GROUP OF JOINT-STOCK COMMERCIAL BANK TRANSCAPITALBANK (OPENED JOINT STOCK COMPANY)

Interim Condensed Consolidated Financial Statements for the Six-Month period ended

30 June 2014

(unaudited)

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Interim Condensed Consolidated Financial Statements

In thousands of Russian Roubles	Note	30 June 2014	31 December 2013
Assets			
Cash and cash equivalents	4	16 574 172	18 228 991
Mandatory cash balances with CBRF		893 580	968 049
Due from other banks		299 995	210 241
Trading securities	5	10 627 220	17 296 493
Loans and advances to customers	6	108 083 283	101 911 406
Repurchase receivables	5	3 917 673	-
Investment securities held to maturity		-	97 258
Deferred tax asset		282 435	159 680
Intangible assets		168 792	186 209
Premises and equipment		877 620	898 229
Other financial assets		335 024	462 199
Other assets		484 537	468 244
Total assets		**142 544 331**	**140 886 999**
Liabilities			
Due to other banks	7	26 194 171	20 350 409
Customer accounts	8	78 506 738	81 498 089
Debt securities in issue	9	13 264 905	15 864 534
Current income tax liabilities		211 225	16 089
Deferred income tax liability		97 216	79 824
Other financial liabilities		166 928	128 000
Other liabilities		286 413	300 326
Subordinated debt	10	6 752 792	6 629 913
Total liabilities		**125 480 388**	**124 867 184**
EQUITY			
Share capital		2 533 352	2 533 352
Share premium		4 566 362	4 566 362
Translation reserve		-	-
Retained earnings		9 964 229	8 920 101
Total equity		**17 063 943**	**16 019 815**
Total liabilities and equity		**142 544 331**	**140 886 999**

Approved for issue and signed on 28 August 2014.

O.V.Gryadovaya
Chairperson of the Board

S.M.Golovanova
Chief Accountant

In thousands of Russian Roubles	**Note**	**Six month period ended 30 June 2014**	**Six month period ended 30 June 2013**
Interest income	11	7 175 261	6 303 403
Interest expense	11	(3 578 891)	(3 158 032)
Net interest income		**3 596 370**	**3 145 371**
Provision for loan impairment	6	(669 834)	(527 800)
Net interest income after provision for loan impairment		**2 926 536**	**2 617 571**
Fee and commission income	12	971 228	844 760
Fee and commission expense	12	(181 666)	(166 748)
Gains less losses from trading securities		(290 193)	(74 731)
Gains less losses from trading in foreign currencies		155 906	229 311
Gain less losses from financial derivatives		(53 420)	(58 389)
Foreign exchange translation gains less losses		(30 682)	(151 148)
Provision for credit related commitments		-	600
Other provisions		10 890	52 775
Other operating income		59 030	16 021
Loss from Investment in associate		-	(73 598)
Administrative and other operating expenses	13	(2 266 510)	(1 948 900)
Profit before tax		**1 301 119**	**1 287 524**
Income tax expense		(256 991)	(257 761)
Profit for the year		**1 044 128**	**1 029 763**
Other comprehensive income:			
Exchange differences on translation to the presentation currency		-	4 294
Income tax recorded directly in other comprehensive income		-	1 003
Other comprehensive income for the year		**-**	**5 297**
Total comprehensive income for the year		**1 044 128**	**1 035 060**

In thousands of Russian Roubles	**Share capital**	**Share premium**	**Retained earnings**	**Translation reserve**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2013	**2 448 128**	**4 012 406**	**6 759 771**	**(5 520)**	**13 214 785**	**-**	**13 214 785**
Profit for the six-moth period ended 30 June 2013	-	-	1 029 763	-	1 029 763	-	1 029 763
Other comprehensive income for the six-moth period ended 30 June 2013	-	-	-	5 297	5 297		5 297
Total comprehensive income for the six-months period ended 30 June 2013	-	-	1 029 763	5 297	1 035 060	-	1 035 060
Share issue	85 224	553 956	-	-	639 180	-	639 180
At 30 June 2013 (unaudited)	**2 533 352**	**4 566 362**	**7 789 534**	**(223)**	**14 889 025**	**-**	**14 889 025**
At 1 January 2014	**2 533 352**	**4 566 362**	**8 920 101**	**-**	**16 019 815**	**-**	**16 019 815**
Profit for six-month period ended 30 June 2014	-	-	1 044 128		1 044 128		1 044 128
Total comprehensive income for the six-month period ended 30 June 2014	-	-	1 044 128		1 044 128	-	1 044 128
Balance at 30 June 2014 (unaudited)	**2 533 352**	**4 566 362**	**9 964 229**	**-**	**17 063 943**	**-**	**17 063 943**

The notes set out on pages 5 to 34 form an integral part of these interim condensed consolidated financial statements.

In thousands of Russian Roubles	**Note**	**Six month period ended 30 June 2014**	**Six month period ended 30 June 2013**
Cash flow from operating activities			
Interest received		6 767 706	5 987 918
Interest paid		(3 539 121)	(3 313 124)
Fees and commissions received		988 621	814 793
Fees and commissions paid		(181 666)	(170 892)
Income received from trading in trading securities		(169 560)	(18 393)
Income received from trading in foreign currencies		155 906	229 311
Losses less gains from FX financial derivatives		(63 056)	(83 741)
Other operating income received		54 670	28 442
Administrative and other operating expenses paid		(2 166 386)	(1 838 612)
Income tax paid		(167 220)	(213 491)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**1 679 894**	**1 422 211**
Net (increase)/decrease in:			
- mandatory cash balances with the CBR		74 469	(91 823)
- trading securities		2 736 421	(4 101 782)
- due from other banks		(77 885)	(1 346)
- loans and advances to customers		(5 795 085)	(7 602 227)
- held to maturity		97 316	(199 267)
- other assets		127 741	140 994
Net increase/(decrease) in:			
- due to other banks		4 419 971	4 587 573
- customer accounts		(3 436 529)	3 830 503
- debt securities in issue		(2 693 537)	3 785 871
- other liabilities		26 208	(69 379)
Net cash from/(used in) operating activities		**(2 841 016)**	**1 701 328**
Cash flows from investing activities			
Acquisition of premises, equipment and intangible assets		(72 517)	(119 990)
Proceeds from disposal of premises and equipment		485	1 500
Net cash used in investing activities		**(72 032)**	**(118 490)**
Cash flows from financing activities			
Repayment of subordinated debt		-	(572 000)
Issue of ordinary shares		-	639 180
Disposal of accociated company		20 764	-
Net cash from/(used in) financing activities		**20 764**	**67 180**
Effect of exchange rate changes on cash and cash equivalents		1 237 465	420 767
Net increase/(decrease) in cash and cash equivalents		**(1 654 819)**	**2 070 785**
Cash and cash equivalents at beginning of the year	4	**18 228 991**	**10 479 733**
Cash and cash equivalents as at 30 June 2014	4	**16 574 172**	**12 550 518**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the six-month period ended 30 June 2014 for Join-Stock Commercial Bank "Transcapitalbank" (the "Bank") and its subsidiaries (together referred to as the "Group").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with Russian regulations.

