BANK VOZROZHDENIE

International Financial Reporting Standards Interim Summarized Consolidated Financial Statements

(unaudited)

June 30, 2014

CONTENTS

Interim Summarized Consolidated Financial Statements

Notes to the Interim Summarized Consolidated Financial Statements

In millions of Russian Roubles	**Note**	**June 30, 2014 (unaudited)**	**December 31, 2013**
ASSETS			
Cash and cash equivalents	3	30 734	29 331
Mandatory cash balances with the Bank of Russia		1 723	1 780
Trading securities	4	5 302	4 647
Due from other banks	5	608	644
Loans and advances to customers	6	151 982	155 828
Investment securities available for sale	7	6 541	7 510
Investment securities pledged under repurchase agreements	8	1 868	-
Premises and equipment		3 137	3 124
Other financial assets		889	1 010
Non-current assets classified as held for sale	9	310	325
Deferred tax asset		1 293	1 217
Other assets	9	5 222	5 590
TOTAL ASSETS		**209 609**	**211 006**
LIABILITIES			
Due to other banks	10	10 377	8 996
Customer accounts	11	158 110	161 540
Debt securities in issue	12	13 531	10 154
Other borrowed funds		-	3 004
Other financial liabilities		320	335
Other liabilities		738	587
Subordinated loans	13	3 337	4 024
TOTAL LIABILITIES		**186 413**	**188 640**
EQUITY			
Share capital		250	250
Share premium		7 306	7 306
Retained earnings		15 447	14 602
Revaluation reserve for investment securities available for sale		193	208
TOTAL EQUITY		**23 196**	**22 366**
TOTAL LIABILITIES AND EQUITY		**209 609**	**211 006**

Approved for issue and signed on August 26, 2014.

Mr. Alexander Dolgopolov
Chairman of the Management Board

Ms. Svetlana Ovechkina
Deputy of Chief Accountant

In millions of Russian Roubles	Note	6M ended June 30 (unaudited) 2014	6M ended June 30 (unaudited) 2013	3M ended June 30 (unaudited) 2014	3M ended June 30 (unaudited) 2013
Interest income	14	10 012	9 097	4 949	4 646
Interest expense	14	(5 026)	(4 680)	(2 554)	(2 409)
Net interest income		**4 986**	**4 417**	**2 395**	**2 237**
Provision for loan impairment	6	(1 866)	(2 275)	(973)	(1 290)
Net interest income after provision for loan impairment		**3 120**	**2 142**	**1 422**	**947**
Fee and commission income	15	2 250	2 587	1 149	1 365
Fee and commission expense	15	(357)	(265)	(172)	(150)
Gains less losses from trading securities		23	(6)	90	(11)
Gains less losses from trading in foreign currencies		188	(155)	96	(114)
Foreign exchange translation gains less losses		(13)	465	6	286
Gains less losses from investments securities available for sale		2	-	2	-
Other operating income		208	114	76	54
Administrative and other operating expenses	16	(4 365)	(4 226)	(2 178)	(2 135)
Provision for impairment of other assets	9	37	2	46	(19)
Profit before tax		**1 093**	**658**	**537**	**223**
Income tax expense		(234)	(137)	(106)	(35)
PROFIT FOR THE REPORTING PERIOD		**859**	**521**	**431**	**188**
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss					
Available-for-sale investments:					
- Change in revaluation reserve		(14)	52	(19)	22
- Income tax recorded directly in other comprehensive income		(1)	(15)	5	(7)
Other comprehensive income for the reporting period		**(15)**	**37**	**(14)**	**15**
TOTAL COMPREHENSIVE INCOME FOR THE REPORTING PERIOD		**844**	**558**	**417**	**203**
Earnings per share for profit attributable to the equity holders of the Bank, basic and diluted					
(expressed in RR per share) Ordinary shares		34	21	17	7

In millions of Russian Roubles	Share capital	Share premium	Revaluation reserve for available for sale securities	Retained earnings	Total
Balance at December 31, 2013	**250**	**7 306**	**208**	**14 602**	**22 366**
Profit for the six months ended June 30, 2014	-	-	-	859	859
Other comprehensive income for the six months ended June 30, 2014	-	-	(15)	-	(15)
Total comprehensive income for 2014	**-**	**-**	**(15)**	**859**	**844**
Dividends declared	-	-	-	(14)	(14)
Balance at June 30, 2014	**250**	**7 306**	**193**	**15 447**	**23 196**

In millions of Russian Roubles	Share capital	Share premium	Revaluation reserve for available for sale securities	Retained earnings	Total
Balance at December 31, 2012	**250**	**7 306**	**127**	**13 124**	**20 807**
Profit for the six months ended June 30, 2013	-	-	-	521	521
Other comprehensive income for the six months ended June 30, 2013	-	-	37	-	37
Total comprehensive income for 2013	**-**	**-**	**37**	**521**	**558**
Dividends declared	-	-	-	(14)	(14)
Balance at June 30, 2013	**250**	**7 306**	**164**	**13 631**	**21 351**

In millions of Russian Roubles	6M ended June 30, 2014 (unaudited)	6M ended June 30, 2013 (unaudited)
Cash flows from operating activities		
Interest received	10 007	9 111
Interest paid	(5 175)	(4 157)
Fees and commissions received	2 214	2 588
Fees and commissions paid	(385)	(265)
Net income received/(losses paid) from trading in trading securities	5	(5)
Net income received/(losses paid) from trading in foreign currencies	188	(155)
Other operating income received	158	96
Administrative and other operating expenses paid	(4 097)	(3 764)
Income tax paid	(211)	(246)
Cash flows from operating activities before changes in operating assets and liabilities	**2 704**	**3 203**
Changes in operating assets and liabilities		
Net decrease/(increase) in mandatory cash balances with the Bank of Russia	57	(284)
Net increase in trading securities	(2 393)	(1 823)
Net decrease in due from other banks	51	4 420
Net decrease/(increase) in loans and advances to customers	2 248	(10 205)
Net decrease in other financial assets	142	188
Net decrease in other assets	232	14
Net increase in due to other banks	1 569	636
Net (decrease)/increase in customer accounts	(3 979)	2 812
Net increase in debt securities in issue	3 294	2 083
Net decrease in other financial liabilities	(17)	(117)
Net increase/(decrease) in other liabilities	71	(23)
Net decrease in other borrowed funds	(3 000)	(2 803)
Net cash from/(used in) operating activities	**979**	**(1 899)**
Cash flows from investing activities		
Acquisition of investment securities available for sale	(3 906)	(2 981)
Proceeds from disposal of investment securities available for sale	4 843	1 674
Acquisition of premises and equipment	(215)	(123)
Proceeds from disposal of premises and equipment	62	7
Proceeds from disposal of non-current assets held for sale	211	89
Proceeds from disposal of investment properties	12	4
Dividend income received	1	-
Net cash received from/(used in) investing activities	**1 008**	**(1 330)**
Cash flows from financing activities		
Receipt of subordinated loans	243	1 000
Subordinated loans repayment	(958)	(321)
Repayment of funds from international financial institution	(246)	(151)
Dividends paid	(14)	(14)
Net cash (used in)/from financing activities	**(975)**	**514**
Effect of exchange rate changes on cash and cash equivalents	**391**	**1 659**
Net increase/(decrease) in cash and cash equivalents	**1 403**	**(1 056)**
Cash and cash equivalents at the beginning of the year	29 331	40 885
Cash and cash equivalents at the end of the reporting period	**30 734**	**39 829**

1 Introduction

These interim summarised consolidated financial statements have been prepared in accordance with International Financial Reporting Standards - IAS 34 - for the six months ended on June 30, 2014 for Bank Vozrozhdenie (the “Bank”) and its securitisation structured entities, closed joint stock company “Mortgage Agent Vozrozhdeniye 1”, closed joint stock company “Mortgage Agent Vozrozhdeniye 2”, and closed joint stock company “Mortgage Agent Vozrozhdeniye 3” (together referred to as the “Group”).

Presentation currency. These interim summarised consolidated financial statements are presented in millions of Russian Roubles (“RR millions”).

The Bank of Russia principal rates of exchange used for translating foreign currency balances were USD 1 = RR 33.6306 as at June 30, 2014, USD 1 = RR 32.7292 as at December 31, 2013, USD 1 = RR 32.8766 as at June 28, 2013, and EUR 1 = RR 45.8251, 44.9699, and 42.8349 respectively.

2 Critical Accounting Estimates and Judgements in Applying Accounting Policies

These interim summarized consolidated financial statements are to be considered along with the Group’s annual financial statements for the year ended December 31, 2013.

These interim summarized consolidated financial statements do not contain all notes which are obligatory to disclosure in a full version of financial statements.

Principles and methods of accounting policy applied in these interim summarized consolidated financial statements comply with the principles and methods applied and described in the Group’s annual Financial Statements for the year ended December 31, 2013.

Judgments made by the Group’s management while applying accounting policy comply with the judgments described in the Bank’s annual Financial Statements for 2013. The Group’s Management did not apply any new estimates and judgments. As a result of applying estimates and judgments described in the Group’s financial statements for the year ended December 31, 2013, the Group’s assets, revenues and income for the six months ended June 30, 2014 did not change materially.

3 Cash and Cash Equivalents

In millions of Russian Roubles	**June 30, 2014 (unaudited)**	**December 31, 2013**
Cash on hand	6 988	11 954
Correspondent accounts and overnight placements with banks of		
- the Russian Federation	6 617	601
- Other countries	12 355	10 047
Cash balances with the Bank of Russia (other than mandatory cash balances)	4 774	6 729
Total cash and cash equivalents	**30 734**	**29 331**

Cash and cash equivalents are not impaired and are not collateralized.

Geographical, currency, maturity and interest rate analyses are disclosed in Note 18.

4 Trading Securities

In millions of Russian Roubles	**June 30, 2014 (unaudited)**	**December 31, 2013**
Corporate Eurobonds	4 286	4 529
Corporate bonds	844	118
Municipal bonds	172	-
Total trading securities	**5 302**	**4 647**

All the securities included into trading securities portfolio have market quotations.

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators. Trading securities are used by the Group basically for managing liquidity risk.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

Geographical, currency, maturity and interest rate analyses are disclosed in Note 18.

5 Due from Other Banks

In millions of Russian Roubles	**June 30, 2014 (unaudited)**	**December 31, 2013**
Insurance deposits with non-resident banks	553	520
Short-term placements with other banks	55	124
Total due from other banks	**608**	**644**

Geographical, currency, maturity and interest rate analyses are disclosed in Note 18.

