by shares and bonds of a Russian credit institution and corporate bonds with a fair value of RUB 1,959,585 thousand (31 December 2013: RUB 2,824,409 thousand).

**7 Loans to customers (continued)**

As of 30 June 2014 and 31 December 2013, loans to large businesses comprise Eurobonds in the amount of RUB 91,003 thousand (31 December 2013: RUB 88,564 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 2014 is as follows:

	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
<b>Balance 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>
Amounts written off on sale of loans	–	–	(11,349)	–	<b>(11,349)</b>
<b>Balance 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 Bank is not exposed to delinquency risk as it provided no guarantee for the payment of interest and principal. These loans were derecognized in full on the date when the agreement was signed.

As of 30 June 2014, loans net of allowance for impairment in the amount of RUB 12,613,401 thousand (31 December 2013: RUB 12,145,495 thousand) were purchased from corporate counterparties. Corporate counterparties guaranteed the repayment of the notional amount of loans transferred and interest accrued thereon in case of borrowers' failure to repay the debt.

The analysis of movements in allowance for loan impairment during the six-month period ended 30 June 2013 is as follows:

	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
<b>Balance as of 1 January 2013</b>	<b>35,048</b>	<b>151,439</b>	<b>175,093</b>	<b>195,746</b>	<b>557,326</b>
Provision charge/(reversal) for impairment during the period	18,812	(40,076)	58,832	29,356	<b>66,924</b>
Allowance for purchased loans	–	–	–	32,967	<b>32,967</b>
Amounts written off on sale of loans	–	(1,177)	(64,270)	(125,509)	<b>(190,956)</b>
<b>Balance as of 30 June 2013 (unaudited)</b>	<b>53,860</b>	<b>110,186</b>	<b>169,655</b>	<b>132,560</b>	<b>466,261</b>

In 2013, the Bank sold loans with the nominal amount of RUB 460,466 thousand and allowance for impairment of RUB 190,956 thousand for RUB 234,467 thousand. A loss on sale amounted to RUB 35,043 thousand. The loans were transferred to a party that was not under common control. The Bank is not exposed to delinquency risk as it provided no guarantee for the payment of interest and principal. These loans were derecognized in full on the date when the agreement was signed.

**7 Loans to customers (continued)**

The loan portfolio by industries is as follows:

	30 June 2014 (unaudited)		31 December 2013	
	Amount	%	Amount	%
Individuals	14,349,572	58.6	13,507,449	47.4
Finance	2,098,010	8.6	5,610,488	19.7
Residential construction	1,962,705	8.0	1,754,855	6.2
Manufacturing	1,274,064	5.2	1,259,953	4.4
Services	1,167,420	4.8	1,039,049	3.7
Retail real estate	1,123,083	4.6	1,123,328	3.9
Oil and gas industry	843,791	3.4	1,035,067	3.7
Wholesale trade	682,503	2.8	1,331,777	4.7
Infrastructure construction	346,183	1.4	274,459	1.0
Telecommunications	135,656	0.6	195,589	0.7
Auto dealers	107,481	0.4	119,809	0.4
Catering	98,907	0.4	69,864	0.3
Transport and logistics	91,490	0.4	213,350	0.7
Warehousing property	86,592	0.3	95,982	0.3
Office real estate	36,776	0.2	743,398	2.6
Retail trade	11,146	–	13,440	–
Health care	438	–	438	–
Other	79,748	0.3	98,142	0.3
<b>Total loans to customers (before allowance for loan impairment)</b>	<b>24,495,565</b>	<b>100%</b>	<b>28,486,437</b>	<b>100%</b>

As of 30 June 2014, outstanding balance under loans issued to 30 major borrowers amounted to RUB 9,477,331 thousand before deduction of allowance for loan impairment (31 December 2013: RUB 12,900,324 thousand), or 39% (31 December 2013: 45%) of the total amount of loans to customers.