As at 30 June 2014 and 31 December 2013 the following shareholders owned more than 5% of the outstanding shares:

Shareholder	30 June 2014	31 December 2013
European Bank for Reconstruction and Development	28.59%	28.59%
Olga Viktorovna Gryadovaya	22.04%	22.04%
Leonid Nikolaevich Ivanovsky	12.24%	12.24%
Deutsche Investitions und Entwicklungsgesellschaft	9.14%	9.14%
International Finance Corporation	7.72%	7.72%
Other (less than 5% individually)	20.27%	20.27%
Total	**100.00%**	**100.00%**

Principal activity. The Group's principal business activity is banking operations within the Russian Federation. The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation ("CBRF") since 1992. The Bank operates under license number 2210. The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law №177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

As at 30 June 2014 the Bank had 17 (31 December 2013: 18) branches within the Russian Federation. The number of the Group's employees as at 30 June 2014 was 2 544 (2013: 2 447).

Registered address and place of business. The Bank's registered address is: Russian Federation, 109147 Moscow, 27/35 Vorontsovskaya Str. The Bank's main place of business is: Russian Federation 105062 Moscow, 24/2 Pokrovka Str.

Presentation currency. These consolidated financial statements are presented in Russian Roubles ("RR"), unless otherwise stated.

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations. The political and economic turmoil witnessed in the region, including the developments in Ukraine have had and may continue to have a negative impact on the Russian economy, including weakening of the Rouble and making it harder to raise international funding. At present, there is an ongoing threat of sanctions against Russia and Russian officials the impact of which, if they were to be implemented, are at this stage difficult to determine. The financial markets are uncertain and volatile. These and other events may have a significant impact on the Group’s operations and financial position, the effect of which is difficult to predict.

Management determined loan impairment provisions using the “incurred loss” model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions.

3 Summary of Significant Accounting Policies

Basis of preparation. These interim consolidated condenced financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34). They do not include all of the information required for full financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2013, as these interim consolidated financial statements provide an update of previously reported financial information. These interim consolidated condensed financial statements are prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorised as at fair value through profit or loss.

Use of estimates and judgments. The preparation of financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. In preparing these interim consolidated condensed financial statements the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty are the same those that applied to the consolidated financial statements for the year ended 31 December 2013.

4 Cash and Cash Equivalents

In thousands of Russian Roubles	**30 June 2014**	**31 December 2013**
Cash on hand	2 940 763	2 345 825
Cash balances with the CBRF (other than mandatory reserve deposits)	4 976 470	3 618 102
Correspondent accounts and overnight placements with other banks	7 623 724	10 885 349
Short-term settlements with settlement centers and brokers	932 935	888 598
Placements with other banks with original maturities of less than three months	100 280	491 117
Total cash and cash equivalents	**16 574 172**	**18 228 991**

5 Trading securities and repurchase receivables related to trading securities

In thousands of Russian Roubles	**30 June 2014**	**31 December 2013**
Russian government bonds	6 074 741	9 495 923
Corporate bonds	4 399 083	7 656 898
Total debt securities	**10 473 824**	**17 152 821**
Corporate shares	153 396	143 672
Total trading securities	**10 627 220**	**17 296 493**
Repurchase receivables related to trading securities		
Corporate bonds	3 917 673	-
Total repurchase receivables related to trading securities	**3 917 673**	-
Total trading securities and repurchase receivables related to trading securities	**14 544 893**	**17 296 493**

5 Trading securities and repurchase receivables related to trading securities (continued)

Trading securities and repurchase receivables related to trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities and repurchase receivables related to trading securities are carried at their fair values based on observable market data using bid prices from the Moscow Exchange, the Group does not analyse or monitor impairment indicators.

Analysis by credit quality of debt trading securities and repurchase receivables related to debt trading securities is as follows at 30 June 2014:

In thousands of Russian Roubles	**Russian government bonds**	**Corporate bonds**	**Total**
Neither past due nor impaired (at fair value)			
- BBB- to BBB+ rated	6 074 741	8 316 756	14 391 497
Total neither past due nor impaired	**6 074 741**	**8 316 756**	**14 391 497**

Analysis by credit quality of debt trading securities and repurchase receivables related to debt trading securities is as follows at 31 December 2013:

In thousands of Russian Roubles	**Russian government bonds**	**Corporate bonds**	**Total**
Neither past due nor impaired (at fair value)			
- BBB- to BBB+ rated	9 495 923	7 656 898	17 152 821
Total neither past due nor impaired	**9 495 923**	**7 656 898**	**17 152 821**

The credit ratings are based on Standard & Poor`s ratings where available or Moody`s or Fitch Rating converted to the nearest equivalent on the Standard & Poor`s rating scale.

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

Repurchase receivables related to trading securities represent securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or re-pledge. The repurchase agreements were short-term in nature and matured in July 2014. At 30 June 2014 included in trading securities are securities effectively pledged under sale and repurchase agreements whose fair value is RR 3 917 673 thousand (2013: 0).

6 Loans and Advances to Customers

In thousands of Russian Roubles	**30 June 2014**	**31 December 2013**
Loans to legal entities:		
- Corporate loans	38 244 117	38 825 672
- Loans to small and medium-sized entities	49 190 282	45 677 645
Loans to individuals:		
- Mortgage loans	21 038 683	17 587 938
- Personal and consumer loans	5 252 636	4 943 534
- Car loans	1 069 101	1 010 133
- Other	375 977	304 698
Total loans and advances to customers (before impairment)	**115 170 796**	**108 349 620**
Less: Provision for loan impairment	(7 087 513)	(6 438 214)
Total loans and advances to customers	**108 083 283**	**101 911 406**

Under small and medium-sized entities the Group considers entities, which employ less than 250 employees with annual turnover not exceeding RR 1 800 000 thousand.

Movements in the provision for loan impairment during the six-month period ended 30 June 2014 are as follows:

In thousands of Russian Roubles	**Loans to large corporate customers**	**Loans to small and medium-sized entities**	**Personal and consumer loans**	**Mortgage loans**	**Car loans**	**Other loans to individuals**	**Total**
Provision for loan impairment at 1 January 2014	**891 621**	**4 887 845**	**275 090**	**278 767**	**92 426**	**12 465**	**6 438 214**
Provision for impairment during the year	(180 602)	704 867	(11 697)	128 914	18 346	10 006	669 834
Amounts written off during the year as uncollectible	-	(10 580)	-	-	-	-	(10 580)
Disposal of loans	-	(25)	-	(2 636)	(7 294)	-	(9 955)
Provision for loan impairment at 30 June 2014	**711 019**	**5 582 107**	**263 393**	**405 045**	**103 478**	**22 471**	**7 087 513**

6 Loans and Advances to Customers (continued)

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

In thousands of Russian Roubles	Loans to large corporate customers	Loans to small and medium-sized entities	Personal and consumer loans	Mortgage loans	Car loans	Other loans to individuals	Total
Provision for loan impairment at 1 January 2013	**1 371 582**	**5 591 188**	**254 266**	**164 490**	**101 803**	**8 545**	**7 491 874**
Provision for impairment during the year	(479 961)	1 137 794	39 733	116 646	11 980	11 815	838 007
Amounts written off during the year as uncollectible		(1 443 366)	-	(2 369)	(17 834)	(2 211)	(1 465 780)
Disposal of loans	-	(397 771)	(18 909)	-	(3 523)	(5 684)	(425 887)
Provision for loan impairment at 31 December 2013	**891 621**	**4 887 845**	**275 090**	**278 767**	**92 426**	**12 465**	**6 438 214**

6 Loans and Advances to Customers (Continued)

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

	30 June 2014		**31 December 2013**	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Trade	35 112 371	30	32 308 046	30
Individuals	27 736 397	25	23 846 303	22
Construction	8 455 008	8	5 810 770	5
Industry	6 313 113	6	8 955 161	8
Autodealing, repair and servicing	6 221 180	6	6 389 393	6
Food industry	5 467 943	5	5 078 854	5
Energy	5 179 905	4	4 811 951	4
Real estate	5 037 537	4	4 723 019	4
Construction of infrastructural objects	2 997 219	3	2 615 258	2
Service companies	2 790 072	2	3 697 305	3
Leasing companies	2 483 123	2	2 032 897	2
Machinebuilding industry	2 482 791	2	3 879 250	4
Agricultural	1 679 912	1	1 557 184	2
Transport and communications	1 489 502	1	1 253 128	1
Investment and insurance companies	426 937	-	577 009	1
Other	1 297 786	1	814 092	1
Total loans and advances to customers (before impairment)	**115 170 796**	**100**	**108 349 620**	**100**

Trade segment is represented primarily by food products trade, consumer products trade (cosmetics, clothes, furniture), oil products and fuel, computer equipment, automobiles and components.