6 Loans and Advances to Customers

In millions of Russian Roubles	**June 30, 2014 (unaudited)**	**December 31, 2013**
Corporate loans - large	49 898	51 352
Corporate loans - medium	45 685	47 834
Corporate loans - small	26 507	26 373
Mortgage loans	30 722	29 540
Other loans to individuals	13 336	13 102
Total gross loans and advances to customers (before provision for loan impairment)	**166 148**	**168 201**
Less: Provision for loan impairment	(14 166)	(12 373)
Total loans and advances to customers	**151 982**	**155 828**

Corporate loans are divided on the basis of total amount owed by the customer to the Bank into the following categories: large – in excess of RR 750 million, medium – in excess of RR 100 million, small – RR 100 million and less.

Retail loans are divided into categories by product: mortgage loans and other loans to individuals including consumer loans, car loans, and bank card loans.

6 Loans and Advances to Customers (Continued)

As at June 30, 2014, mortgage loans include mortgage portfolio of RR 8,094 million securitized in 2011-2013 (less provision for impairment), as at December 31, 2013 – RR 9,042 million (less provision for impairment). Management of the Bank defined that the Group has not transferred main risks related to transferred assets and, therefore, the mentioned transfer was not a basis for their derecognition.

Movements in the provision for loan impairment during the six months of 2014 are as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to individuals	Total
Provision for loan impairment at January 1, 2014	**7 602**	**2 582**	**1 381**	**261**	**547**	**12 373**
Provision for impairment during the year	1 239	144	323	58	102	1 866
Amounts written off during the reporting period as uncollectible	-	-	(113)	-	-	(113)
Result from disposal of loans under cession agreements	-	-	(12)	-	-	(12)
Recovery of provision on loans and advances to customers previously written off	-	-	52	-	-	52
Provision for loan impairment at June 30, 2014	**8 841**	**2 726**	**1 631**	**319**	**649**	**14 166**

In 2013, the Group revised its estimation of provision for retail loans on a portfolio basis, applying the migration model.

Movements in the provision for loan impairment during 2013 were as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to individuals	Total
Provision for loan impairment at January 1, 2013	**5 291**	**5 426**	**2 831**	**611**	**544**	**14 703**
Provision for impairment during the year	3 080	311	734	(348)	62	3 839
Amounts written off during the year as uncollectible	(769)	(3 155)	(2 159)	(2)	(2)	(6 087)
Result from disposal of loans under cession agreements	-	-	(25)	-	(57)	(82)
Provision for loan impairment at December 31, 2013	**7 602**	**2 582**	**1 381**	**261**	**547**	**12 373**

Economic sector risk concentrations within the customer loan portfolio are as follows:

	June 30, 2014 (Unaudited)				**December 31, 2013**			
In millions of Russian Roubles	**Loans**	**%**	**Provision**	**%**	**Loans**	**%**	**Provision**	**%**
Individuals	44 058	27	968	7	42 642	25	808	7
Manufacturing	44 057	27	5 111	36	46 732	28	3 941	32
Trade	30 980	18	1 816	13	30 867	19	1 606	13
Construction	13 323	8	1 348	10	13 367	8	1 132	9
Real estate	9 989	6	2 178	15	10 449	6	2 130	17
Agriculture	6 460	4	153	1	7 294	4	155	1
Transport and communication	4 775	3	50	-	3 402	2	71	1
Finance	1 545	1	269	2	1 875	1	266	2
State and public organisations	278	-	3	-	929	1	9	-
Other	10 683	6	2 270	16	10 644	6	2 254	18
Total gross loans and advances to customers	**166 148**	**100**	**14 166**	**100**	**168 201**	**100**	**12 372**	**100**

6 Loans and Advances to Customers (Continued)

State and public organisations exclude government owned profit orientated businesses.

As at June 30, 2014, the Group had 34 borrowers with aggregated loan amounts above RR 750 million. The total aggregate amount of these loans was RR 49,898 million or 30% of the gross loans and advanced to customers.

As at December 31, 2013, the Group had 35 borrowers with aggregated loan amounts above RR 750 million. The total aggregate amount of these loans was RR 51,352 million or 31% of the gross loan portfolio.

Analysis by credit quality of loans outstanding as at June 30, 2014 is as follows:

In millions of Russian Roubles	**Corporate loans - large**	**Corporate loans - medium**	**Corporate loans - small**	**Mortgage loans**	**Other loans to indivi-duals**	**Total**
Neither past due nor impaired						
- Borrowers with credit history over two years	40 204	-	-	-	-	40 204
- New large borrowers	2 177	-	-	-	-	2 177
- Corporate loans assessed on a portfolio basis issued in 2014	-	16 481	12 369	-	-	28 850
- Corporate loans assessed on a portfolio basis issued before 2014	-	26 737	12 286	-	-	39 023
Loans to individuals assessed on a portfolio basis:						
- Mortgage loans issued in 2014	-	-	-	4 216	-	4 216
- Mortgage loans issued before 2014	-	-	-	25 613	-	25 613
- consumer loans	-	-	-	-	10 288	10 288
- credit cards	-	-	-	-	1 830	1 830
- car loans	-	-	-	-	248	248
Total gross neither past due nor impaired	**42 381**	**43 218**	**24 655**	**29 829**	**12 366**	**152 449**
Past due but not impaired						
- less than 30 days overdue	-	-	26	630	320	976
- 30 to 90 days overdue	-	-	186	29	7	222
- 91 to 180 days overdue	-	-	-	30	1	31
- 181 to 360 days overdue	-	127	-	37	5	169
Total gross past due but not impaired	**-**	**127**	**212**	**726**	**333**	**1 398**
Loans collectively determined to be impaired						
- less than 30 days overdue	-	5	1	-	-	6
- 30 to 90 days overdue	-	-	348	2	78	428
- 91 to 180 days overdue	-	300	276	13	67	656
- 181 to 360 days overdue	-	144	230	9	95	478
- over 360 days overdue	-	954	785	143	397	2 279
Total gross collectively impaired loans	**-**	**1 403**	**1 640**	**167**	**637**	**3 847**
Loans individually determined to be impaired						
- 181 to 360 days overdue	-	460	-	-	-	460
- over 360 days overdue	7 517	477	-	-	-	7 994
Total gross individually impaired loans	**7 517**	**937**	**-**	**-**	**-**	**8 454**
Less: Provision for impairment	(8 841)	(2 726)	(1 631)	(319)	(649)	(14 166)
Total loans and advances to customers less provision for impairment	**41 057**	**42 959**	**24 876**	**30 403**	**12 687**	**151 982**

6 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at December 31, 2013 is as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to indivi-duals	Total
Neither past due nor impaired						
- Borrowers with credit history over two years	41 689	-	-	-	-	41 689
- New borrowers	2 146	-	-	-	-	2 146
- Corporate loans assessed on a portfolio basis issued in 2013	-	31 829	21 531	-	-	53 360
- Corporate loans assessed on a portfolio basis issued before 2013	-	13 738	3 591	-	-	17 329
Loans to individuals assessed on a portfolio basis:						
- Mortgage loans issued in 2013	-	-	-	12 096	-	12 096
- Mortgage loans issued before 2013	-	-	-	16 769	-	16 769
- consumer loans	-	-	-	-	10 228	10 228
- credit cards	-	-	-	-	1 889	1 889
- car loans	-	-	-	-	310	310
Total gross neither past due nor impaired	**43 835**	**45 567**	**25 122**	**28 865**	**12 427**	**155 816**
Past due but not impaired						
- less than 30 days overdue	-	13	22	457	147	639
- 30 to 90 days overdue	-	-	-	7	5	12
- 91 to 180 days overdue	-	127	-	31	1	159
- 181 to 360 days overdue	-	-	-	20	17	37
Total gross past due but not impaired	**-**	**140**	**22**	**515**	**170**	**847**
Loans collectively determined to be impaired						
- 30 to 90 days overdue	-	131	49	-	16	196
- 91 to 180 days overdue	-	104	188	-	17	309
- 181 to 360 days overdue	-	50	235	-	23	308
- over 360 days overdue	-	905	757	-	119	1 781
Total gross collectively impaired loans	**-**	**1 190**	**1 229**	**-**	**175**	**2 594**
Loans individually determined to be impaired						
- 30 to 90 days overdue	-	-	-	1	38	39
- 91 to 180 days overdue	-	460	-	13	34	507
- 181 to 360 days overdue	2 670	-	-	10	45	2 725
- over 360 days overdue	4 847	477	-	136	213	5 673
Total gross individually impaired loans	**7 517**	**937**	**-**	**160**	**330**	**8 944**
Less: Provision for impairment	(7 602)	(2 582)	(1 381)	(261)	(547)	(12 373)
Total loans and advances to customers less provision for impairment	**43 750**	**45 252**	**24 992**	**29 279**	**12 555**	**155 828**

The Group believes that the borrowers with long credit history have a less degree of credit risk. The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any.

6 Loans and Advances to Customers (Continued)

The Group applied the portfolio provisioning methodology prescribed by IAS 39 Financial Instruments: Recognition and Measurement, and set up portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the reporting date.

The Group's policy is to classify each loan as "neither past due nor impaired" until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology. Loans collectively determined to be impaired are represented by corporate small and medium loans, and loans to individuals except for mortgage loans, which have an overdue status as an impairment trigger event.

Past due but not impaired loans represent collateralised loans where the fair value of collateral together with consideration of discounting covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The Group usually grants loans when there is liquid and sufficient collateral that is registered in accordance with legislation (except for certain loan products used in lending to individuals, overdraft loans without collateral, loans to constituent entities of the Russian Federation and municipalities, funding provided in factoring transactions, and loan products where individual decisions not to require collateral have been made). The following may be used as collateral under loans to legal entities:

- Real estate;
- Equipment;
- Vehicles;
- Goods for sale;
- A security deposit;
- Bank guarantee;
- State (municipal) guarantee;
- Own promissory notes;
- Disposable securities;
- Refined precious metals in bullion form (gold, silver, platinum, and palladium);
- Property rights (claims) arising out of contractual liabilities.

Loans secured by third party pledge may only be granted if such third parties act as sureties under such loans. In such cases:

- the financial standing of any surety that is a legal entity shall be at least average as per the internal methods of the financial standing evaluation that are applicable at the Group;
- the financial standing of any surety that is an individual shall be good as per the internal methods of the financial standing evaluation that are applicable at the Group.

The pledged real properties (except for land plots), equipment, vehicles, and inventories shall be insured. The insurance amount of the collateral shall be equal to its pledge value or higher, and the insurance agreement shall be valid for at least one month after the expiry date of the loan agreement.

The following items may be accepted as collateral under loans to individuals:

- Real estate purchased under mortgage loan agreements;
- Real estate owned by an individual;
- Vehicles;
- Third party surety, primarily the employers of individual borrowers;
- Pledge of receivables under an individual's deposit; and
- Other property owned by the borrower.