The analysis of loans to customers by credit quality as of 30 June 2014 is as follows (unaudited):

	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Neither past due nor impaired	4,307,914	2,319,190	2,688,302	13,641,518	<b>22,956,924</b>
Past due but not impaired	–	–	72,312	609,242	<b>681,554</b>
Individually impaired loans	–	290,772	467,503	98,812	<b>857,087</b>
<b>Total loans to customers (before allowance for loan impairment)</b>	<b>4,307,914</b>	<b>2,609,962</b>	<b>3,228,117</b>	<b>14,349,572</b>	<b>24,495,565</b>
Less: allowance for impairment	(17,837)	(47,332)	(427,094)	(199,055)	<b>(691,318)</b>
<b>Total loans to customers</b>	<b>4,290,077</b>	<b>2,562,630</b>	<b>2,801,023</b>	<b>14,150,517</b>	<b>23,804,247</b>

The analysis of loans to customers by credit quality as of 31 December 2013 is as follows:

	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Neither past due nor impaired	7,553,337	3,709,720	2,696,581	12,765,035	<b>26,724,673</b>
Past due but not impaired	–	–	85,781	630,834	<b>716,615</b>
Individually impaired loans	–	413,878	519,691	111,580	<b>1,045,149</b>
<b>Total loans to customers (before allowance for loan impairment)</b>	<b>7,553,337</b>	<b>4,123,598</b>	<b>3,302,053</b>	<b>13,507,449</b>	<b>28,486,437</b>
Less: allowance for impairment	(17,904)	(72,187)	(416,545)	(176,705)	<b>(683,341)</b>
<b>Total loans to customers</b>	<b>7,535,433</b>	<b>4,051,411</b>	<b>2,885,508</b>	<b>13,330,744</b>	<b>27,803,096</b>



## 8 Finance lease receivables

The analysis of finance lease receivables as of 30 June 2014 is as follows (unaudited):

	Not later than 1 year	Later than 1 year and not later than 5 years	Total
Finance lease receivables	776,639	207,504	<b>984,143</b>
Unearned future finance income on finance leases	(59,055)	(22,187)	<b>(81,242)</b>
<b>Net investment in finance leases</b>	<b>717,584</b>	<b>185,317</b>	<b>902,901</b>

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

<b>Balance as of 1 January 2014</b>	<b>121,553</b>
Provision charge during the period	16,139
Amounts written off on sale of lease receivables	(14,994)
<b>Balance as of 30 June 2014 (unaudited)</b>	<b>122,698</b>

In the six-month period ended 30 June 2013, no allowance for impairment of finance lease receivables was made due to absence of such type of assets.

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

The analysis of finance lease receivables as of 31 December 2013 is as follows:

	Not later than 1 year	Later than 1 year and not later than 5 years	Total
Finance lease receivables	1,298,147	501,825	<b>1,799,972</b>
Unearned future finance income on finance leases	(211,600)	(23,452)	<b>(235,052)</b>
<b>Net investment in finance leases</b>	<b>1,086,547</b>	<b>478,373</b>	<b>1,564,920</b>

## 9 Amounts due to banks

	30 June 2014 (unaudited)	31 December 2013
Direct repurchase agreements with the Bank of Russia	7,248,635	4,768,918
Direct repurchase agreements with other banks	189,211	–
Deposits of other banks	500,602	1,739,030
Deposits of the Bank of Russia	50,106	2,054,155
Correspondent accounts and overnight deposits of other banks	2,665,336	2,540,287
<b>Total amounts due to banks</b>	<b>10,653,890</b>	<b>11,102,390</b>

As of 30 June 2014, deposits from the Bank of Russia bear interest rates of 7.75% (31 December 2013: 5.75% and 6.75%) and mature in July 2014 (31 December 2013: from January 2014 to July 2014).

**9 Amounts due to banks (continued)**

As of 30 June 2014, deposits of other banks include deposits of foreign banks in the amount of RUB 75,045 thousand (31 December 2013: RUB 20,610 thousand), maturing in July 2014 and in June 2015 (31 December 2013: in January 2014) and bearing contractual interest rates of 3.50% and 8.00% (31 December 2013: 4.00% and 4.50%).

As of 30 June 2014, amounts due to banks included liabilities in the amount of RUB 7,248,635 thousand under direct repurchase agreements with the Bank of Russia for securities maturing in July 2014 and bearing contractual interest rates of 7.55% and 7.58%.

As of 31 December 2013, amounts due to banks included liabilities in the amount of RUB 4,768,918 thousand under direct repurchase agreements with the Bank of Russia for securities maturing in January 2014 and bearing contractual interest rates of 5.53% and 5.66%.