Industrial sector is represented by metal product manufacturing and processing enterprises, chemical and textile industry enterprises.

At 30 June 2014, the Group had 19 groups of borrowers (2013: 18 borrowers) with aggregated loan amounts above 5% of the Group’s total capital in accordance with the requirements of the Basel Accord as disclosed in Note 16. The total aggregate amount of these loans as at 30 June 2014 is 28 825 930 thousand (2013: 28 293 711), or 25,03% (2013: 26,2%) of the gross loan portfolio.

6 Loans and Advances to Customers (Continued)

Information about collateral at 30 June 2014 is as follows:

In thousands of Russian Roubles	**Loans to large corporate customers**	**Loans to small and medium-sized entities**	**Personal and consumer loans**	**Mortgage loans**	**Car loans**	**Other loans to indivi-duals**	**Total**
Unsecured loans	11 257 806	12 778 305	2 411 237	1 391 510	109 095	374 832	28 322 785
Loans collateralised by:							
- real estate	7 638 021	14 380 028	433 506	19 596 393	525	-	42 048 473
- corporate guarantees	7 765 503	7 520 460	211 867	50 780	32	1 145	15 549 787
- goods in turnover	6 573 590	4 993 971	-	-	-	-	11 567 561
- equipment	1 793 125	4 137 660	65 359	-	959 449	-	6 955 593
- receivables	2 073 516	4 671 661	4 000	-	-	-	6 749 177
- mortgage sertificates and other securities	725 606	417 340	2 093 220	-	-	-	3 236 166
- Group's debt securities	116 950	233 845	10 000	-	-	-	360 795
- cash deposits	300 000	57 012	23 447	-	-	-	380 459
Total loans and advances to customers	**38 244 117**	**49 190 282**	**5 252 636**	**21 038 683**	**1 069 101**	**375 977**	**115 170 796**

Information about collateral at 31 December 2013 is as follows:

In thousands of Russian Roubles	**Loans to large corporate customers**	**Loans to small and medium-sized entities**	**Personal and consumer loans**	**Mortgage loans**	**Car loans**	**Other loans to indivi-duals**	**Total**
Unsecured loans	9 235 281	12 879 798	1 728 684	1 239 443	57 956	303 310	25 444 472
Loans collateralised by:							
- real estate	8 035 310	13 291 820	750 384	16 298 015	525	-	38 376 054
- corporate guarantees	9 819 509	7 443 241	186 224	50 480	32	1 388	17 500 874
- goods in turnover	7 080 450	5 669 004	-	-	-	-	12 749 454
- equipment	1 611 237	4 063 772	77 662	-	951 590	-	6 704 261
- receivables	2 106 260	1 517 754	-	-	-	-	3 624 014
- mortgage sertificates and other securities	617 625	631 198	1 976 831	-	-	-	3 225 654
- Group's debt securities	320 000	105 900	200 401	-	-	-	626 301
- cash deposits	-	75 158	23 348	-	30	-	98 536
Total loans and advances to customers	**38 825 672**	**45 677 645**	**4 943 534**	**17 587 938**	**1 010 133**	**304 698**	**108 349 620**

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

As at 30 June 2014 loans besides loans granted to the employees of the Bank's corporate clients included express consumer loans granted to "walk-in" customers in the amount of RR 82 308 thousand or 1,6% of total consumer loans portfolio (31 December 2013: RR 49 577 or 1%).

6 Loans and Advances to Customers (Continued)

The Group estimates its loan loss provision using a Methodology for determining the borrower's credit rating. Credit rating is a complex estimate of a borrower's financial stability and solvency and is expressed as scores assigned to creditworthiness based on assessed factors. Such factors include: estimate of the borrower's financial situation on the basis of indicators derived from financial statements, assessment of the borrower's business risk (reputation and market data on the borrower's business); estimate of movement on settlement/current accounts of the borrower with the Bank (cash flow adequacy); evaluation of the shareholder (founder) structure; statistics of repayment of the previously issued loans (credit history).

Creditworthiness rating of a corporate customer determines the amount of estimated loan loss provision and the credit risk rating category.

In accordance with the Methodology the following ratings are assigned:

Rating	Description of Rating
A1	Credit risk is practically non-existent
A2	Minimal risk: the most reliable borrowers
A3	Low risk: reliable borrowers
B1	Low risk: good borrowers
B2	Moderate risk: fairly reliable borrowers
B3	Medium risk: average borrowers
B4	Acceptable risk: borrowers with creditworthiness below average
B5	Maximum acceptable risk: fairly good borrowers
C1	High risk: borrowers with unsatisfactory creditworthiness
C2	Very high risk: sub-standard loans
C3	Loans with expected default
D	Default

The estimated loan loss provision is adjusted for collateral based on the application of various discount factors to the assessed fair value of collateral and depending on collateral liquidity and quality.

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. As a result, the Group presents above an ageing analysis of loans that are determined to be impaired.

Past due, but not impaired, loans primarily include collateralised loans where the fair value of collateral 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.

For the purpose of credit quality analysis, loans to individuals are grouped by type of credit products into homogeneous sub-portfolios with similar risk characteristics. The Group analyses each portfolio by the ageing of past due debts.

6 Loans and Advances to Customers (Continued)

Analysis of credit quality of loans outstanding at 30 June 2014 based on internal ratings methodology is as follows:

In thousands of Russian Roubles	**Loans to large corporates**	**Loans to small and medium-sized entities**	**Personal and consumer loans**	**Mortgage loans**	**Car loans**	**Other loans to indivi-duals**	**Total**
Not past due and not impaired loans							
A3	27 043 768	23 084 211	2 776 138	3 629 387	94 020	11 538	56 639 062
B1	9 400 388	13 701 839	2 159 807	16 494 652	854 232	323 851	42 934 769
B2	797 132	4 027 710	-	-	-	-	4 824 842
B3	43 850	789 665	2 956	41 370	-	-	877 841
B5	244 495	3 443	-	-	-	-	247 938
C1	-	254 509	-	-	161	-	254 670
C2	-	585	-	-	-	-	585
Total neither past-due nor impaired loans (gross)	**37 529 633**	**41 861 962**	**4 938 901**	**20 165 409**	**948 413**	**335 389**	**105 779 707**
Past due, but not impaired loans							
- less than 30 days - overdue	-	23 848	13 063	191 733	9 870	17 819	256 333
- 31 to 90 days overdue	204 418	74 357	12 682	118 711	7 591	2 150	419 909
- 91 to 180 days overdue	152 618	47 428	304	52 738	2 647	2 040	257 775
Total past due, but not impaired loans (gross)	**357 036**	**145 633**	**26 049**	**363 182**	**20 108**	**22 009**	**934 017**
Loans individually / collectively determined to be impaired							
- Impaired but not past due	-	3 032 256	29 474	29 474	2 103	1 890	3 095 197
- less than 30 days overdue	-	-	23 859	-	-	-	23 859
- 31 to 90 days overdue	-	10 668	5 983	32 463	702	-	49 816
- 91 to 180 days overdue	146 847	374 653	9 553	50 698	12 842	3 930	598 523
- 181 to 360 days overdue	-	264 762	26 922	184 013	6 845	4 856	487 398
- over 360 days overdue	210 601	3 500 348	191 895	213 444	78 088	7 903	4 202 279
Total impaired loans (gross)	**357 448**	**7 182 687**	**287 686**	**510 092**	**100 580**	**18 579**	**8 457 072**
Total loans and advances to customers (gross)	**38 244 117**	**49 190 282**	**5 252 636**	**21 038 683**	**1 069 101**	**375 977**	**115 170 796**
Less impairment provision	**(711 019)**	**(5 582 107)**	**(263 393)**	**(405 045)**	**(103 478)**	**(22 471)**	**(7 087 513)**
Total loans and advances to customers	**37 533 098**	**43 608 175**	**4 989 243**	**20 633 638**	**965 623**	**353 506**	**108 083 283**