In addition, the Group uses collateral insurance, life, and risk of disability or accident insurance for individual borrowers to mitigate credit risk.

Various types of security against borrowers' liabilities may be combined. The provided security shall be sufficient to cover the principal, interest, and possible costs of the Group that may be incurred for enforcing the borrower's liabilities. The security's liquidity shall be estimated based on the time that its sale may take.

6 Loans and Advances to Customers (Continued)

Information about collateral, as at June 30, 2014, is as follows:

In millions of Russian Roubles	**Corporate loans - large**	**Corporate loans - medium**	**Corporate loans - small**	**Mortgage loans**	**Other loans to individuals**	**Total**
Unsecured loans	4 034	2 580	2 461	1 318	10 346	20 739
Loans collateralised by:						
residential real estate	-	-	-	22 202	2	22 204
other real estate	20 712	20 502	10 826	25	991	53 056
equipment, inventories, motor vehicles	9 783	9 899	7 342	-	311	27 335
securities (promissory notes, shares)	1 871	228	54	12	8	2 173
cash deposits	-	-	-	14	12	26
state guarantees and guarantees of the RF constituents	816	1 170	428	-	-	2 414
other guarantees and third parties' guarantees	10 495	10 046	5 260	30	1 655	27 486
other assets (other types of property, rights)	2 187	1 260	136	7 121	11	10 715
Total gross loans and advances to customers before provision for loan impairment	**49 898**	**45 685**	**26 507**	**30 722**	**13 336**	**166 148**

Unsecured loans to legal entities mainly include loans to constituent entities of the Russian Federation and municipalities and overdraft loans. Unsecured individual loans are mainly mortgage loans, where documents for the registration of the property to be mortgaged are processed by the authorities, as well as consumer loans and bank cards loans.

The collateral value of the property is determined when loans are disbursed according to the regulations that are applicable at the Group.

In addition to the above, the Group is entitled to debit borrowers' current and settlement accounts, opened with the Group, in the event of their default under the contract.

The collateral value of collateral under retail loan products is the market value of the property. The market value of the property must be certified by a market value valuation report, to be made by a valuation company.

Bank card loans under are secured with an individual surety and insurance of the borrowers' life and working capacity. If necessary, depending on the credit limit amount, occupation, and borrower's employment, the Group may require extra collateral, namely, a pledge.

Information about collateral at December 31, 2013 is as follows:

In millions of Russian Roubles	**Corporate loans - large**	**Corporate loans - medium**	**Corporate loans - small**	**Mortgage loans**	**Other loans to individuals**	**Total**
Unsecured loans	2 612	2 902	2 499	1 639	9 668	19 320
Loans collateralised by:						
residential real estate	-	-	-	25 858	5	25 863
other real estate	22 268	23 562	10 271	38	993	57 132
equipment, inventories, motor vehicles	10 534	9 689	7 197	-	397	27 817
securities (promissory notes, shares)	1 875	165	58	12	9	2 119
cash deposits	-	-	1	14	26	41
state guarantees and guarantees of the RF constituents	814	1 402	505	-	-	2 721
other guarantees and third parties' guarantees	11 169	8 685	5 486	34	1 954	27 328
other assets (other types of property, rights)	2 080	1 429	356	1 945	50	5 860
Total loans and advances to customers before provision for loan impairment	**51 352**	**47 834**	**26 373**	**29 540**	**13 102**	**168 201**

Geographical, currency, maturity and interest rate analyses are disclosed in Note 18.

7 Investment Securities Available for Sale

In millions of Russian Roubles	**June 30, 2014 (unaudited)**	**December 31, 2013**
Corporate bonds	5 927	6 194
Municipal bonds	47	752
Total debt securities	**5 974**	**6 946**
Corporate shares	567	564
Total investment securities available for sale	**6 541**	**7 510**

Geographical, currency, maturity and interest rate analyses are disclosed in Note 18.

8 Securities pledged under repurchase agreements

In millions of Russian Roubles	**June 30, 2014 (unaudited)**	**December 31, 2013**
Trading securities pledged under repurchase agreements		
Corporate Eurobonds	1 868	-
Total securities pledged under repurchase agreements	**1 868**	**-**

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 18.

9 Other Assets

In millions of Russian Roubles	**June 30, 2014 (unaudited)**	**December 31, 2013**
Inventory	4 292	4 401
Investment properties	1 272	1 281
Prepayments	221	245
Non-current assets held for sale	334	350
Precious metals	37	91
Income tax overpayment	10	163
Other	205	266
Total other assets (before provision for impairment of other assets)	**6 371**	**6 797**
Less: Provision for impairment of other assets	(839)	(882)
Total other assets	**5 532**	**5 915**

10 Due to Other Banks

In millions of Russian Roubles	**June 30, 2014 (unaudited)**	**December 31, 2013**
Placements of other banks	8 740	8 966
The borrowed funds on a stock exchange REPO's transaction with Bank of Russia	1 600	-
Correspondent accounts of other banks	37	30
Total due to other banks	**10 377**	**8 996**

Geographical, currency, maturity and interest rate analyses are disclosed in Note 18.

11 Customer Accounts

In millions of Russian Roubles	**June 30, 2014 (unaudited)**	**December 31, 2013**
State and public organisations		
- Current/settlement accounts	453	99
- Term deposits	110	1 821
Other legal entities		
- Current/settlement accounts	27 233	31 053
- Term deposits	20 015	22 491
Individuals		
- Current/demand accounts	17 538	18 837
- Term deposits	92 761	87 239
Total customer accounts	**158 110**	**161 540**

State and public organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	June 30, 2014 (unaudited)		**December 31, 2013**	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	110 299	69	106 076	66
Trade	18 469	12	21 696	13
Finance	12 551	8	11 010	7
Manufacturing	7 338	5	8 465	5
Construction	4 523	3	6 910	4
Transport and communication	1 875	1	2 511	2
Agriculture	1 114	1	1 533	1
State and public organisations	757	-	1 972	1
Other	1 184	1	1 367	1
Total customer accounts	**158 110**	**100**	**161 540**	**100**

Geographical, currency, maturity and interest rate analyses are disclosed in Note 18.

12 Debt Securities in Issue

In millions of Russian Roubles	**June 30, 2014 (unaudited)**	**December 31, 2013**
Promissory notes	7 614	6 280
Mortgage backed bonds in issue	5 769	3 729
Deposit certificates	148	145
Total debt securities in issue	**13 531**	**10 154**

In March, in the course of the third deal of mortgage loans securitisation, the Group issued bonds for the amount of RR 3,450 million of face value. These bonds were issued by the SPV company CJSC “MAV 3”. Class “A” bonds for the total amount of Rub 3,000 million were placed via CJSC SE MICEX Stock Exchange by public offering, class “B” bonds for the total amount of Rub 450 million were placed by private offering to bank Vozrozhdenie and, therefore, were not reflected in these Consolidated Financial Statements. International rating agency Moody’s Investors Service assigned class “A” bonds with credit rating ‘Baa2’. Class “A” bonds have a coupon rate of 9.00%. Maturity date of class “A” bonds with book value of RR 3,000 million is October 26, 2046.

Geographical, currency, maturity and interest rate analyses are disclosed in Note 18.

13 Subordinated Loans

Subordinated loans represent long-term deposits of the Group's customers. The subordinated debt ranks after all other creditors in case of the Group's liquidation. The details of subordinated loans attracted by the Group are disclosed in the table below:

				June 30, 2014 (unaudited)		December 31, 2013	
	Start date	**Maturity**	**Currency**	**Contractual interest rate, %**	**Value, RR million**	**Contractual interest rate, %**	**Value, RR million**
Subordinated loan 1	March 2006	March 2014	USD	-	-	6,50	164
Subordinated loan 2	May 2006	May 2014	USD	-	-	6,50	98
Subordinated loan 3	June 2006	June 2014	USD	-	-	6,50	164
Subordinated loan 4	April 2007	April 2014	RR	-	-	8,25	500
Subordinated loan 5	August 2010	August 2018	USD	8,00	101	8,00	98
Subordinated loan 6	July 2012	July 2020	RR	9,25	1 000	9,25	1 000
Subordinated loan 7	December 2012	July 2020	RR	9,25	1 000	9,25	1 000
Subordinated loan 8	February 2013	July 2020	RR	9,25	1 000	9,25	1 000
Subordinated loan 9	January 2014	January 2022	USD	8,50	236	-	-
Total subordinated loans					**3 337**		**4 024**

Subordinated loans No. 5, 9 were received by the Group from a related party.

Geographical, currency, maturity and interest rate analyses are disclosed in Note 18.

14 Interest Income and Expense

In millions of Russian Roubles	**6M ended June 30, 2014 (unaudited)**	**6M ended June 30, 2013 (unaudited)**
Interest income		
Loans and advances to customers - legal entities	6 321	6 134
Loans and advances to customers - individuals	3 317	2 437
Investment securities available for sale	226	92
Trading securities	95	178
Correspondent accounts and due from other banks	53	256
Total interest income	**10 012**	**9 097**
Interest expense		
Term deposits of individuals	3 129	2 728
Term deposits of legal entities	812	985
Debt securities in issue	472	327
Due to other banks	361	195
Subordinated loans	173	301
Other borrowed funds	63	61
Current/settlement accounts of legal entities	16	83
Total interest expense	**5 026**	**4 680**
Net interest income	**4 986**	**4 417**

15 Fee and Commission Income and Expense

In millions of Russian Roubles	6M ended June 30, 2014 (unaudited)	6M ended June 30, 2013 (unaudited)
Fee and commission income		
Credit/debit cards and cheques settlements	683	674
Settlement operations	516	739
Cash transactions	455	508
Guarantees issued	176	152
Payroll projects	158	202
Cash collection	104	112
Other	158	200
Total fee and commission income	**2 250**	**2 587**
Fee and commission expense		
Credit/debit cards and cheques settlements	272	203
Settlement operations	37	37
Settlements with currency and stock exchanges	15	7
Cash transactions	11	7
Other	22	11
Total fee and commission expense	**357**	**265**
Net fee and commission income	**1 893**	**2 322**

16 Administrative and Other Operating Expenses

In millions of Russian Roubles	6M ended June 30, 2014 (unaudited)	6M ended June 30, 2013 (unaudited)
Staff costs	2 607	2 620
Administrative expenses	371	339
Contributions to the State Deposit Insurance Agency	245	226
Other expenses related to premises and equipment	214	204
Depreciation of premises and equipment	172	186
Rent expenses	171	161
Taxes other than on income	150	133
Advertising and marketing services	58	55
Repairs of premises and equipment	41	42
Other	336	260
Total administrative and other operating expenses	**4 365**	**4 226**

Included in staff costs are statutory contributions to non-budget funds of RR 554 million (2013: RR 543 million).