As of 30 June 2014 and 31 December 2013, correspondent accounts and overnight deposits are represented by amounts placed by Russian and foreign banks.

**10 Amounts due to customers**

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<b>(unaudited)</b>	
<b>State and public organizations</b>		
- Current/settlement accounts	15,961	11,518
- Time deposits	33,631	42,888
<b>Legal entities</b>		
- Current/settlement accounts	3,051,554	3,163,388
- Time deposits	5,911,715	9,811,868
<b>Individuals</b>		
- Current accounts/demand accounts	2,388,988	1,478,745
- Time deposits	14,713,193	11,627,591
<b>Total amounts due to customers</b>	<b>26,115,042</b>	<b>26,135,998</b>

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

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

	<b>30 June 2014</b>		<b>31 December 2013</b>	
	<b>(unaudited)</b>			
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Individuals	17,102,181	65.5	13,106,336	50.2
Financial services	2,394,924	9.2	2,443,375	9.3
Trade	1,781,410	6.8	3,250,516	12.4
Real estate	1,239,280	4.7	1,114,722	4.3
Construction	917,134	3.5	1,718,524	6.6
Consulting services	643,503	2.5	563,327	2.2
Manufacturing	440,130	1.7	2,512,143	9.6
Non-for-profit organizations	247,439	0.9	233,915	0.9
Mining industry	208,564	0.8	7,245	-
Transport	109,831	0.4	157,470	0.6
Advertising and mass media	59,008	0.2	83,865	0.3
Food industry	45,624	0.2	75,263	0.3
Telecommunications	22,914	0.1	55,394	0.2
Other	903,100	3.5	813,903	3.1
<b>Total amounts due to customers</b>	<b>26,115,042</b>	<b>100%</b>	<b>26,135,998</b>	<b>100%</b>

## 10 Amounts due to customers (continued)

As of 30 June 2014, amounts due to customers include the amount of RUB 305,262 thousand (31 December 2013: RUB 587,592 thousand), which is collateral for irrevocable obligations under letters of credit.

As of 30 June 2014, amounts due to 10 largest customers was RUB 6,383,401 thousand (31 December 2013: RUB 7,304,455 thousand), or 24% (31 December 2013: 28%) of the total amount due to customers.

## 11 Debt securities issued

	30 June 2014 (unaudited)	31 December 2013
Promissory notes	760,891	788,403
Domestic bonds issued	1,500,945	1,502,370
Certificates of deposit	78,951	–
<b>Total debt securities issued</b>	<b>2,340,787</b>	<b>2,290,773</b>

As of 30 June 2014, debt securities issued comprised RUB-denominated bonds in the amount of RUB 1,500,945 thousand (31 December 2013: RUB 1,502,370 thousand). These bonds mature on 3 July 2016 and bear a coupon rate of 11.5%. See Note 21.

## 12 Share capital

As of 30 June 2014, the authorized, issued and fully paid share capital amounted to RUB 10,413,412 thousand (31 December 2013: RUB 10,413,412 thousand).

On 7 March 2013, the Bank increased its capital by RUB 234,210 thousand as a result of the merger with CB Stromcombank LLC, including RUB 93,577 thousand as an increase in the value of share capital and RUB 140,633 thousand as a share premium.

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.

In accordance with Russian Accounting Standards as of 30 June 2014 and 31 December 2013, share capital amounted to RUB 3,537,460 thousand.

## 13 Interest income and expense

	30 June 2014 (unaudited)	30 June 2013 (unaudited)
<b>Interest income</b>		
Loans to customers	1,966,986	1,433,379
Debt trading securities	274,062	262,759
Amounts due from other banks	44,588	88,465
Debt investment securities available for sale	139,656	29,268
<b>Total interest income</b>	<b>2,425,292</b>	<b>1,813,871</b>
<b>Interest expense</b>		
Time deposits of individuals	573,875	453,930
Time deposits of other banks	249,873	175,643
Time deposits of legal entities	221,610	194,095
Debt securities issued	101,838	26,991
Current/settlement accounts	16,980	18,164
<b>Total interest expense</b>	<b>1,164,176</b>	<b>868,823</b>
<b>Net interest income</b>	<b>1,261,116</b>	<b>945,048</b>