6 Loans and Advances to Customers (Continued)

Analysis of credit quality of loans outstanding at 31 December 2013 based on internal ratings methodology is as follows:

In thousands of Russian Roubles	**Loans to large corporates**	**Loans to small and medium-sized entities**	**Personal and consumer loans**	**Mortgage loans**	**Car loans**	**Other loans to individuals**	**Total**
Neither past due nor impaired loans							
A1	-	7 307	-	-	-	-	7 307
A2	-	7 446	-	-	-	-	7 446
A3	25 647 645	21 280 030	2 908 942	3 217 249	164 138	8 600	53 226 604
B1	11 667 685	13 188 936	1 702 796	13 810 276	748 465	282 800	41 400 958
B2	875 853	4 448 080	305	-	-	-	5 324 238
B3	-	3 550	3 338	19 725	-	-	26 613
B5	44 779	-	-	-	-	-	44 779
C1	-	252 782	-	-	189	-	252 971
Total neither past-due nor impaired loans (gross)	**38 235 962**	**39 188 131**	**4 615 381**	**17 047 250**	**912 792**	**291 400**	**100 290 916**
Past due, but not impaired loans							
- less than 30 days - overdue	-	11 167	2 698	75 243	935	1 095	91 138
- 31 to 90 days overdue	-	9 117	2 969	131 151	1 422	1 602	146 261
- 91 to 180 days overdue	-	32 788	3 141	14 583	1 203	527	52 242
Total past due, but not impaired loans (gross)	**-**	**53 072**	**8 808**	**220 977**	**3 560**	**3 224**	**289 641**
Loans individually / collectively determined to be impaired							
- Impaired but not past due	-	2 929 817	82 714	28 221	3 420	904	3 045 076
- less than 30 days overdue	-	-	-	-	-	272	272
- 31 to 90 days overdue	-	678	8 566	1 207	-	382	10 833
- 91 to 180 days overdue	-	30 376	7 536	25 951	5 514	2 162	71 539
- 181 to 360 days overdue	-	171 778	25 619	138 791	1 386	1 035	338 609
- over 360 days overdue	589 710	3 303 793	194 910	125 541	83 461	5 319	4 302 734
Total impaired loans (gross)	**589 710**	**6 436 442**	**319 345**	**319 711**	**93 781**	**10 074**	**7 769 063**
Total loans and advances to customers (gross)	**38 825 672**	**45 677 645**	**4 943 534**	**17 587 938**	**1 010 133**	**304 698**	**108 349 620**
Less impairment provision	**(891 621)**	**(4 887 845)**	**(275 090)**	**(278 767)**	**(92 426)**	**(12 465)**	**(6 438 214)**
Total loans and advances to customers	**37 934 051**	**40 789 800**	**4 668 444**	**17 309 171**	**917 707**	**292 233**	**101 911 406**

7 Due to Other Banks

In thousands of Russian Roubles	**30 June 2014**	**31 December 2013**
Trade and ECA covered finance	4 280 472	8 038 746
Special purpose-oriented program	7 772 807	4 249 047
Syndicated loans	-	5 222 197
Sale and repurchase agreements with other banks	3 503 649	-
CBR loans	3 990 052	1 001 733
Short-term placements of other banks	6 562 742	1 664 600
Correspondent accounts and overnight placements of other banks	84 449	174 086
Total due to other banks	**26 194 171**	**20 350 409**

8 Customer Accounts

In thousands of Russian Roubles	**30 June 2014**	**31 December 2013**
Other legal entities		
- Current/settlement accounts	24 660 840	22 130 300
- Term deposits	18 699 674	26 472 097
Individuals		
- Current/demand accounts	2 730 818	2 279 265
- Term deposits	32 415 406	30 616 427
Total customer accounts	**78 506 738**	**81 498 089**

Economic sector concentrations within customer accounts are as follows:

	30 June 2014		**31 December 2013**	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	35 146 224	45	32 895 694	40
Finance and insurance	9 478 884	12	8 089 519	10
Trade	9 624 446	12	11 669 641	14
Construction and real estate	6 371 046	8	7 881 262	10
Machine building	4 443 164	6	3 832 087	5
Science, education, medicine	3 837 908	5	3 247 235	4
Services	3 276 976	4	3 211 016	4
Transport and communications	2 642 878	3	539 003	1
Agriculture, food and timber industry	1 405 204	2	1 118 879	1
Energy and petrochemical sectors	1 038 542	1	7 829 216	10
Metallurgy and coal industry	401 427	1	457 537	1
Publishing industry	339 555	-	447 959	-
Financial lease	27 230	-	24 561	-
Other	473 254	1	254 481	-
Total customer accounts	**78 506 738**	**100**	**81 498 089**	**100**

9 Debt securities in issue

In thousands of Russian Roubles	30 June 2014	31 December 2013
Promissory notes	6 929 344	8 491 997
Covered bonds	4 172 606	4 014 064
Bonds issued on domestic market	1 868 166	2 873 250
Savings certificates	284 789	475 159
Deposit certificates	-	10 064
Total debt securities in issue	**13 264 905**	**15 864 534**

10 Subordinated Debt

Subordinated debt ranks after all other creditors in case of liquidation.

Name	Currency	Maturity date (year)	Interest rate, %	30 June 2014	31 December 2013
Eurobonds of Transregioncapital	USD	2017	7,74%	3 436 752	3 345 102
Bonds	RUR	2018	13,00%	1 006 770	1 007 120
Vnesheconombank	RUR	2019	6,50%	986 748	986 748
INRS International servises	EUR	2017	9,00%	465 144	456 463
Dolmiano Investments Limited	USD	2018	7,50%	169 190	164 688
Diolon Shipping Limited	USD	2016	6,60%	142 807	138 979
Dolmiano Investments Limited	USD	2017	9,00%	137 540	133 887
Dolmiano Investments Limited	USD	2016	6,60%	134 522	130 917
Dolmiano Investments Limited	USD	2017	8,60%	102 342	99 599
Diolon Shipping Limited	USD	2016	8,30%	102 290	99 550
Dolmiano Investments Limited	USD	2016	8,50%	68 687	66 860
Total subordinated debt				**6 752 792**	**6 629 913**