17 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of chief operating decision maker (CODM) are performed by the Management Board of the Group.

Transactions between the operating segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers disclosed in interest income and expense. Interest rates for these funds are differentiated depending on the attraction terms and are based on market indicators.

17 Segment Analysis (Continued)

Segment assets and liabilities include operating assets and liabilities representing a major part of the Bank's assets and liabilities, as well as funds reallocated between operating segments, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each operating segment. Segment performance is based on profitability and cost-effectiveness of operating assets.

The CODM evaluates performance of each segment based on profit before tax.

The table below represents the segment information of interest-bearing assets and interest-bearing liabilities per reportable segments for the six months ended June 30, 2014 and December 31, 2013.

The Bank does not disclose geographical information in its segment analysis as the majority of transactions and revenues of the reportable segments are concentrated basically in Russia. The analysis of the reportable segments is based on the banking products and services but not on the geographical factors.

(*in millions of Russian Roubles)*	Corporate business	Retail business	Bank cards transactions	Financial business	Liquidity	Other	Total
June 30, 2014							
Total assets of reportable segments	**112 831**	**36 240**	**4 761**	**36 272**	**-**	**13 957**	**204 061**
Total liabilities of reportable segments	**63 755**	**93 305**	**18 158**	**4 699**	**-**	**465**	**180 382**
December 31, 2013							
Total assets of reportable segments	**119 510**	**33 174**	**7 027**	**28 466**	**-**	**15 079**	**203 256**
Total liabilities of reportable	**71 584**	**86 629**	**19 601**	**3 578**	**-**	**219**	**181 611**

The table below represents the information on income and expense per reportable segments for the six months ended June 30, 2014. The Group's management considers operating income before provision for loan impairment as a key measurement of reportable segments results.

17 Segment Analysis (Continued)

(in millions of Russian Roubles)	Corporate business	Retail business	Bank cards transactions	Financial business	Liquidity	Other	Total
June 30, 2014							
- Interest income	6 111	2 600	188	387	-	-	9 286
- Non-interest income	1 495	525	884	43	-	22	2 969
- Transfer income	1 991	3 817	282	253	1 358	-	7 701
Total revenues	**9 597**	**6 942**	**1 354**	**683**	**1 358**	**22**	**19 956**
- Interest expense	(1 420)	(3 078)	(74)	(178)	-	-	(4 750)
- Non-interest expense	(60)	(38)	(263)	(18)	-	(70)	(449)
- Transfer expense	(5 442)	(1 918)	(122)	(198)	-	(21)	(7 701)
Total expenses	**(6 922)**	**(5 034)**	**(459)**	**(394)**	**-**	**(91)**	**(12 900)**
Operating income before provision for loan impairment	**2 675**	**1 908**	**895**	**289**	**1 358**	**(69)**	**7 056**
Provision for loan impairment	(2 214)	(154)	(21)	-	-	-	(2 389)
Operating income	**461**	**1 754**	**874**	**289**	**1 358**	**(69)**	**4 667**
Administrative and other operating expenses	(1 738)	(1 168)	(823)	(58)	-	(53)	(3 840)
Depreciation of premises and equipment	(75)	(53)	(37)	(2)	-	(1)	(168)
Financial result from cession	44	-	-	-	-	-	44
Profit/(loss) before tax (Segment result)	**(1 308)**	**533**	**14**	**229**	**1 358**	**(123)**	**703**

17 Segment Analysis (Continued)

The table below represents segment information on the major reportable business lines of the Group for the six months ended June 30, 2013:

(in millions of Russian Roubles)	**Corporate business**	**Retail business**	**Bank cards transactions**	**Financial business**	**Liquidity**	**Other**	**Total**
June 30, 2013							
- Interest income	5 920	1 954	193	520	-	-	8 587
- Non-interest income	1 647	464	898	193	-	8	3 210
- Transfer income	2 275	3 585	295	167	947	-	7 269
Total revenues	**9 842**	**6 003**	**1 386**	**880**	**947**	**8**	**19 066**
- Interest expense	(1 594)	(2 657)	(70)	(146)	-	-	(4 467)
- Non-interest expense	(48)	(5)	(209)	(10)	-	(4)	(276)
- Transfer expense	(5 396)	(1 429)	(78)	(301)	-	(65)	(7 269)
Total expenses	**(7 038)**	**(4 091)**	**(357)**	**(457)**	**-**	**(69)**	**(12 012)**
Operating income before provision for loan impairment	**2 804**	**1 912**	**1 029**	**423**	**947**	**(61)**	**7 054**
Provision for loan impairment	(2 319)	(172)	(11)	-	-	(6)	(2 508)
Operating income	**485**	**1 740**	**1 018**	**423**	**947**	**(67)**	**4 546**
Administrative and other operating expenses	(1 664)	(1 250)	(675)	(43)	-	(33)	(3 665)
Depreciation of premises and equipment	(88)	(60)	(35)	(2)	-	(1)	(186)
Financial result from cession	(65)	-	-	-	-	-	(65)
Profit/(loss) before tax (Segment result)	**(1 332)**	**430**	**308**	**378**	**947**	**(101)**	**630**

17 Segment Analysis (Continued)

The reconciliation of assets, liabilities, income and expenses of the Group's reportable segments for the six months ended June 30, 2014.

Reconciliation of reportable segment assets as at June 30, 2014

In millions of Russian Roubles	**June 30, 2014 (unaudited)**
Total reportable segment assets	**204 061**
Adjustment of provision for loan impairment	501
Adjustment of provision for impairment of other assets	303
Recognition of financial instruments using the effective interest method	(276)
Adjustment of depreciation and cost or revalued amounts of premises and equipment	(560)
Deferred tax asset recognition (according to IFRS)	1 293
Recovery of deferred tax assets (according to RAS)	(1 418)
Consolidation	5 676
Other	29
Total assets under IFRS	**209 609**

Reconciliation of reportable segment assets as at December 31, 2013

In millions of Russian Roubles	**2013**
Total reportable segment assets	**203 256**
Differences in fair valuation of securities	259
Adjustment of provision for loan impairment	393
Adjustment of provision for impairment of other assets	(133)
Recognition of financial instruments using the effective interest method	(257)
Adjustment of depreciation and cost or revalued amounts of premises and equipment	(292)
Deferred tax asset recognition	1 217
Consolidation	6 523
Other	40
Total assets under IFRS	**211 006**

Reconciliation of reportable segment liabilities as at June 30, 2014

In millions of Russian Roubles	**June 30, 2014 (unaudited)**
Total reportable segment liabilities	180 382
Accrued expenses	547
Recognition of fee and commission income temporary based	141
Recovery of deferred tax liabilities (according to RAS)	(236)
Consolidation	5 579
Total liabilities under IFRS	**186 413**

17 Segment Analysis (Continued)

Reconciliation of reportable segment liabilities as at December 31, 2013

In millions of Russian Roubles	**2013**
Total reportable segment liabilities	**181 611**
Accrued expenses	367
Recognition of fee and commission income temporary based	177
Consolidation	6 485
Total liabilities under IFRS	**188 640**

Reconciliation of income or expense before tax of the reportable segments

Reconciliation of profit before tax and other material income or expenses (interest income and expense, non-interest income or expense, provision for loan impairment, administrative and other operating expenses) for the reportable segments with the consolidated statement of profit or loss and other comprehensive income under IFRS for the six months ended June 30, 2014 is as follows:

(*in millions of Russian Roubles)*	**Before tax profit**	**Interest income**	**Non-interest income**	**Interest expense**	**Non-interest income**	**Provision for loan impairment**	**Administrative and other operating expenses**
Total reportable segment result	**703**	**9 286**	**2 969**	**(4 750)**	**(449)**	**(2 345)**	**(4 008)**
Recognition of interest income from lending using the effective interest method	(32)	(32)	-	-	-	-	-
Recognition of fee and commission income by reference to completion of the specific transaction	36	-	36	-	-	-	-
Accrued expenses	(242)	-	-	-	-	-	(242)
Differences in depreciation charges on premises and equipment	(5)	-	-	-	-	-	(5)
Adjustment of provisions for loan impairment based on the incurred loss model	72	-	-	-	(32)	104	-
Provision for impairment of non-core assets	475	-	-	-	-	475	-
Recognition of financial instruments using the effective interest method	13	13	-	-	-	-	-
Reclassification of management accounts items	-	381	(334)	1	85	(63)	(70)
Consolidation	57	364	-	(277)	-	-	(30)
Other	16	-	-	-	26	-	(10)
Total under IFRS	**1 093**	**10 012**	**2 671**	**(5 026)**	**(370)**	**(1 829)**	**(4 365)**

17 Segment Analysis (Continued)

Reconciliation of profit before tax and other material income or expenses (interest income and expense, non-interest income or expense, provision for loan impairment, administrative and other operating expenses) for the reportable segments with the consolidated statement of profit or loss and other comprehensive income under IFRS for the six months ended June 30, 2013 is as follows:

(in millions of Russian Roubles)	**Before tax profit**	**Interest income**	**Non-interest income**	**Interest expense**	**Non-interest income**	**Provision for loan impairment**	**Administrative and other operating expenses**
Total reportable segment result	**630**	**8 587**	**3 210**	**(4 467)**	**(276)**	**(2 573)**	**(3 851)**
Recognition of interest income from lending using the effective interest method	9	10	3	(4)	-	-	-
Recognition of commission income by reference to completion of the specific transaction	(28)	-	(28)	-	-	-	-
Adjustment of provisions for loan impairment based on the incurred loss model	268	(1)	10	-	-	259	-
Accrued expenses	(341)	-	-	-	-	-	(341)
Recognition of financial instruments using the effective interest method	22	22	-	-	-	-	-
Reclassification of management accounts items	-	218	(43)	-	(150)	(17)	(8)
Provision for impairment of non-core assets	58	-	-	-	-	58	-
Consolidation	38	263	-	(209)	-	-	(16)
Other	2	(2)	14	-	-	-	(10)
Total under IFRS	**658**	**9 097**	**3 166**	**(4 680)**	**(426)**	**(2 273)**	**(4 226)**

18 Financial Risk Management

The organization of an effective risk management system is of supreme importance for the Group. The quality of risk management is one of the Group's competitive advantages, increasing its capitalization.

The business of the Group's members is exposed to a wide range of risks, the most significant of which, due to the nature of the Group's business, are credit risk, market risk, liquidity risk, and operational risk.