**14 Administrative and other operating expenses**

	30 June 2014 (unaudited)	30 June 2013 (unaudited)
Staff costs	399,385	387,384
Rent expenses	61,138	80,587
Taxes other than income tax	27,810	36,452
Depreciation of property and equipment and write-off of leasehold improvements	27,755	66,297
Amortization and write-off of software and other intangible assets	27,446	39,643
Other expenses related to property and equipment	19,233	28,455
Contributions to the state deposit insurance system	14,499	10,099
Telecommunication and information services	11,660	14,649
Expenses related to security services	8,023	8,392
Loss from disposal of property and write-off of low-value assets and accounts receivable	5,314	128,069
Professional services	3,060	6,947
Insurance	1,979	1,830
Advertising and marketing services	942	2,629
Other	38,766	76,639
<b>Total administrative and other operating expenses</b>	<b>647,010</b>	<b>888,072</b>

Staff costs include insurance contributions in the amount of RUB 77,131 thousand (30 June 2013: RUB 67,444 thousand), of which RUB 70,419 thousand (30 June 2013: RUB 61,390 thousand) represent contributions to the pension fund. Information on related party transactions is disclosed in Note 19.

**15 Income tax**

Income tax expense for the period comprises:

	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Current income tax expense	13,330	1,582
Deferred tax	187,110	80,437
<b>Income tax expense for the period</b>	<b>200,440</b>	<b>82,019</b>

The current income tax rate applicable to the majority of the Bank's income in 2014 and 2013 is 20%.

A reconciliation of theoretical tax expense with actual is as follows:

	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
<b>Profit before taxation</b>	<b>852,563</b>	<b>197,542</b>
Theoretical tax charge at the statutory rate of 20%	170,513	39,508
Tax effect of income or expenses which are not deductible for taxation purposes:		
- Non-deductible expenses	31,302	32,066
- Income on government securities taxed at different rates	(4,388)	(527)
- Non-taxable income	(2,442)	-
- Other permanent differences	5,455	10,972
<b>Income tax expense for the period</b>	<b>200,440</b>	<b>82,019</b>

## 16 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. Information for segment reporting is based on management accounts.

Segment information on reporting segments as of 30 June 2014 is presented in the table below (unaudited):

	Corporate banking	Retail banking	Treasury	Total
<b>Total segment assets</b>	<b>9,202,940</b>	<b>1,925,875</b>	<b>37,128,803</b>	<b>48,257,618</b>
<b>Total segment liabilities</b>	<b>(10,085,779)</b>	<b>(16,732,597)</b>	<b>(12,926,346)</b>	<b>(39,744,722)</b>

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

Segment information on reporting segments as of 31 December 2013 is presented in the table below:

	Corporate banking	Retail banking	Treasury	Total
<b>Total segment assets</b>	<b>13,900,123</b>	<b>1,641,180</b>	<b>32,005,888</b>	<b>47,547,191</b>
<b>Total segment liabilities</b>	<b>(12,856,225)</b>	<b>(12,904,051)</b>	<b>(14,328,290)</b>	<b>(40,088,566)</b>

As of 31 December 2013, the Bank had no contractual capital expenditure commitments for reconstruction of buildings and acquisition of equipment.

Reconciliation of segment assets prepared in accordance with management accounts with total assets is presented below:

	30 June 2014 (unaudited)	31 December 2013
<b>Segment assets</b>	<b>48,257,618</b>	<b>47,547,191</b>
Additional depreciation of property and equipment and recognition of finance lease receivables in accordance with IFRS	(245,932)	(245,644)
Revaluation of a building at the reporting date	158,441	158,441
Reversal/(additional charge) of allowance for impairment of loans to customers in accordance with IFRS	64,341	(123,550)
Recognition of deferred tax asset	236,721	419,195
Reversal of provision for other assets	226,329	314,697
Set-off of claims and liabilities to deliver securities under repurchase agreements	(290,441)	–
Amortization of intangible assets	(104,735)	(97,758)
Other	(205,806)	45,403
<b>Total assets</b>	<b>48,096,536</b>	<b>48,017,975</b>
<b>Segment liabilities</b>	<b>39,744,722</b>	<b>40,088,566</b>
Accrual of unused vacation liabilities	56,312	49,341
Set-off of claims and liabilities to deliver securities under repurchase agreements	(290,441)	–
Recognition of finance lease receivables in accordance with IFRS	(176,487)	(281,394)
Other	(53,226)	(20,608)
<b>Total liabilities</b>	<b>39,280,880</b>	<b>39,835,905</b>