11 Interest income and expense

In thousands of Russian Roubles	Six-month Period Ended 30 June 2014	Six-month Period Ended 30 June 2013
Interest income		
Loans and advances to customers	6 591 995	5 861 304
Debt trading securities	540 153	415 438
Due from other banks	39 921	17 657
Correspondent accounts with other banks	2 315	3 082
Investments held to maturity	877	5 922
Total interest income	**7 175 261**	**6 303 403**
Interest expense		
Term deposits of individuals	1 230 742	1 043 091
Term placements of other banks	743 061	663 911
Term deposits of legal entities	696 456	764 693
Debt securities in issue	552 445	362 613
Subordinated debt	282 866	278 935
Current/settlement accounts	73 320	44 743
Correspondent accounts of other banks	1	46
Total interest expense	**3 578 891**	**3 158 032**
Net interest income	**3 596 370**	**3 145 371**

12 Fee and commission income and expense

In thousands of Russian Roubles	Six-month Period Ended 30 June 2014	Six-month Period Ended 30 June 2013
Fee and commission income		
Finance guarantees issued	349 090	326 109
Plastic cards	210 404	183 897
Settlement transactions	157 001	152 845
Cash transactions	80 896	61 806
Cash collection	57 342	40 189
Guarantees issued	57 251	35 150
Currency control	45 371	39 538
Banknote transactions and operations with precious coins	5 658	2 342
Other	8 215	2 884
Total fee and commission income	**971 228**	**844 760**
Fee and commission expense		
Plastic cards	117 202	106 519
Settlement transactions	40 239	28 853
Guarantees received	10 290	24 030
Banknote transactions	5 543	3 894
Cash collection	2 657	2 828
Other	5 735	624
Total fee and commission expense	**181 666**	**166 748**
Net fee and commission income	**789 562**	**678 012**

13 Administrative and Other Operating Expenses

In thousands of Russian Roubles	**Three month period ended 30 June 2014**	**Three month period ended 30 June 2013**
Staff costs	1 064 113	913 635
Unified social tax	265 857	226 483
Insurance expenses on transportation of valuables	203 804	166 230
Office rent	155 416	126 684
Maintenance	70 756	61 513
Deposit insurance program charge	69 614	54 493
Depreciation of premises and equipment	69 426	66 352
Communication expenses	69 225	65 377
Taxes other than on income	64 536	61 598
Security expenses	60 495	54 645
Professional services	47 958	34 756
Amortisation of intangible assets	40 019	30 275
Other insurance expenses	32 289	35 838
Advertising and other business development	19 851	16 774
Other	33 151	34 247
Total administrative and other operating expenses	**2 266 510**	**1 948 900**

14 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 the CODM are performed by the Chairperson of the Management Board of the Bank.

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of five main business segments:

- **Treasury** – includes money market operations, brokerage and custody services, transactions with securities and foreign currency, REPO agreements and operations with derivative financial instruments.

- **International financing** – raising funds on international capital markets.

- **Overall Management** – this segment performs the centralized risk management, and is responsible for infrastructure maintenance and development.

- **Retail banking** – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;

- **Corporate banking** – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products;

(b) Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

(c) Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information prepared based on Russian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

(i) the fair value changes in available for sale securities are reported within the segments' profits or losses rather than in other comprehensive income The securities presented in the portfolio "securities available for sale" and "trading securities" are subject to revaluation at average market quotes, rather than at the last bid price;

(ii) the depreciation rates of fixed assets differ from the depreciation rates applied under IFRS; the value of the fixed assets purchased before 1 January 2003 is not adjusted for inflation;

(iii) income taxes are not allocated to segments;

(iv) loan provisions are recognised based on management judgement and availability of information, rather than based on the incurred loss model prescribed in IAS 39;

(v) commission income relating to lending is recognised immediately rather than deferred using the effective interest method; and

14 Segment Analysis (Continued)

(vi) the segmental financial reporting, analyzed by the CODM, does not include operating results of the subsidiaries; the operating results analysis is delegated on a regular basis to the subsidiaries' management. The information about operating results of the subsidiaries is quarterly reported to the Chairperson of the Bank's Management Board.

The Group calculates the volume of allocated and raised resources within the segments. This calculation is based on the ratio of allocated and raised resources with regard to liquidity and types of foreign currencies (roubles, dollars, euro) for each accounting period. Internal allocation and funding rates are equal and are based on average market borrowing rates.

Expenses, which can not be directly charged to a segment, are allocated. The principles of allocation are selected in accordance with the objective expense allocation basis such as: salary fund, staff number, occupied working area.

When defining profit or loss of an operational segment, the Bank allocates amortization costs within its operational segments. However, this principle is not applied to book value of fixed assets.

The CODM estimates the segment results based on profit before income tax.

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the three-month period ended 30 June 2014 is set out below:

In thousands of Russian Roubles	**30 June 2014**	**31 December 2013**
Assets		
Treasury	23 467 024	31 010 464
Corporate banking	83 224 225	80 654 720
Retail banking	32 573 658	27 238 543
International financing	292 374	101 607
Overall management	1 565 530	1 313 786
Total reportable segment assets	**141 122 811**	**140 319 120**
Liabilities		
Treasury	26 664 037	16 402 858
International financing	14 722 756	19 229 640
Corporate banking	48 164 308	56 901 717
Retail banking	35 282 699	33 037 514
Overall management	40 787	57 317
Total reportable segment liabilities	**124 874 587**	**125 629 046**

14 Segment Analysis (Continued)

In thousands of Russian Roubles	Treasury	International financing	Corporate banking	Retail banking	Overall management	Total
Six-month period ended 30 June 2014						
External revenues:						
- Interest income	71 880	-	4 714 195	1 856 474	-	6 642 549
- Fee and commission income	4 810	-	740 949	240 327	-	986 086
- Other operating income	-	-	10 771	33 318	-	44 089
Revenues from other segments:						
- Interest income	543 469	710 710	-	279 401	914 217	2 447 797
Total revenues	**620 159**	**710 710**	**5 465 915**	**2 409 520**	**914 217**	**10 120 521**
Interest expense	(962 547)	(506 113)	(1 005 801)	(1 226 385)	-	(3 700 846)
Interest expense to other segments	-	-	(2 447 797)	-	-	(2 447 797)
Provision for loan impairment	151	-	(306 677)	(186 130)	-	(492 656)
Provision for credit related commitments	(1 131)	-	54 556	(18 335)	-	35 090
Fee and commission expense	(8 804)	(66 106)	(49 085)	(128 290)	-	(252 285)
Gains less losses from trading securities	237 855	-	8 019	-	(110 577)	135 297
Gains less losses from trading in foreign currencies	162 692	-	(8 492)	-	-	154 200
Administrative and other operating expenses	(57 071)	(18 926)	(701 909)	(553 294)	(812 215)	(2 143 415)
Depreciation	(1 797)	(596)	(22 098)	(15 309)	(18 204)	(58 004)
Segment result	**(10 493)**	**118 969**	**986 631**	**281 777**	**(26 779)**	**1 350 105**

In thousands of Russian Roubles	Treasury	International financing	Corporate banking	Retail banking	Overall management	Total
Six-month period ended 30 June 2013						
External revenues:						
- Interest income	29 953	-	4 497 240	1 255 588	-	5 782 781
- Fee and commission income	1 288	-	610 329	206 755	-	818 372
- Other operating income	-	-	11 770	11 874	-	23 644
Revenues from other segments:						
- Interest income	509 012	593 259	-	238 956	1 159 854	2 501 081
Total revenues	**540 253**	**593 259**	**5 119 339**	**1 713 173**	**1 159 854**	**9 125 878**
Interest expense	(837 506)	(371 230)	(1 012 803)	(1 042 138)	-	(3 263 677)
Interest expense to other segments	-	-	(2 501 081)	-	-	(2 501 081)
Provision for loan impairment	(156)	-	(413 337)	(108 425)	-	(521 918)
Provision for credit related commitments	-	-	(52 393)	(2 168)	-	(54 561)
Fee and commission expense	(3 202)	(111 121)	(35 160)	(112 051)	-	(261 534)
Gains less losses from trading securities	361 332	-	9 898	-	-	371 230
Gains less losses from trading in foreign currencies	181 711	-	(18 343)	-	-	163 368
Administrative and other operating expenses	(52 994)	(21 854)	(701 695)	(433 093)	(601 682)	(1 811 318)
Depreciation	(1 799)	(742)	(23 816)	(13 424)	(14 959)	(54 740)
Segment result	**187 639**	**88 312**	**370 609**	**1 874**	**543 213**	**1 191 647**

14 Segment Analysis (Continued)

(e) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

Total consolidated revenues comprise interest income, fee and commission income and other operating income.