In addition to the abovementioned risks, the business of the Group is exposed to the following risks, the effect of which is generally not significant and poses no serious threat for companies and customers of the Group, namely, country risk, legal risk, business reputation risk, and strategic risk.

The main activities planned regarding risk migration policy are determined in the framework of the Group's strategy, which is based on conformity with the strategic goals of the Group's members and aims at further improvement of the risk management system in accordance with the business objectives, the number and amounts of risks undertaken, and the optimum balance of yield and risks.

The risk management system of the Group enables the prompt discovery, identification, and analysis of risks, the measurement and assessment of risk positions, and application of various risk management methods (risk prevention, minimization, distribution, and absorption). The procedures of risk assessment and management are integrated in the current operations processes. The efficiency of the Group's risk management and internal control procedures is proven by the ability of the Group members to generate net profits while maintaining a conservative approach to the establishment of provisions, thus raising added value for the shareholders of the Group.

Decisions on the development of new areas of business (new products) are made subject to prior analysis of the potential risks, to which the new area of business (product) may be exposed.

The main elements of the risk management system of the Group (including specialized structural subdivisions that are in charge of risk control) are concentrated in the Bank.

Risk management is performed by way of the distribution of authority and responsibility, a system of management reporting on the results of controlling significant risks and procedures for their management, and feedback (corrective action) following such control.

The main risk management duties are assigned as follows:

1. Heads of independent structural subdivisions of the Group (including branch managers) are responsible for the management of the risks that are inherent to their business.

Control over the level and status of the significant risk management system is performed by an independent subdivision of the Bank, namely, the Risk Management Department.

An independent assessment of completeness of application and effectiveness of bank risk management procedures is performed by the Internal Control and Audit Service in the course of internal audits.

2. The Management Board of the Bank organizes the implementation of the Group's risk management strategy and policies via the system of committees and assigns the authority and responsibility for the management of individual types of risks to members of the Management Board. Risk management has been distributed among the Group's standing committees as follows:

- The Credit and Investment Committee is in charge of the comprehensive handling of credit risk management issues;

- The Asset and Liability Management Committee is in charge of the management of liquidity risk and takes decisions concerning the quantitative values of asset and liability items on the balance sheet, off-balance items, interest rates, sale prices of claims and liabilities, maturities of transactions and positions in such items including decisions on setting limits for individual types of risk to be undertaken (limits for use of financial instruments and limits for open foreign exchange positions);

18 Financial Risk Management (Continued)

- The Technology Committee is in charge of the implementation of the strategy of the Bank with regard to the development of bank information technologies, which contributes to the strengthening of the management system and the mitigation of IT risks of the Bank;

- The Project Committee is in charge of the general management of project activity, the project portfolio, and implementation of the projects. The work of the Committee contributes to the strengthening of the management system and the mitigation of the strategic risks of the Bank due to unnecessary irretrievable expenses regarding the implementation of inefficient projects or projects that do not conform with the Group's strategic goals.

The duties of operative management of the most significant risks for the Group are distributed between the members of the Management Board in the framework of the fields of business that they supervise.

3. The Board of Directors of the Bank is in charge of establishing the risk management system, approving the strategy and basic internal documents for risk management, and establishing and maintaining the necessary control mechanisms over the level of risks being undertaken and capital adequacy.

For the efficient operation of the risk management system of the Group:

- The Board of Directors has adopted the Corporate Code of Conduct and the Corporate Ethics Code, which are mandatory for all management bodies and employees of the Bank;

- Standing committees of the Board of Directors have been established, which mainly consist of independent directors, the competency of which includes the following aspects of risk management, in particular:

  The Audit Committee drafts recommendations to the Board of Directors on the improvement and implementation of the risk management strategy and performs initial screening of proposals to minimise risk and improve the risk management system;

  The Human Resources and Compensation Committee defines the policies concerning remuneration to employees of the Bank, including the principles and criteria for appointing the amount of remuneration to the members of the Board of Directors, the Chairman and members of the Management Board, and the members of the Audit Commission of the Bank. It notifies the Board of Directors in the event of an exposure to the risk of loss of business reputation.

Every six months, the Bank does stress testing, which is an evaluation of the potential negative effect on the Group's financial condition of a number of preset changes of factors of risks that are significant for the Group, which are equivalent to exclusive but possible events.

For stress testing, a proprietary mathematical model has been designed, which is based on historical data on a change in the operation parameters of the Bank under the impact of change of published macroeconomic parameters in a crisis situation.

During stress testing, the total 'capital at risk' is calculated, which takes account of realized losses, expected losses, and unforeseen losses in the event of implementing stress scenarios under the impact of various risk factors. Then the effect of the total 'capital at risk' is made equal to the risk appetite value, which is determined subject to the established provisions, equity, and expected profits.

Risk appetite means the total maximum amount of risk in monetary form, which the Group is ready to undertake to implement its strategic goals in view of the current and expected amounts of operations (transactions) and risks structure that are significant for the Group.

The review and adoption of stress testing scenarios and its results as well as control over the conformity of the identified amount of risk appetite with the nature and scope of the Group's business is the responsibility of the Board of Directors of the Bank.

18 Financial Risk Management (Continued)

The results of stress testing (in particular, as of January 01, 2014, and July 01, 2014) have shown that the total amount of 'capital at risk', which is required to cover the consequences of the unfavorable impact of significant risks on the Group, does not exceed the established value of risk appetite.

For ongoing control over the functioning of the risk management system and prompt corrective action, the Bank has designed a system of reporting where operational reports by each main risk type are drafted and submitted monthly to the Chairman of the Board of Directors and the Chairman of the Management Board of the Bank. Detailed reports on the Group's significant risks are presented for review the Board of Directors and the Management Board, on a quarterly basis.

The risk management system of the Group's structured companies corresponds to the nature and scope of business of such companies and enables the identification, prevention, and limitation of risks that are significant for the Group.

Risk management procedures in companies that are part of the Group are implemented by these companies independently, subject to the principles of establishing a risk management system, and are under control of the Bank.

Each member of the Group operates in accordance with its Articles of Association, the adopted internal procedures for the approval and execution of operations (transactions) and in compliance with the necessary control procedures over the risks undertaken by the management and control bodies. Additional control over the operations of the Group's members is organized at the level of the Bank.

All the material conditions regarding operations (transactions) that are expected to be made by mortgage agents and of contracts that are expected to be made shall be pre-approved by the Bank. All the decisions on the allocation and amount of money to be spent on the company's routine business operations are taken on the approval of the internal auditor, namely, the Head of the Internal Control and Audit Service of the Bank.

The level of operational risks of the Group's structured companies was mitigated substantially at the stage of their establishment due to the following:

- A detailed development of the securitization plan and contractual base conceived in cooperation with international consulting firms that have extensive experience in such transactions;

- A proper separation of rights and duties between the parties to securitization transactions (service agent, reserve servicer, managing company, payment collection account bank, settlement agent, and issuer's account and mortgage coverage account bank).

Credit risk. The Group is exposed to credit risk, which is determined by the Group as the risk of losses due to the debtors' failure to discharge or the late or incomplete discharge of their financial liabilities to the Group according to the contract / agreement.

Products bearing credit risk are provided by the Bank only and not by any other members of the Group.

The maximum rate of the Group's credit risk is reflected in the carrying amount of financial assets in the consolidated statement of the Group's financial position. The possibility of netting assets and liabilities is of no significant meaning in reducing the potential credit risk. For loan guarantees and commitments, the maximum credit risk is equal to the commitment. Credit risk is mitigated by collateral and other measures for loan quality improvement, which are described in Note 6.

The goals, objectives, and principles of credit risk assessment and management and the set of related measures and action taken to prevent and minimize losses, which the Group may incur as a result of the impact of credit risk, are determined by the Regulations on the Credit Risk Management System, which were adopted by the Board of Directors of the Bank.

The credit risk management system is based on the Lending Policies, which are developed annually in view of the general development strategy.

Credit risk is managed in accordance with a system of limits and powers, a centralized system for the application and regulation of interest rates and fees, and the approval and review of conditions for the issuing of loan products.

18 Financial Risk Management (Continued)

The main elements of the credit risk management system are as follows:

A. Information system

The applicable information system enables the following within the credit risk management system:

- Quality processing of customer primary data and assessing their creditworthiness during the review process of the loan application;
- Analysis during the period of credit risk monitoring and at the repayment stage of the loan product;
- Management of problem debts;
- Development and delivery to the management of analytical reports on the level of credit risk of any complexity containing accurate and objective information for the management to be able to make a decision.

The credit process engages three main sources of information on customers, namely, own database, information provided by the customer, and external databases (credit history bureau, information and analytical systems, internet resources, etc.).

The Risk Calc v3.1 Russia models developed by the Moody's Analytics rating agency is used for assessing the creditworthiness of corporate customers, which enables the calculation of specific parameters of default risk for Russian private companies based on their financial statements.

For retail lending, the CRM Dynamics system and the Deductor Decision Making Support Unit are used, which enables a high level of process automation while raising the promptness and quality of decision making on individuals' applications.

In 2013, the project to roll out CRM Dynamics for corporate business was launched, resulting in the centralization of a number of business lending processes to corporate customers and better control in this area.

B. Limit discipline

The list of the main applicable limits is set out in the Lending Policies and determined by the following factors:

- Requirements of the statutory and regulatory documents of the Bank of Russia;
- The strategy of lending to individuals and legal entities;
- A limitation of the level of risk operations;
- Diversification of the undertaken risk.

The Bank has established the following limits (restrictions) of maximum credit risk:

- by collegial bodies of the Bank;
- by business types;
- by the top 20 largest borrowers / group of related borrowers;
- by shareholders / one shareholder and insiders of the Group;
- for any one sector of economy;
- by constituent entities of the Russian Federation and municipalities;
- by loans granted to one borrower / a group of related borrowers;
- on unsecured loans.

In addition to the general limits, the Lending Policies set out the planned quality and quantity parameters, which represent the structure of the corporate loan portfolio by segment, industry, and region, the loan portfolio structure by currencies and loan maturities, and by loan product types.

To minimise the Group's credit risk, a mechanism of building company accreditation has been developed, which enables setting and controlling limits on granting mortgage loans to individuals for apartments in the same property that is being built by the construction company.18 Financial Risk Management (Continued)

18 Financial Risk Management (Continued)

The list of limits established by the Bank is not exhaustive, and the limit system is undergoing constant improvement to further develop the risk management system.

C. Identification and assessment of credit risks

The Bank has developed internal methods, enabling the identification and assessment of the credit risk level for all categories of individual and legal entity customers and groups of related borrowers.