**16 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	2,489,809
- Fee and commission income	147,485	22,109	259	169,853
<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)	(1,179,763)
Allowance for loan impairment	100,533	4,325	(41,554)	63,304
Depreciation and amortization	(23,267)	(12,594)	(13,183)	(49,044)
Fee and commission expense	(19,161)	5,677	(6,086)	(19,570)
Gains less losses from trading securities	–	–	(88,854)	(88,854)
Gains less losses from foreign currencies	–	–	51,925	51,925
Gains less losses from foreign currency translation	–	–	45,877	45,877
Gains less losses on sale of investment securities available for sale	–	–	997	997
Administrative and other operating expenses	(299,791)	(162,270)	(169,865)	(631,926)
<b>Segment results</b>	<b>153,927</b>	<b>224,506</b>	<b>474,175</b>	<b>852,608</b>
<b>Six months ended 30 June 2013 (unaudited)</b>				
<i>External income:</i>				
- Interest income	710,174	431,020	390,434	1,531,628
- Fee and commission income	225,500	12,839	–	238,339
<i>Income from other segments:</i>				
- Interest income	(209,054)	386,755	(177,701)	–
<b>Total income</b>	<b>726,620</b>	<b>830,614</b>	<b>212,733</b>	<b>1,769,967</b>
Interest expense	(201,026)	(416,323)	(181,888)	(799,237)
Allowance for loan impairment	7,560	(170,099)	–	(162,539)
Depreciation and amortization	(25,610)	(13,871)	(14,521)	(54,002)
Fee and commission expense	(7,294)	–	(2,155)	(9,449)
Gains less losses from trading securities	–	–	1,785	1,785
Gains less losses from foreign currencies	–	–	(17,739)	(17,739)
Gains less losses from foreign currency translation	–	–	126,568	126,568
Gains less losses on sale of investment securities available for sale	–	–	6,472	6,472
Administrative and other operating expenses	(253,697)	(137,153)	(143,573)	(534,423)
<b>Segment results</b>	<b>246,553</b>	<b>93,168</b>	<b>(12,318)</b>	<b>327,403</b>

## 16 Segment analysis (continued)

Reconciliation of segment profit with profit before tax for the reporting period is presented below:

	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
<b>Segment profit</b>	<b>852,608</b>	<b>327,403</b>
Reversal/(additional charge) of depreciation of property and equipment in accordance with IFRS depreciation rates	40,591	(16,066)
Amortization of fee and commission income	18,428	(7,506)
Amortization of intangible assets	(6,784)	(20,758)
Reversal of amount of RAP provisions and accrual of IFRS provisions	(98,543)	(112,166)
Other	46,263	26,635
<b>Profit/(loss) before taxation</b>	<b>852,563</b>	<b>197,542</b>

The Bank has no clients that generate more than 10% of its 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.

## 17 Contingencies

**Operating 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 has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, 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.

In April-August 2014 some countries imposed economic sanctions against a number of Russian companies and the financial sector which may have a negative impact on the Russian economy. The impact of sanctions will be determined in the second half of 2014.

**Legal proceedings.** In the ordinary course of business, the Bank is subject to legal actions and complaints. Based on its own assessment and recommendations of internal professional advisors, the Bank management believes that the related legal proceedings will not result in material losses for the Bank, and, therefore, did not provide for such legal proceedings in its interim condensed financial statements.

**Tax legislation.** Major part of the Bank's business activity is carried out in the Russian Federation. Some provisions of Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is often subject to varying interpretations (which, in particular, may apply retrospectively), selective and inconsistent application and changes, which can occur frequently and at short notice. 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 authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

Fiscal periods remain open to field inspections by the tax authorities in respect of the accuracy of calculation and payment of taxes for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. Under certain circumstances tax audits may cover longer periods.

## 17 Contingencies (continued)

The Russian transfer pricing legislation was amended and came into force on 1 January 2012. The new requirements are more detailed and closer to international principles developed by OECD. The new rules enable tax authorities to charge additional tax on controlled transactions, i.e. transactions entered into with related parties as well as certain types of transactions with unrelated parties, if the transaction does not comply with the arm's-length principle.