In thousands of Russian Roubles	**Six-month period ended 30 June 2014**	**Six-month period ended 30 June 2013**
Total revenues for reportable segments	**10 120 521**	**9 125 878**
(a) interest income on securities	540 153	421 360
(b) interest income on leasing operations	119 572	138 816
(c) intergroup adjustments	(68 071)	(60 492)
(d) intersegment results	(2 447 797)	(2 501 081)
other	(58 860)	39 703
Total consolidated revenues	**8 205 518**	**7 164 184**

(a) Interest income on securities is included within gains less losses from trading seruties in the segment reporting.

(b) Interest income on leasing operations is rising from the leasing subsidiary for the Bank. Financial results from subsidiaries are excluded from the segment reporting results.

(c) Interest income from subsidiaries of the Bank is not eliminated from the total interest income of the Bank for the segment reporting results.

(d) intersegment results are results arising from trading between segments

In thousands of Russian Roubles	**Six-month period ended 30 June 2014**	**Six-month period ended 30 June 2013**
Total reportable segment result	**1 350 105**	**1 191 647**
(e) provisions for loans impairment	(177 178)	(5 882)
(f) provisions for credit related commitments	(24 200)	107 936
(g) other comprehensive income	-	5 297
(h) loss/gain from associate	95 455	(73 598)
(i) accruals	56 937	62 124
Profit or loss before tax	**1 301 119**	**1 287 524**

(e) Provision for loan impairment in segment reporting is based on the statutory provision methodology of the Bank, which is different from the provision methodlogy applied by the Group in these consolidated financial statements.

(f) Provisions for credit related commitments impairment in segment reporting is based on the statutory provision methodology of the Bank, which is different from the provision methodlogy applied by the Group in these consolidated financial statements.

(g) Other comprehensive income includes results from associate, which are excluded from segment reporting results.

(i) Accruals are mainly represented by differencies in accounting of operating expenses and commissions.

14 Segment Analysis (Continued)

(f) Geographical information

The Group operates in the Russian Federation. All revenues of the Group were received mainly from counterparties that conduct their business in the Russian Federation.

(g) Major customers

The Group has no clients whose revenues represent 10% or more of the total revenues.

15 Financial Risk Management

The risk management structure is based on the break-even principle and is aimed at the best balance between profitability and level of the risks taken.

The Board of Directors, executive bodies, collective bodies (committees) of the Bank regularly receive necessary and sufficient information about the level of risks and their influence on the changes of capital adequacy, about the facts of excess of the assigned risk level: violation of limits, restrictions and established procedures, results of stress testing.

Risk management system comprises all the directions of the Bank’s activity and influences the decision making process on all levels beginning with strategic and ending with operating tasks.

The risk management function within the Group is carried out in respect of financial and operational risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish limits for each type of risk, and then ensure that exposure to risks stays within these limits. The risk management function is aimed at decreasing the probability of unforeseen losses resulting from the influence of internal and external non-financial factors and at cutting down costs on financing liquidation of these losses.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group’s lending and other transactions with counterparties giving rise to financial assets. The primary objective of credit risk management is to generate maximum profitability subject to the level of assumed credit risk. This objective is achieved due to setting up a system of effective tools allowing minimization of likelihood of default on principal amount and interest on loans issued. The main instrument of credit risk management is administration of loans, including a set of sequential actions performed at different stages of transactions exposed to credit risk. The principal instrument for credit risk regulation is setting limits for financial instruments on borrowers and counterparties, assessment of the borrowers’ and counterparties' financial position in order to set loan loss provisions and assessment of collateral quality.

The Group’s maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 17.

The risk evaluation and decision making processes are strictly regulated. The Group has separated the functions of credit risk management and issue of loans. The Group has established efficiently functioning collegial bodies responsible for setting limits on counterparties and making credit and investment decisions.

15 Financial Risk Management (Continued)

The Credit Committee is authorised to develop and implement the Bank's current and longterm credit policy and performs the following principal functions:

– makes decisions on issue (renewal) of loans;

– makes decisions on formation of the loan portfolio structure;

– makes decisions on bad debts and loans issued to borrowers with declining financial position;

– makes decisions on sale of collateral;

– makes decisions on issuing loans to borrowers in the Bank's branches.

Some duties of the Credit Committee are imposed on Small Credit Committees and Credit Commissions which make decisions regarding a limited range of transactions within the framework of specific programs for provision of credit products to legal entities and individuals (the "lending programs"). Committees and commissions review credit transactions within their limits and authorities. Credit limits within which the committees and commissions make decisions are set by the Bank's Executive Board.

Risk Management Committee carries out the following functions:

– approves limits for different types of risks;

– makes decisions related to changes in the structure of portfolio investments, attraction and allocation of resources;

– monitors the effect of current fluctuations of market prices on financial instruments and makes decisions on formation or reduction of relevant financial instruments portfolios;

– monitors changes in currency positions in the event of unfavourable fluctuations of foreign exchange rates;

– reviews and provides recommendations on changes in interest rates for assets and liabilities in the event of changes in the money market situation.

The Limits Committee performs the following main functions:

– sets limits on counterparties in the interbank lending market and on issuers in the securities market;

– sets individual limits on employees of the Bank's Treasury.

For the purpose of mitigation of its credit risk level, the Group has developed a system of limits allowing to limit exposure to credit risk. The Bank's credit policy sets portfolio limits on its loan portfolio. The Bank's Executive Board sets limits on lending by branches. The Credit Committee sets limits on credit products for borrowers and counterparties. Decisions on transactions with the Bank's related parties (limited up to 3% of the Bank's equity per related borrower) and insiders (limited up to 2% of the Bank's equity per insider) are made by the Credit Committee and in other cases by the Board of Directors. The Risk Management Committee sets limits on industry diversification of loan portfolio and limits on concentration of major loans. Limits on financial instruments on counterparty banks and issuers of securities are set by the Limits Committee. Limits are monitored on a regular basis and revised as required, but not less than once a year.

Credit limits directly depend on financial performance of borrower and on credit rating being an integral estimation of the borrower's financial stability and solvency. Internal credit rating is expressed as scores assigned to creditworthiness based on estimated factors:

– borrower's financial position;

– review of the borrower's business reputation and information of its operations;

15 Financial Risk Management (Continued)

– estimation of turnover on the borrower's accounts with the Bank (stability of cash flows);

– assessment of the shareholding (foundation) structure;

– credit history.

The Bank follows a conservative lending policy. In a complex foreing economic anvironment the effective risk management system is a proirity to the Bank. Credit products are granted only after detailed assessment of all the risks connected with the borrower's activity.