Assessment of the individual creditworthiness of individuals and legal entities is based on a comprehensive analysis of the customer, using internal and external data sources. The following is checked as part of the creditworthiness assessment:

- For corporate customers and their beneficiaries: financial condition, business reputation, management quality, cash flows, quality of collateral;
- For retail customers: fundamental data on the customer (passport data, check of criminal convictions and administrative liability, etc.), credit history, solvency, quality of collateral.

For the review of loan applications of individuals and legal entities and for the maintenance of loan transactions, formalized procedures for identifying groups of related borrowers and assessing the total credit risk for the groups identified are always applied.

For more stringent control and the monitoring of credit risk for large borrowers, the Administration of Lending to Large Businesses is now in operation at the Bank.

Products bearing credit risk are granted when there is liquid collateral securing repayment by the borrower of the loan and the payment of interest and fees, and the Group's costs incurred by enforcing the borrower's liabilities (save for individual types of loan products).

There are procedures for determining collateral discount, collateral evaluation and, the insurance of the collateral or/and the borrower (with the involvement of valuation and insurance companies that meet the criteria established by the Group) as well as the procedure and frequency of checking collateral for sufficiency and liquidity.

Centralized work on the assessment and monitoring of collateral is done by a special subdivision of the Bank, namely, the Collateral Examination Department, which was established in 2013.

D. Authorization of loan transactions

For the implementation of the strategy and Lending Policies, the authority and certain types and limits amounts for loan transactions are delegated to the Management Board upon a resolution of the Board of Directors, on an occasional basis. The further re-distribution of authority and limits between the collegial bodies of the Bank takes place by a decision of the Management Board and must be reviewed on a quarterly basis.

As part of the Group's credit risk management, there is a multi-level system of authority for the independent making of decisions regarding the issuing of loan products, which is subdivided into the following:

- The authority of the Management Board of the Bank;
- The authority of the Group's Credit and Investment Committee (hereinafter referred to as CIC) consisting of the competence and authority of the following:
  - the close membership of the Bank's CIC;
  - the Subcommittee on Corporate Customers of the Bank's CIC;
  - the Subcommittee on Lending to Micro-Businesses of the Bank's CIC;
  - the Subcommittee on Retail Lending of the Bank's CIC, which includes three memberships depending on the types and amounts of loan products.

Issues regarding the provision of loan products in excess of the authority of the Management Board and the collegial bodies of the Bank are handled by the Board of Directors.

18 Financial Risk Management (Continued)

To optimise decisions on loan transactions, from March 2014, the authority of Credit Committees at the Group's branch offices regarding independent lending to corporate customers has been terminated. From the abovementioned date, all decisions on loan applications shall be made centrally.

The Risk Control Administration's experts are members of the collegial bodies of the Bank with the right to promote issues regarding the issuing of loan products (in individual cases) to a higher collegial body.

E. Credit risk monitoring

The following monitoring tools have been developed to monitor the borrowers' loan debt:

- Regular assessment of borrower's financial condition, economic efficiency, and businesses and projects that have been awarded a loan;
- Identification of groups of related customers / borrowers;
- Compliance with the existing limits and the requirements of the Bank of Russia with regard to the calculation of required ratios;
- Estimation of liquidity and sufficiency of the offered collateral;
- Constant monitoring of the performance of borrowers' liabilities to the Group and the actual existence and condition of collateral;
- Estimation of the quality category of the loan products issued;
- Estimation of the adequacy of established provisions for possible losses on loans and other credit liabilities;
- Procedure for the establishment and control of authority of the collegial bodies of the Bank regarding the provision of loan products;
- Mandatory regular customer checks by the Economic Security Service of the Bank.

At the level of the Bank, monitoring procedures are implemented by the Risk Control Administration and the Economic Security Service using internal and external data sources and automation facilities.

For the prompt monitoring of credit risk for corporate borrowers, the Early Prevention System is used, which enables the automatic detection of signs of impairment of the corporate borrowers' financial and business operations at an early stage, taking preventive action to minimize credit risk before there is a default on the loan.

F. Management of problem loans

In the event of the discovery of risk factors or signs of non-repayment of a loan product by the Bank, a set of measures for overcoming the established situation is developed. Possible measures may include the continuation of lending (extra funding), debt restructuring, repayment of the loan with the accepted collateral, transfer of the debt to a third party, assignment of the claims against the debtor to a third party, and claiming the debt for collection.

The debt settlement procedures are implemented on a centralized basis with the participation of the subdivisions of the Bank that are in charge of the relevant business area and special subdivisions, namely, the Asset Restructuring Department and the Enforcement Department of the Legal Department.

If a loan debt cannot be settled, it is written off the balance sheet at the account of the established provision for the impairment of the loan portfolio and subsequent monitoring based on criteria developed by the Group. The decision to write off the loan is made by the Board of Directors or Management Board of the Bank, according to the powers vested by the Articles of Association of the Bank.

18 Financial Risk Management (Continued)

Market risk. The market risk is defined by the Group as the risk of losses of the credit institution due to an unfavorable change of the market value of financial instruments in the trade portfolio and financial derivatives of the credit institution as well as foreign currency or/and precious metal rates. Market risk includes stock risk, currency risk, and interest risk.

The Group is exposed to market risk related to open positions on (a) currency, (b) interest, and (c) equity instruments that are exposed to the risk of general and specific changes on the market. The Group's management and Asset and Liability Management Committee establish limits for the level of risk undertaken and control compliance with these limits on a daily basis. However, this approach does not enable the prevention of losses exceeding the established limits should further material changes occur on the market.

The tables below summarize the Group's exposure to currency risk and Bank's liquidity position taking into account expected contractual time left before redemption of assets and liabilities.

Currency risk. The Group is exposed to currency risk due to the fact that its assets and liabilities are denominated in different currencies as well as due to existence of open currency positions resulting from foreign currency transactions. The Group manages currency risk by ensuring maximum possible consistency between the currency of its assets and the currency of its liabilities by currency within established limits. The Assets and Liabilities Management Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Group's exposure to foreign currency exchange rate risk at June 30, 2014:

In millions of Russian Roubles	RR	USD	Euro	Other	Total
Monetary financial assets					
Cash and cash equivalents	17 210	7 808	5 665	51	30 734
Mandatory cash balances with the Bank of Russia	1 260	327	135	1	1 723
Trading securities	1 016	2 855	1 431	-	5 302
Due from other banks	51	557	-	-	608
Loans and advances to customers	138 535	10 366	3 081	-	151 982
Investment securities available for sale	5 974	-	-	-	5 974
Investment securities pledged under repurchase agreements	-	562	1 306	-	1 868
Other financial assets	578	293	18	-	889
Total monetary financial assets	**164 624**	**22 768**	**11 636**	**52**	**199 080**
Monetary financial liabilities					
Due to other banks	7 293	498	2 586	-	10 377
Customer accounts	126 709	22 170	9 151	80	158 110
Debt securities in issue	13 215	316	-	-	13 531
Other financial liabilities	255	48	17	-	320
Subordinated loans	3 000	337	-	-	3 337
Total monetary financial liabilities	**150 472**	**23 369**	**11 754**	**80**	**185 675**
Net balance sheet position	**14 152**	**(601)**	**(118)**	**(28)**	**13 405**
Credit related commitments	**14 358**	**488**	**334**	**-**	**15 180**

18 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at December 31, 2013:

In millions of Russian Roubles	RR	USD	Euro	Other	Total
Monetary financial assets					
Cash and cash equivalents	18 135	7 842	3 324	30	29 331
Mandatory cash balances with the Bank of Russia	1 342	316	122	-	1 780
Trading securities	118	2 416	2 113	-	4 647
Due from other banks	124	520	-	-	644
Loans and advances to customers	139 953	10 795	5 080	-	155 828
Investment securities available for sale	6 946	-	-	-	6 946
Other financial assets	587	328	95	-	1 010
Total monetary financial assets	**167 205**	**22 217**	**10 734**	**30**	**200 186**
Monetary financial liabilities					
Due to other banks	5 421	735	2 840	-	8 996
Customer accounts	132 351	21 070	8 099	20	161 540
Debt securities in issue	10 154	-	-	-	10 154
Other borrowed funds	3 004	-	-	-	3 004
Other financial liabilities	302	21	12	-	335
Subordinated loans	3 500	524	-	-	4 024
Total monetary financial liabilities	**154 732**	**22 350**	**10 951**	**20**	**188 053**
Net balance sheet position	**12 473**	**(133)**	**(217)**	**10**	**12 133**
Credit related commitments	**17 600**	**551**	**444**	**-**	**18 595**

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

If as of June 30, 2014, the US Dollar exchange rate were 15.0% higher (or 15.0% lower) while all other variables would remain unchanged, the pre-tax profit for the year would be RR 90 million less (RR 90 million more).

If as of December 31, 2013, the US Dollar exchange rate were 20.0% higher (or 20.0% lower) while all other variables would remain unchanged, the pre-tax profit for the year would be RR 27 million less (RR 27 million more).

If as of June 30, 2014, the Euro exchange rate were 15.0% higher (or 15.0% lower) while all other variables would remain unchanged, the pre-tax profit for the year would be RR 18 million less (RR 18 million more).

If as of December 31, 2013, the Euro exchange rate were 20.0% higher (or 20.0% lower) while all other variables would remain unchanged, the pre-tax profit for the year would be RR 43 million less (RR 43 million more).

Interest rate risk. The Group undertakes risk related to the effect of market fluctuations in interest rates on its financial condition and cash flows. These fluctuations may increase the level of interest margin, however, in the event of an unexpected change in interest rates, the interest margin may be reduced or lead to losses.

Interest risk at the Group is assessed using gap analysis by financial instruments that are sensitive to interest rate change (SFI). The main systemic approach of gap analysis as part of interest risk assessment is representing future cash flows in SFI at their carrying amount. This carrying amount is divided by interest rate review dates according to the contractual maturity dates, whichever (the interest rate review date or the maturity date) is the earliest.

18 Financial Risk Management (Continued)

Change of the net interest income due to a change in the SFI value at the time of their maturity or interest rate review determines the interest risk value. A change in the net interest income depends on the value of the net cumulative gap in SFI and possible interest rate change at the end of the six-month reporting period.

For the analysis of financial instruments that are sensitive to interest rate change, a yearly period is selected as the maximum analyzed interval.

A general analysis of the Group's interest risk as of June, 30, 2014, and December 31, 2013, is presented in the table below.