The Bank's management believes that the prices applied by the Bank are consistent with market prices and implemented internal controls to comply with the requirements of transfer pricing legislation.

Currently, law enforcement precedents based on the new rules has not yet been established, thus consequences of any disputes with tax authorities relating to prices cannot be estimated reliably, but may significantly influence the Bank's financial results and performance.

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

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<b>(unaudited)</b>	
Less than 1 year	81,538	98,487
From 1 to 5 years	126,137	131,683
<b>Total operating lease commitments</b>	<b>207,675</b>	<b>230,170</b>

**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 2014</b>	<b>31 December 2013</b>
	<b>(unaudited)</b>	
Guarantees issued	1,268,679	1,694,053
Import letters of credit issued	491,003	27,193
Undrawn loan commitments	177,154	69,848
Less allowance for credit related commitments	(17,816)	(20,088)
<b>Total credit related commitments</b>	<b>1,919,020</b>	<b>1,771,006</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 2014, the fair value of guarantees was RUB 25,739 thousand (31 December 2013: RUB 28,424 thousand).

As of 30 June 2014, the irrevocable letters of credit were collateralized by term deposits in the amount of RUB 305,262 thousand (31 December 2013: RUB 587,592 thousand). Refer to Note 10.

As of 30 June 2014, unused limits on guarantees amounted to RUB 253,758 thousand (31 December 2013: RUB 366,685 thousand).

As of 30 June 2014 and 31 December 2013, according to the agreements, the Bank has the right to deny providing new tranches under undrawn loan commitments depending on the financial position of the borrower.



**18 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:

	30 June 2014 (unaudited)			31 December 2013		
	Carrying value	Fair value	Unrecognized gain/(loss)	Carrying value	Fair value	Unrecognized gain/(loss)
<b>Financial assets</b>						
Cash and cash equivalents	9,466,823	9,466,842	19	6,808,070	6,808,132	62
Obligatory reserve with the CBR	286,356	286,356	–	248,140	248,140	–
Amounts due from other banks	589,278	667,510	78,232	1,085,545	1,192,560	107,015
Loans to customers	23,804,247	24,114,604	310,357	27,803,096	28,299,594	496,498
Finance lease receivables	780,203	780,203	–	1,443,367	1,443,367	–
Other assets	66,380	66,380	–	66,252	66,252	–
<b>Total financial assets carried at amortized cost</b>	<b>34,993,287</b>	<b>35,381,895</b>	<b>388,608</b>	<b>37,454,470</b>	<b>38,058,045</b>	<b>603,575</b>
<b>Financial liabilities</b>						
Amounts due to banks	10,653,890	10,663,863	(9,973)	11,102,390	11,058,622	43,768
Amounts due to customers	26,115,042	27,754,358	(1,639,316)	26,135,998	27,606,287	(1,470,289)
Debt securities issued	2,340,787	2,341,387	(600)	2,290,773	2,290,773	–
Other liabilities	21,443	21,443	–	25,265	25,265	–
<b>Total financial liabilities carried at amortized cost</b>	<b>39,131,162</b>	<b>40,781,051</b>	<b>(1,649,889)</b>	<b>39,554,426</b>	<b>40,980,947</b>	<b>(1,426,521)</b>