Loans are usually issued against a liquid collateral, including costs of sale of the collateral and sufficient coverage of the loan principal and interest. The most relevant indicators of the collateral analysis are sufficiency and liquidity of the collateral received. The Group actively applies collateral insurance. Credit quality of the loans and fair value of collateral are monitored on a continuing basis.

The Group diversifies its loan portfolio by risk groups, industries and regions in accordance with set limits.

The Group's divisions involved in lending transactions perform ageing analysis of outstanding loans and follow up past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 9.

The Group's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the Statement of Financial Position unless otherwise stated in these financial statements. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Components of the market risk include sensitivity of the Group's assets and liabilities to fluctuations in interest rates, foreing exchange rates, market value of securities and other financial instruments. The instruments of market risk regulation are:

– setting personal limits of open positions per dealers;

– setting limits on financial instruments;

– setting stoploss limits on traded instruments;

– gap management to maintain the risk within the Group's general policy.

Risk Management Committee sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk.

Currency risk is determined as probability of negative fluctuations in foreign currency exchange rates resulting in losses from re-assessment of market value of assets and liabilities. The Group is exposed to foreign currency exchange risk on open positions (mainly USD/RR and EUR/RR exchange rate fluctuations). The Group manages currency risk by controlling its open foreing exchange currency position projecting changes in the exchange rate of the Russian rouble and other macro-economic indicators to minimize losses from sizeable fluctuations in the exchange rates of national and foreign currencies.

15 Financial Risk Management (Continued)

The Bank`s Treasury undertakes daily aggregation of the currency position of the Group and takes measures for minimizing of the Group's currency risk exposure. The Group uses swaps, forwards and USD futures contracts tradable on Moscow Exchange as the main instruments for risk management. For the purpose of currency risk analysis, the following actions are taken in respect of each currency in which the Group holds an open currency position:

– dynamic of fluctuation of the exchange rate of currency is analysed;
– factors impacting exchange rate of the relevant currency are analysed;
– feasibility of setting long (short) position is determined;
– aggregate amount of profit/loss arising from revaluation of the position is determined;
– ratio between the calculated aggregate amount of income (losses) and equity is determined.

Based on the performed currency risk analysis:

– the maximum amount of currency position is determined (limiting of the currency position); and
– the maximum amount of ratio of losses from position revaluation is set (limiting of losses: stoploss).

Risk Management Committee sets limits in respect of currency risk both overnight and intraday positions, and monitors compliance.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

In thousands of Russian Roubles	**Russian Roubles**	**US Dollars**	**Euros**	**Other**	**Total**
At 30 June 2014					
Monetary financial assets	109 197 695	21 306 291	10 122 695	104 266	140 730 947
Monetary financial liabilities	89 198 839	24 180 495	11 439 394	66 806	124 885 534
Less fair value of currnecy derivatives	(45 309)	32 840	3 596	(88)	(8 961)
Currency derivatives	(3 409 256)	2 538 911	958 450	(79 144)	8 961
Net position including currency derivatives	**16 544 291**	**(302 453)**	**(354 653)**	**(41 772)**	**15 845 413**
At 31 December 2013					
Monetary financial assets	99 680 601	25 772 556	13 633 691	87 789	139 174 637
Monetary financial liabilities	85 310 757	24 205 693	14 919 619	34 876	124 470 945
Less fair value of currnecy derivatives	6 667	(7 971)	1 622	357	675
Currency derivatives	252 471	(1 221 874)	1 100 101	(131 373)	(675)
Net position including currency derivatives	**14 528 982**	**337 018**	**(184 205)**	**(78 103)**	**14 703 692**

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

15 Financial Risk Management (Continued)

Liquidity risk.

Liquidity risk is the risk of losses as a result of inability of the Group to meet its obligations in full. 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. Liquidity risk is managed by Risk Management Committee of the Group. The aim of liquidity risk management is to maximize profit while keeping up necessary and sufficient level of liquid assets.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits and. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Liquidity risk is managed by the Group's Risk Management Committee. Current liquidity is managed by the Treasury Department which carries out transactions in the money markets to maintain current liquidity and optimise cash flows. The Bank's Liquidity Division is operating within the Treasury Department and carrying out planning and management of instant and shortterm liquidity, as well as calculations and analysis of mediumterm and longterm liquidity. The Treasury Department receives information on financial assets and liabilities and then provides for an adequate portfolio of shortterm liquid assets, largely made up of shortterm liquid trading securities, deposits with banks and other interbank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

An instrument for projecting short term liquidity is the calendar of payments representing the schedule of projected cash flows both for actual balance sheet data and for projected data received from business units. GAP analysis is an instrument for projecting structural liquidity allowing to make a conclusion on the level of structural matching of the balance sheet assets and liabilities.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits and debt securities. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considersation of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios are:

- Instant liquidity ratio (N2, min 15%), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 55.1% at 30 June 2014 (2013: 82.36%);

- Current liquidity ratio (N3, min 50%), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 68.8% at 30 June 2014 (2013: 97.66%);

- Long-term liquidity ratio (N4, max 120%), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The ratio was 80.0% at 30 June 2014 (2013: 75.64%)

To prevent violation of statutory liquidity ratios set by the Central Bank of Russia the Risk Management Committee set internal liquidity ratios: in respect of N2 - minimum 20%, N3 – minimum 60% and N4 – maximum 110%.

In order to minimise the risk of liquidity loss, the Group's dependency on interbank transactions is analysed, as well as transactions of major clients and concentration of credit risks.

15 Financial Risk Management (Continued)

To manage liquidity, the Group monitors expected maturities of financial assets and financial liabilities, which may be summarised as follows at 30 June 2014:

In thousands of Russian Roubles	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
ASSETS						
Cental Bank of the Russian Federation	16 574 172	-	-	-	-	16 574 172
Mandatory balamces with CBRF	358 489	65 098	283 253	186 740	-	893 580
Due from banks	-	-	299 995	-	-	299 995
Trading securities	10 627 220	-	-	-	-	10 627 220
Repurchase receivables	3 917 673	-	-	-	-	3 917 673
Loans to customers	8 263 433	18 380 562	40 203 066	25 530 687	15 705 535	108 083 283
Other financial assets	96 908	1 146	2 567	234 403	-	335 024
TOTAL FINANCIAL ASSETS	**39 837 895**	**18 446 806**	**40 788 881**	**25 951 830**	**15 705 535**	**140 730 947**
LIABILITIES						
Deposits from banks	12 540 721	2 692 649	3 824 433	6 985 038	151 330	26 194 171
Customer accounts	31 495 533	5 719 316	24 885 653	16 406 236	-	78 506 738
Debt securities issued	2 315 280	1 643 663	5 427 247	1 748 890	2 129 825	13 264 905
Subordinated debt	-	75 198	23 550	5 667 296	986 748	6 752 792
Other financial liabilities	74 790	4 023	77 499	10 616	-	166 928
TOTAL FINANCIAL LIABILITIES	**46 426 324**	**10 134 849**	**34 238 382**	**30 818 076**	**3 267 903**	**124 885 534**
Net liquidity gap	**(6 588 429)**	**8 311 957**	**6 550 499**	**(4 866 246)**	**12 437 632**	**15 845 413**
Cumulative liquidity gap	**(6 588 429)**	**1 723 528**	**8 274 027**	**3 407 781**	**15 845 413**	-

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 realisability.