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 1 year**	**Total**
June 30, 2014					
Total financial assets exposed to interest rate movements	43 153	44 117	51 391	50 819	189 480
Total financial liabilities exposed to interest rate movements	57 951	36 916	26 588	63 900	185 355
Net interest sensitivity gap at June 30, 2014	**(14 798)**	**7 201**	**24 803**	**(13 081)**	**4 125**
Gap coefficient (aggregate relative cumulative gap)	**0,74**	**0,92**	**1,14**	**1,02**	
December 31, 2013					
Total financial assets exposed to interest rate movements	28 277	50 106	54 780	52 279	185 442
Total financial liabilities exposed to interest rate movements	63 971	34 635	34 385	54 727	187 718
Net interest sensitivity gap at 31 December 2013	**(35 694)**	**15 471**	**20 395**	**(2 448)**	**(2 276)**
Gap coefficient (aggregate relative cumulative gap)	**0,44**	**0,79**	**1,00**	**0,99**	

If as of June 30, 2014, the interest rates were 200 base points higher (December 31, 2013: 200 base points higher) while the other variables would remain unchanged, the pre-tax profit for the year would be RR 58 million (December 31, 2013: RR 363 million) lower due to higher interest costs under the fixed-term deposits of individuals and legal entities and funds of other banks. The other equity components as of June 30, 2014, would be RR 72 million (December 31, 2013: RR 77 million) greater mainly due to an increase of the fair value of fixed-rate financial instruments classified as available for sale.

If as of June 30, 2014, the interest rates were 200 base points lower (December 31, 2013: 200 base points lower) while the other variables would remain unchanged, the pre-tax profit for the year would be RR 58 million (December 31, 2013: RR 363 million) greater due to lower interest costs under the fixed-term deposits of individuals and legal entities and funds of other banks. The other equity components as of June 30, 2014, would be RR 72 million (December 31, 2013: RR 77 million) less mainly due to a decrease of the fair value of fixed-rate financial instruments classified as available for sale.

The principle of interest risk management is the minimization of the net gap obtained as a result of the analysis of assets and liabilities that are sensitive to interest rate change. Depending on the net gap, the Group makes decisions on granting or raising resources at certain rates for certain terms for the purpose of minimizing possible losses due to a change of interest rates on the market.

18 Financial Risk Management (Continued)

The Group monitors the interest rates using financial instruments. The interest rates based on reports, which have been analyzed by the key managers of the Group, are presented in the table below.

	30 June 2014			**31 December 2013**		
In % p.a.	**RR**	**USD**	**EUR**	**RR**	**USD**	**EUR**
Assets						
Cash and cash equivalents	1%	0%	0%	1%	0%	0%
Trading securities	8%	8%	7%	9%	8%	7%
Due from other banks	0%	0%	-	0%	0%	-
Loans and advances to customers	12%	7%	4%	12%	7%	7%
Investment securities available for sale	9%	-	-	10%	-	-
Investment securities pledged under repurchase agreements	-	8%	7%	-	-	-
Liabilities						
Due to other banks	7%	6%	2%	7%	6%	2%
Customer accounts						
- current and settlement accounts	0%	0%	0%	0%	0%	0%
- term deposits	8%	5%	4%	7%	5%	3%
Debt securities in issue	8%	-	-	7%	-	-
Other borrowed funds	-	-	-	9%	-	-
Subordinated loans	9%	8%	-	9%	7%	-

The dash character "-" in the table above means that the Group has no assets or liabilities nominated in the corresponding currency.

Other price risk. This risk is not material for the Group, as the scope of transactions with equity financial instruments is not significant.

The Group is exposed to the risk of premature repayment because it grants loans at a fixed interest rate including mortgage loans, which entitle borrowers to repay them prematurely. The financial result and capital of the Group in the current year and at the current reporting date would not depend significantly on the change of rates in case of premature repayment, as such loans are accounted at an amortized cost, and the amount of premature repayment is fully or almost equivalent to the amortized cost of loans and advances to customers.

18 Financial Risk Management (Continued)

Geographical risk concentration. An analysis of the geographical concentration of assets and liabilities of the Group as of June 30, 2014, is presented below:

In millions of Russian Roubles	**Russia**	**OECD**	**Other countries**	**Total**
Financial assets				
Cash and cash equivalents	18 379	12 355	-	30 734
Mandatory cash balances with the Bank of Russia	1 723	-	-	1 723
Trading securities	5 302	-	-	5 302
Due from other banks	55	553	-	608
Loans and advances to customers	151 982	-	-	151 982
Investment securities available for sale	6 279	262	-	6 541
Investment securities pledged under repurchase agreements	1 868	-	-	1 868
Other financial assets	874	14	1	889
Total financial assets	**186 462**	**13 184**	**1**	**199 647**
Non-financial assets	**9 962**	**-**	**-**	**9 962**
Total assets	**196 424**	**13 184**	**1**	**209 609**
Financial liabilities				
Due to other banks	7 296	3 081	-	10 377
Customer accounts	156 185	507	1 418	158 110
Debt securities in issue	13 531	-	-	13 531
Other financial liabilities	320	-	-	320
Subordinated loans	3 000	-	337	3 337
Total financial liabilities	**180 332**	**3 588**	**1 755**	**185 675**
Non-financial liabilities	**738**	**-**	**-**	**738**
Total liabilities	**181 070**	**3 588**	**1 755**	**186 413**
Net balance sheet position	**15 354**	**9 596**	**(1 754)**	**23 196**
Credit related commitments (Note 20)	**15 180**	**-**	**-**	**15 180**

Assets, liabilities, and commitments are classified according to the country of the counterparty's location. Cash and cash equivalents are classified according to the country of their physical location.

18 Financial Risk Management (Continued)

An analysis of the geographical concentration of assets and liabilities of the Group as of December 31, 2013, is presented below:

In millions of Russian Roubles	Russia	OECD	Other countries	Total
Financial assets				
Cash and cash equivalents	19 284	10 047	-	29 331
Mandatory cash balances with the Bank of Russia	1 780	-	-	1 780
Trading securities	4 647	-	-	4 647
Due from other banks	124	520	-	644
Loans and advances to customers	155 828	-	-	155 828
Investment securities available for sale	7 251	259	-	7 510
Other financial assets	995	14	1	1 010
Total financial assets	**189 909**	**10 840**	**1**	**200 750**
Non-financial assets	**10 256**	**-**	**-**	**10 256**
Total assets	**200 165**	**10 840**	**1**	**211 006**
Financial liabilities				
Due to other banks	5 425	3 571	-	8 996
Customer accounts	160 357	506	677	161 540
Debt securities in issue	10 154	-	-	10 154
Other borrowed funds	3 004	-	-	3 004
Other financial liabilities	335	-	-	335
Subordinated loans	3 500	-	524	4 024
Total financial liabilities	**182 775**	**4 077**	**1 201**	**188 053**
Non-financial liabilities	**587**	**-**	**-**	**587**
Total liabilities	**183 362**	**4 077**	**1 201**	**188 640**
Net balance sheet position	**16 803**	**6 763**	**(1 200)**	**22 366**
Credit related commitments (Note 20)	**18 595**	**-**	**-**	**18 595**

18 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The liquidity risk management and control process is governed by the directives of the Bank of Russia and the Group's internal statutory documents.

The management of the liquidity risk is distributed between the Group's collegial bodies and their structural subdivisions as follows:

- The Board of Directors defines and adopts the Group's general strategy in liquidity risk management;
- The Management Board of the Bank performs general management and control;
- The Asset and Liability Management Committee manages liquidity under the requirements set out by the Management Board of the Bank;
- The Treasury performs operative liquidity management.

The Bank uses various methods for the assessment and analysis of the liquidity loss risk including the method of liquidity analysis based on cash flows.

The Group is trying to maintain a sustainable funding base consisting of other banks' funds, deposits of legal entities and individuals, and debt securities, and it invests funds in diversified portfolios of liquid assets, such as trade securities.

The Bank calculates liquidity ratios on a daily basis pursuant to the requirements of the Bank of Russia. These ratios include the following:

- The instant liquidity ratio (H2), which is calculated as the ratio of the most liquid assets and 'on demand' liabilities. As of June 30, 2014, this ratio amounted to 66.41% (December 2013: 57.8%). As of June 30, 2014, and December 31, 2013, the minimum allowed value of the H2 ratio was 15%.
- The current liquidity ratio (H3), which is calculated as the ratio of liquid assets and liabilities that are repayable within 30 calendar days. As of June 30, 2014, this ratio amounted to 91.9% (December 2013: 75.8%). As of June 30, 2014, and December 31, 2013, the minimum allowed value of the H3 ratio was 50%.
- The long-term liquidity ratio (H4), which is calculated as the ratio of assets that are repayable within one year and liabilities with more than one year remaining until maturity. As of June 30, 2014, this ratio amounted to 61.98% (December 2013: 77.3%). As of June 30, 2014, and December 31, 2013, the maximum allowed value of the H4 ratio was 120%.

18 Financial Risk Management (Continued)

For managing liquidity risk the Group monitors expected maturities, which may be summarised as follows at June 30, 2014:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Financial assets					
Cash and cash equivalents	30 734	-	-	-	30 734
Mandatory cash balances with the Bank of Russia	583	378	269	493	1 723
Trading securities	5 302	-	-	-	5 302
Due from other banks	55	-	-	553	608
Loans and advances to customers	11 341	40 577	32 296	67 768	151 982
Investment securities available for sale	841	3 540	1 103	1 057	6 541
Investment securities pledged under repurchase agreements	1 868	-	-	-	1 868
Other financial assets	889	-	-	-	889
Total financial assets	**51 613**	**44 495**	**33 668**	**69 871**	**199 647**
Non-financial assets	**-**	**37**	**310**	**9 615**	**9 962**
Total assets	**51 613**	**44 532**	**33 978**	**79 486**	**209 609**
Financial liabilities					
Due to other banks	1 800	529	678	7 370	10 377
Customer accounts	53 860	31 623	25 246	47 381	158 110
Debt securities in issue	2 291	4 764	664	5 812	13 531
Other financial liabilities	320	-	-	-	320
Subordinated loans	-	-	-	3 337	3 337
Total financial liabilities	**58 271**	**36 916**	**26 588**	**63 900**	**185 675**
Non-financial liabilities	**-**	**-**	**-**	**738**	**738**
Total liabilities	**58 271**	**36 916**	**26 588**	**64 638**	**186 413**
Net liquidity gap based on expected maturities	**(6 658)**	**7 579**	**7 080**	**5 971**	**13 972**
Cumulative liquidity gap	**(6 658)**	**921**	**8 001**	**13 972**	
Credit related commitments (Note 20)	**15 180**	**-**	**-**	**-**	**15 180**

The above analysis is based on expected maturities. The entire portfolio of trading securities is therefore classified within demand and less than one month based on management's assessment of the portfolio's liquidity.

The expected maturity of investment securities available for sale is based on offer agreement date.