**(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 input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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 2014 (unaudited)		31 December 2013	
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)
<b>Financial assets measured at fair value</b>				
<b>Non-pledged trading securities</b>	<b>2,586,859</b>	<b>319,597</b>	<b>2,790,602</b>	<b>317,356</b>
- Bonds of banks	1,485,096	319,597	2,199,631	317,356
- Corporate bonds	567,291	–	585,073	–
- Bonds of subjects of the Russian Federation	215,100	–	5,898	–
- Corporate shares	319,372	–	–	–
<b>Pledged trading securities sold under direct repurchase agreements</b>	<b>3,015,444</b>	<b>1,263,770</b>	<b>4,249,298</b>	<b>708,168</b>
- Bonds of banks	1,378,694	976,391	2,358,346	708,168
- Corporate bonds	1,539,297	287,379	1,485,039	–
- Bonds of subjects of the Russian Federation	97,453	–	405,913	–
<b>Non-pledged available-for-sale securities</b>	<b>1,007,686</b>	<b>–</b>	<b>106,958</b>	<b>–</b>
- Russian state bonds (OFZ)	1,007,686	–	–	–
- Bonds of Russian banks	–	–	1,082	–
- Promissory notes of Russian banks	–	–	105,876	–
<b>Pledged available-for-sale securities sold under direct repurchase agreements</b>	<b>2,894,664</b>	<b>–</b>	<b>181,907</b>	<b>–</b>
- Russian state bonds (OFZ)	2,713,484	–	–	–
- Bonds of Russian banks	181,180	–	181,907	–
<b>Other assets</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>92</b>
- Derivative financial instruments (SWAP deals)	–	–	–	92
<b>Total financial assets measured at fair value</b>	<b>9,504,653</b>	<b>1,583,367</b>	<b>7,328,765</b>	<b>1,025,616</b>
<b>Financial liabilities measured at fair value</b>				
<b>Other liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>874</b>
- Derivative financial instruments (SWAP deals)	–	–	–	874
<b>Total financial liabilities measured at fair value</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>874</b>

During the first half of 2014, the Bank transferred certain trading securities from Level 1 to Level 2 of the fair value hierarchy in the amount of RUB 1,009,282 thousand due to decline in market activity. These securities represent bank and corporate bonds, of which RUB 819,667 thousand are pledged under repurchase agreements.

Management uses professional judgments based on the analysis of 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. Significance of used inputs is assessed for aggregated fair value measurement.

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

**(c) The 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.

**19 Related party transactions**

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 directed to the substance of the relationship, not merely the legal form.

For the purpose of related party disclosures, participants comprise entities or individuals owning directly 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.

At 30 June 2014, the outstanding balances with related parties were as follows (unaudited):

	Participants	Key management personnel	Other entities under common control	Other related parties
Cash and cash equivalents	–	–	19,444	–
Total amount of loans to customers (contractual interest rate: 9.0-17.0%)	194,523	27,018	150,742	1,025
Other assets	–	120	3,229	–
Amounts due to banks (contractual interest rate: 3.5-8.0%)	–	–	456,105	–
Amounts due to customers (contractual interest rate: 0.1-11.3%)	1,686,666	311,078	288,385	9,706
Subordinated loans (contractual interest rate: 9.0%)	–	–	800,000	–
Other liabilities	2,677	14,826	–	104

Income and expenses for the period arising from transactions with related parties are disclosed below:

	Participants	Key management personnel	Other 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)
Allowance 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 less losses from sale of loans and advances 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)

**19 Related party transactions (continued)**

Other rights and obligations under transactions with related parties as of 30 June 2014 were as follows:

	Participants	Key management personnel	Other entities under common control	Other related parties
Guarantees issued by the Bank	–	–	43,103	–
Guarantees received by the Bank at the end of the period	257,998	15,100	588,103	14,986
Other contingencies	2,000	1,320	–	566

Aggregate amounts lent to and repaid by related parties during the six months ended 30 June 2014 were as follows:

	Participants	Key management personnel	Other entities under common control	Other related parties
Amounts lent to related parties during the period	–	4,865	1,831,206	1,193
Amounts repaid by related parties during the period	–	20,050	1,692,329	1,498

As of 31 December 2013, the outstanding balances with related parties were as follows:

	Participants	Key management personnel	Other entities under common control	Other related parties
Cash and cash equivalents	–	–	15,472	–
Trading securities	–	–	440,493	–
Loans to customers (contractual interest rate: 9.0%-26.0%)	185,827	42,264	14,647	1,337
Other assets	–	202	212	–
Amounts due to banks (contractual interest rate: 0.1%-4.5%)	–	–	1,991,818	–
Amounts due to customers (contractual interest rate: 0.1%-11.3%)	1,541,226	418,655	24,288	12,489
Subordinated loans (contractual interest rate: 9.0%)	–	–	800,000	–
Other liabilities	911	8,800	1,907	90

Income and expenses arising from transactions with related parties as of 30 June 2013 are disclosed below:

	Participants	Key management personnel	Other entities under common control	Other related parties
Interest income	8,729	3,130	56,110	2
Interest expense	(23,397)	(19,877)	(26,726)	(352)
Allowance for loan impairment	(48)	(132)	(2,360)	8
Gains less losses from foreign currencies	275	50	15,420	32
(Losses net of gains)/gains less losses from foreign currency translation	(18,165)	(8,736)	8,679	(2)
Gains from sale of loans and advances to customers	–	–	2,000	–
Fee and commission income	320	280	2,292	28
Fee and commission expense	–	(3)	(740)	–
Other operating income	–	–	422	–
Administrative and other operating expenses	(257)	(76,078)	(1,892)	(1,125)

## 19 Related party transactions (continued)

Other rights and obligations under transactions with related parties as of 31 December 2013 were as follows:

	Participants	Key management personnel	Other entities under common control	Other related parties
Guarantees received by the Bank at the end of the year	624,480	8,050	98,188	14,986
Other contingencies	2,000	1,315	33,109	549

Aggregate amounts lent to and repaid by related parties during the year ended 31 December 2013 were as follows:

	Participants	Key management personnel	Other entities under common control	Other related parties
Amounts lent to related parties during the year	–	81,365	652,672	7,611
Amounts repaid by related parties during the year	–	62,634	1,230,415	6,442

Short-term benefits for key management are presented below:

	30 June 2014 (unaudited)	30 June 2013 (unaudited)
<i>Short-term benefits:</i>		
- Salaries	96,261	76,379
- Short-term bonuses	3,565	1,869
<b>Total</b>	<b>99,826</b>	<b>78,248</b>

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

## 20 Offsetting of financial instruments

The tables below show the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the statement of financial position:

30 June 2014 (unaudited)	Net amount of financial instruments recognized in the statement of financial position	Financial instruments not offset in the statement of financial position	Net amount
<b>Financial assets</b>			
Reverse repurchase agreements	1,848,794	(1,848,794)	–
Loans to individuals	12,613,401	(2,223,264)	<b>10,390,137</b>
Loans to legal entities	775,146	(775,146)	–
<b>Total</b>	<b>15,237,341</b>	<b>(4,847,204)</b>	<b>10,390,137</b>
<b>Financial liabilities</b>			
Repurchase agreements	(7,437,846)	7,437,846	–
Correspondent accounts and overnight deposits of other banks	(2,275,110)	2,223,264	<b>(51,846)</b>
Time deposits of legal entities	(131,500)	130,000	<b>(1,500)</b>
Promissory notes	(674,627)	645,146	<b>(29,481)</b>
<b>Total</b>	<b>(10,519,083)</b>	<b>10,436,256</b>	<b>(82,827)</b>

**20 Offsetting of financial instruments (continued)**

<b>31 December 2013</b>	<b>Net amount of financial instruments recognized in the statement of financial position</b>	<b>Financial instruments not offset in the statement of financial position</b>	<b>Net amount</b>
<b>Financial assets</b>			
Reverse repurchase agreements	2,509,485	(2,509,485)	–
Loans to individuals	12,145,495	(1,711,673)	<b>10,433,822</b>
Loans to legal entities	3,405,732	(3,405,732)	–
Other financial instruments	92	(92)	–
<b>Total</b>	<b>18,060,804</b>	<b>(7,626,982)</b>	<b>10,433,822</b>
<b>Financial liabilities</b>			
Repurchase agreements	(4,768,918)	4,768,918	–
Correspondent accounts and overnight deposits of other banks	(2,061,849)	2,061,849	–
Time deposits of legal entities	(2,777,878)	2,777,878	–
Promissory notes	(627,854)	627,854	–
Other financial instruments	(874)	92	<b>(782)</b>
<b>Total</b>	<b>(10,237,373)</b>	<b>10,236,591</b>	<b>(782)</b>

**21 Events after the reporting period**

In January 2014, Expobank LLC entered into an agreement with LBBW Bank (Germany) to purchase 100% of shares of LBBW Bank CZ (subsidiary bank in Czech Republic). The Bank obtained the necessary approvals from the regulators in Russia and Czech Republic. The transaction is expected to be closed during the second half of 2014.

On 2 July 2014, under an offer, the Bank purchased its own bonds (Series 03) for the amount of RUB 1,173,095 thousand. During July 2014, the Bank placed these bonds in the secondary market for the amount of RUB 848,750 thousand.