The expected maturities are as follows at 31 December 2013:

In thousands of Russian Roubles	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
ASSETS						
Cash and balances with the Cental Bank of the Russian Federation	18 228 991	-	-	-	-	18 228 991
Mandatory balamces with CBRF	404 926	93 843	286 135	183 145	-	968 049
Due from banks	6 006	-	204 235	-	-	210 241
Trading securities	17 296 493	-	-	-	-	17 296 493
Investments held to maturity	-	97 258	-	-	-	97 258
Loans and advances to customers	7 742 648	16 668 611	39 408 373	23 084 925	15 006 849	101 911 406
Other financial assets	45 415	544	167 958	12 750	235 532	462 199
TOTAL FINANCIAL ASSETS	**43 724 479**	**16 860 256**	**40 066 701**	**23 280 820**	**15 242 381**	**139 174 637**
LIABILITIES						
Deposits from banks	1 984 291	1 700 113	10 472 812	3 793 391	2 399 802	20 350 409
Customer accounts	34 089 882	7 900 475	24 089 088	15 418 644	-	81 498 089
Debt securities issued	725 226	1 671 995	7 792 325	3 062 104	2 612 884	15 864 534
Subordinated debt	-	78 258	19 215	5 545 692	986 748	6 629 913
Other financial liabilities	80 303	6 781	29 009	11 907	-	128 000
TOTAL FINANCIAL LIABILITIES	**36 879 702**	**11 357 622**	**42 402 449**	**27 831 738**	**5 999 434**	**124 470 945**
Liquidity gap	**6 844 777**	**5 502 634**	**(2 335 748)**	**(4 550 918)**	**9 242 947**	**14 703 692**
Cumulative liquidity gap	**6 844 777**	**12 347 411**	**10 011 663**	**5 460 745**	**14 703 692**	-

15 Financial Risk Management (Continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

16 Management of Capital

The Group's objectives when managing capital are to ensure that all Group entities continue as a going concern in the foreseeable future while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's Board of Directors reviews capital structure on a regular basis, at least quarterly. Within the scope of this review the Board considers the cost of capital and the risks inherent to each class of capital. On the basis of the Board's recommendations the Group maintains capital adequacy and balances overall capital structure by additional share issue and receipt of subordinated loans.

From the 1 January, 2014 the Bank of the Russian Federation has been established new requirements for calculation of the regulatory capital, based on recommendations of Basel Committee[1]. Under the capital requirements set by the CBRF banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. As at 30 June 2014, this minimum level is 10%. During six-month period ended 30 June 2014 and during the year 2013 and as of 30 June 2014 and 31 December 2013 the Bank was in compliance with the statutory capital adequacy ratio. The Group also monitors capital adequacy calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks.

[1] On 28 December 2012 the Central Bank issued Regulation No. 395-P "On the Method of Calculation of the Amount and Assessment of Adequacy of the Net Worth (Capital) of Lending Organizations (Basel III).

16 Management of Capital (Continued)

The table below shows the Group’s capital structure and calculation of capital adequacy ratio in accordance with requirements of the Basel Accord as at 30 June 2014 and 31 December 2013:

In thousands of Russian Roubles	30 June 2014	31 December 2013
Tier 1 capital:		
Share capital	2 533 352	2 533 352
Share premium	4 566 362	4 566 362
Retained earnings	9 964 229	8 920 101
Goodwill	(47 476)	(47 476)
Total tier 1 capital	**17 016 467**	**15 972 339**
Tier 2 capital		
Subordinated debt	4 603 461	5 080 045
Total tier 2 capital	**4 603 461**	**5 080 045**
Total capital	**21 619 928**	**21 052 384**
Risk weighted assets	**149 575 326**	**144 691 520**
Capital expressed as a percentage of risk-weighted assets	**14,5%**	**14,5%**
Tier 1 capital expressed as a perventage of risk-weighted assets	**11,4%**	**11,0%**

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. Under these covenants the Group has to maintain the total capital ratio at a level not less then 12%. As of 30 June 2014 and 31 December 2013 and during respective financial years the Group has complied with these capital requirements.

17 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 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, if the unused amounts were to be drawn down. 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.

17 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	30 June 2014	31 December 2013
Financial guarantees	10 653 157	7 023 239
Letters of credit and other contingencies related to settlement transactions	412 195	1 549 339
Less: Provision for credit related commitments	-	-
Total credit-related contingencies and commitments, net of provision	**11 065 352**	**8 572 578**
Performance guarantees	26 968 105	24 674 544

Credit related commitments are irrevocable or are revocable only in response to a material adverse change.

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. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Group uses historical data and statistical techniques to predict levels of such payments. Claims must be made before the contract matures and most claims are settled within short term. This allows the Group to achieve a high degree of certainty about the estimated payments and therefore future cashflows. The Group manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in the future to reflect any change in claim payments experience. The Group has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests.

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including. Management believes that the Group was in compliance with covenants at 30 June 2014 and 31 December 2013.

18 Related Party Transactions

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

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

In thousands of Russian Roubles	Shareholders	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 13%-14.9%)	832	129	-
Due to other banks (contractual interest rate: 3.6% -13.0%)	4 211 046	-	-
Customer accounts (contractual interest rate: 2.7%- 13.0%)	997 010	1 543	11
Commitments on credit lines	10 227	3 271	-

18 Related Party Transaction (Continued)

The income and expense items with related parties for the six-month period ended 30 June 2014 were as follows:

In thousands of Russian Roubles	Shareholders	Key management personnel	Other related parties
Interest expense	206 692	26	1 055
Fee and commission income	11	3	25
Fee and commission expense	-	-	1
Administrative and other operating expenses:	46 465	3 151	34 856
- salary	37 731	2 983	-
- social security tax	4 910	168	-
- rent	-	-	34 856
- professional services	3 824	-	-

Aggregate amounts lent to and repaid by related parties for the three-month period ended 30 June 2013 were:

In thousands of Russian Roubles	Shareholders	Key management personnel	Other related parties
Amounts lent to related parties during the period	832	129	-
Amounts repaid by related parties during the period	31	-	-

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

In thousands of Russian Roubles	Shareholders with significant influence	Key management personnel	Associate	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 14%-16.0%)	31	-	-	-
Due to other banks (contractual interest rate: 2.4% - 9.1%)	7 047 124	-	-	44 636
Customer accounts (contractual interest rate: 3.0%-13%)	1 037 299	1 481	72 899	1 591
Commitments on credit lines	12 569	3 100	-	-

The income and expense items with related parties for the six-month period ended 30 June 2013 were as follows:

In thousands of Russian Roubles	Shareholders with significant influence	Key management personnel	Associate	Other related parties
Interest income	1 797	31	21 928	-
Interest expense	130 724	-	-	2 976
Provision for loan impairment	-	-	22 374	-
Fee and commission income	18	2	403	23
Fee and commission expense	-	-	-	1
Administrative and other operating expenses:	49 099	3 898	-	34 856
- salary	40 288	3 448	-	-
- rent	-	-	-	34 856
- social security tax	4 900	450	-	-
- professional services	3 911	-	-	-

18 Related Party Transaction (Continued)

Aggregate amounts lent to and repaid by related parties for the three-month period ended 30 June 2013 were:

In thousands of Russian Roubles	Shareholders with significant influence	Key management	Associate	Other related parties
Amounts lent to related parties during the period	-	900	353 500	-
Amounts repaid by related parties during the period	3 662	339	650 100	-

Other related parties are represented by parent company of one of key shareholders and company owned by one of key management personnel.

Key management compensation is presented below:

	Six-month period ended 30 June 2014	Six-month period ended 30 June 2013
In thousands of Russian Roubles	Expense	Expense
Short-term benefits:		
- Salaries	40 714	43 736
Total	**40 714**	**43 736**