Liquidity requirements to support demands for payment under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis because the Group does not generally expect the third party to draw funds under the agreement. In accordance with amendments to IFRS 7, Financial Instruments: Disclosures, issued financial guarantee contracts should include at the maximum amount of the guarantee in the earliest period in which the guarantee could be demanded. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

18 Financial Risk Management (Continued)

The analyses of Group's liquidity risk as at December 31, 2013 is as follows:

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Financial assets					
Cash and cash equivalents	29 331	-	-	-	29 331
Mandatory cash balances with the Bank of Russia	675	320	358	427	1 780
Trading securities	4 647	-	-	-	4 647
Due from other banks	124	-	-	520	644
Loans and advances to customers	6 129	45 492	33 307	70 900	155 828
Investment securities available for sale	-	4 614	2 318	578	7 510
Other financial assets	1 010	-	-	-	1 010
Total financial assets	**41 916**	**50 426**	**35 983**	**72 425**	**200 750**
Non-financial assets	**-**	**91**	**325**	**9 840**	**10 256**
Total assets	**41 916**	**50 517**	**36 308**	**82 265**	**211 006**
Financial liabilities					
Due to other banks	207	502	646	7 641	8 996
Customer accounts	61 332	28 857	31 136	40 215	161 540
Debt securities in issue	2 432	1 346	2 603	3 773	10 154
Other borrowed funds	-	-	-	3 004	3 004
Other financial liabilities	335	-	-	-	335
Subordinated loans	-	926	-	3 098	4 024
Total financial liabilities	**64 306**	**31 631**	**34 385**	**57 731**	**188 053**
Non-financial liabilities	**-**	**-**	**-**	**587**	**587**
Total liabilities	**64 306**	**31 631**	**34 385**	**58 318**	**188 640**
Net liquidity gap of financial assets and financial liabilities	**(22 390)**	**18 795**	**1 598**	**14 694**	**12 697**
Cumulative liquidity gap	**(22 390)**	**(3 595)**	**(1 997)**	**12 697**	
Credit related commitments (Note 20)	**18 595**	**-**	**-**	**-**	**18 595**

In the opinion of the Group's management, coincidence or/and controlled non-coincidence of the terms of placement and maturity and interest rates by assets and liabilities is a basic factor for the Group's successful management. Full coincidence of such positions is usually not the case at banks, as operations often have uncertain maturities and a different nature. The non-coincidence of such positions potentially raises the business profitability, but the risk of losses is raised at the same time. The repayment terms for assets and liabilities and the possibility of the replacement of interest liabilities at an acceptable cost as their maturities come close are important factors for assessing the Bank's liquidity and risks, should there be a change in interest rates and foreign exchange rates.

The Group's management believes that despite a material share of customers' funds with 'on demand' status, the diversification of such funds by amounts and types of depositors, and experience gained by the Group in previous periods indicate that such funds establish a long-term and stable source of funding for the Group's operations.

18 Financial Risk Management (Continued)

Operational risk. Operational risk is determined by the Group as the risk of losses as a result of insufficient organization of the Group's processes, intentional or unintentional acts of employees or third parties, failures in the operation of information, technology, and other systems, as well as due to other events.

The organization process of operational risk management and the membership, roles, and functions of the process members are defined in the internal documents of the Bank pursuant to the recommendations of the Bank of Russia and the Basel Committee on Banking Supervision (Basel II).

The main factors of operational risk management are as follows:
- Identification of operational risk factors and recording of events (incidents);
- Assessment of direct (monetary) and indirect (quality) losses;
- Analysis and ranking of risk factors;
- Development of measures to reduce the operational risk level;
- Monitoring and control of the operational risk level and implementation of measures for its mitigation.

To identify operational risk, data from all the available sources in all the main areas of the Group's business for presence of factors (reasons) of operational risk are analyzed. For this purpose, information is gathered about operational risk events and business processes and banking technology processes are analyzed (also under the self-evaluation procedure).

Distribution of powers and responsibility in the operational risk management system is based on three areas, namely, 'defense areas', in particular:
- Management by functional areas (areas of operations);
- An independent corporate function of operational risk management;
- Independent analysis and efficiency evaluation.

In the framework of **the first 'defense line'**, suppliers (including branches) of the Bank identify and manage risks. Control over operational risk management at the first 'defense line' is the responsibility of the Chairman of the Management Board and Members of the Management Board of the Bank, according to their supervised areas of operation.

To enhance the operational risk management quality, risk coordinators have been appointed at the structural subdivisions of the Bank, which monitor operational risk and collect and record data on operational risk events on an ongoing basis.

For the prompt notification of the management of the Bank and timely action in the event of emergencies, a mechanism of alerting authorized employees in the event of any sign of an emergency has been developed.

The second 'defense line' is an independent function of operational risk management, which has been delegated to the Risk Control Administration of the Bank. On this level, the Risk Control Administration organizes and controls the work of the operational risk management system, collecting data on operational risk events and recording information in analytical systems, identifying operational risk factors, investigating reasons for each material case, and developing measures for risk minimization of prevention of any repetition in the future, as well as the preparation and presentation of summary reports to the Management Board and the Board of Directors of the Bank.

The third 'defense line' is an independent evaluation of measures taken for the control of the operational risk level and management processes and procedures of the Group's operational risk. The evaluation is performed by the Internal Control and Audit Service or employees of the Bank who shall be independent from the examined business process or system.

Capital requirements as concerns the Group's operational risk are calculated for the Bank and all the members of the Group (save for non-consolidated members of the Group) based on the base indicative approach using the principles set out in the Regulations of CB RF No. 346-П[1].

To calculate the amount of capital to cover the operational risk, operations and transactions between the Bank and members of the Group (save for non-consolidated members of the Group) or between members of the Group (save for non-consolidated members of the Group) as well as earnings and costs related to such operations and transactions are excluded[2].

[1] Regulations of CB RF dated 03.11.2009 No. 346-P *On the Order of Calculation of the Operations Risk Amount*
[2] Clause 1.10 of the directive of CB RF dated 25.10.2013 No. 3090-У *On the Calculation of Equity (Capital), Required Ratios, and Amounts (Limits) of Open Foreign Exchange Positions of Banking Groups*

18 Financial Risk Management (Continued)

The amount of operational risk is calculated annually. Information on the amount of operational risk and earnings (interest and non-interest) for the calculation of capital to cover the Group's operational risk are presented below.

(in millions of Russian Roubles)	**2013**
Amount of operational risk	**2 210**
Earnings for the purpose of calculation of capital to cover the operational risk, including	**15 223**
- Net interest earnings	9 629
- Net non-interest earnings	5 594

The amount of actual and potential losses from the materialization of operational risk events in 2013 and the first six months of 2014 was significantly less than the calculated amount of operational risk.

The main methods applied by the Group to operational risk mitigation are as follows:
- Precise regulation of rules and procedures of bank operations and other transactions;
- Application of the principles of separation and limitations of functions, authority, and responsibility of employees;
- Collegial decision making and setting a system of limits for individual operations;
- Application of internal control procedures over the organization of business processes and compliance with the law and internal statutory acts;
- Ensuring the physical and individual safety and security of the Bank;
- Ensuring that staff have all the necessary qualifications and improving the level of staff qualification;
- Automation of banking processes and technologies and the organization of efficient monitoring with regard to the functioning of IT systems.

To reduce financial losses related to the manifestation of operational risk, the Bank has a comprehensive insurance program where the comprehensive insurance of the financial institution's risks (BBB), the insurance of the liability of directors, officials, and the company (D&O), insurance of values at transportation, insurance of electronic devices and cash therein, voluntary medical insurance of the Bank's employees, and the insurance of movable, real, and other valuable property of the Bank is affected. All the abovementioned insurance agreements are made with leading Russian and international insurance companies.

In addition, to reduce operational risks, the Bank is implementing a system of measures to reduce the likelihood of events causing operational losses by reducing (limiting) the amount of probable losses, in particular:

- An efficient budgeting system, which enables identifying the costliest and least efficient operations already at the planning stage;
- Procurement of goods and services is performed under a tender system;
- A mechanism has been introduced for the preventive identification of fraud payments and the prompt alerting of customers using an SMS and e-mail distribution system to notify customers of any payments that have been made;
- To reduce the losses from bank card fraud, a system of rules regarding the use of and limitations for operations with bank cards has been developed. All the bank cards have microchips, which reduces losses significantly. Audits for compliance with the requirements of the international Standard for Protection of Bank Cardholder Data (PCI DSS) and measures to mitigate the risks related to the use of ATMs are performed on a regular basis.

Due to the priority assigned by the Group's management to issues regarding the organization of an efficient system of operational risk management, the actual and potential losses for realization of operational risk events are insignificant for the Group and do not have a material effect on its business.

19 Capital management

Management of the Bank's capital has the following goals, namely (i) compliance with the capital requirements stipulated by the Bank of Russia; (ii) enabling the Bank to function as a going concern; and (iii) maintaining the capital base on a level required to secure the capital adequacy ratio according to the Basel Agreement.

For the realization and achievement of capital management objectives,, the following procedures are used:

- Forecasting the main operational parameters;
- Planning capital needs;
- Monitoring capital adequacy.

From January 1, 2014 onwards, as part of implementing international approaches to the regulation of the quality and adequacy of capital in Russia, according to the regulations of the Basel Committee on Banking Supervision, the Bank of Russia imposed new requirements for the calculation of the capital required for prudence purposes[3]. As of June 30 2014, the required capital, calculated pursuant to the new requirements, amounted to RR 25,992 million (as of December 31 2013: RR 23,266 million).

Pursuant to the requirements of the Bank of Russia, banks shall maintain the ratio of required capital and assets weighted subject to risk ('the capital adquacy ratio') at a level above the required minimum value, which is 10%. As of June 30 2014, the required capital adequacy ratio amounted to 12.3% (as of December 31 2013: 11.6%). Control over compliance with this requirement is performed daily with monthly reports sent to the Bank of Russia.

20 Contingencies and Commitments

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations by the Group's management to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group 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.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs.

Outstanding credit related commitments are as follows:

In millions of Russian Roubles	**June 30, 2014 (unaudited)**	**December 31, 2013**
Unused limits on overdraft loans	12 973	16 530
Undrawn credit lines	1 798	1 429
Import letters of credit	214	414
Financial guarantees issued	195	222
Total credit related commitments	**15 180**	**18 595**
Performance guarantees	9 953	12 635
Total credit related commitments and performance guarantees	**25 133**	**31 230**

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

[3] Regulations of CB RF dated 28.12.2012 No. 395-P *On the Method of Determination of the Amount and Evaluation of Capital Adequacy of Credit Institutions (Basel III)*