

DeltaCredit Bank CJSC

**Interim Condensed Consolidated
Financial Statements**

30 June 2014
Unaudited

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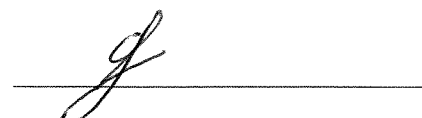
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DeltaCredit Bank CJSC**Interim Condensed Consolidated Statement of Financial Position as at 30 June 2014 (unaudited)***(in thousands of Russian Rubles)*

	Note	30 June 2014 (unaudited)	31 December 2013
Assets			
Cash and cash equivalents	5	10,912,042	3,634,175
Mandatory cash balances with the Central Bank of the Russian Federation (CBRF)	20	33,456	30,824
Amounts due from banks	6	10,857,508	3,179,398
Mortgage loans to individuals	7	100,500,754	93,078,708
Property, equipment and intangible assets		102,836	103,881
Assets acquired by adjudication	7	69,520	101,621
Other assets	8	417,402	595,868
Total assets		122,893,518	100,724,475
Liabilities			
Customer accounts	9	2,363,194	2,412,833
Amounts due to banks and other financial institutions	10	9,298,910	9,416,235
Financing from related parties	11	41,785,876	33,899,107
Bonds issued	12	52,680,433	39,587,365
Notes issued	13	782,074	911,383
Financial liabilities at fair value through profit or loss	14	66,715	79,201
Deferred tax liability		205,438	171,442
Dividends declared		300,000	-
Other liabilities	8	237,903	258,922
Total liabilities		107,720,543	86,736,488
Shareholder's equity			
Share capital		2,430,763	2,430,763
Share premium		580,551	580,551
Retained earnings		12,163,223	10,981,359
Cumulative translation reserve		(1,562)	(4,686)
Total equity		15,172,975	13,987,987
Total liabilities and equity		122,893,518	100,724,475

Signed and authorised for release on behalf of the Board of Management of the Bank


Serge Ozerov
Chairman of the Board of Management29 August 2014
Moscow

Elena Kudlik
Chief Financial Officer29 August 2014
Moscow

The accompanying notes on pages 7 to 35 are an integral part of these interim condensed consolidated financial statements.

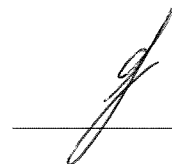
DeltaCredit Bank CJSC**Interim Condensed Consolidated Statement of Profit or Loss for the 6 and 3 months ended 30 June 2014***(unaudited)**(in thousands of Russian Rubles)*

		Three-month period ended 30 June <i>(unaudited)</i>		Six-month period ended 30 June <i>(unaudited)</i>	
	Note	2014	2013	2014	2013
Interest income	16	3,324,345	2,437,704	6,279,939	4,715,002
Interest expense	16	(2,051,547)	(1,398,691)	(3,756,395)	(2,701,338)
Net interest income		1,272,798	1,039,013	2,523,544	2,013,664
Net income/ (loss) from foreign exchange translation		968	(13,504)	(14,237)	(15,634)
Fee and commission income	17	137,142	124,131	249,075	217,781
Fee and commission expense	17	(46,493)	(31,110)	(96,962)	(59,953)
Net loss on financial liabilities at fair value through profit or loss		(5,221)	(3,103)	(13,509)	(11,171)
Other operating income		6,780	7,363	14,054	11,731
Net banking income		1,365,974	1,122,790	2,661,965	2,156,418
Personnel expenses		(234,253)	(209,160)	(476,044)	(420,535)
Depreciation expenses		(8,883)	(8,554)	(17,633)	(17,054)
Other operating expenses		(149,949)	(133,135)	(275,389)	(252,568)
Gross operating income		972,889	771,941	1,892,899	1,466,261
Loans impairment losses	7	(1,359)	(28,197)	(50,083)	(67,047)
Profit before income tax expense		971,530	743,744	1,842,816	1,399,214
Income tax expense	18	(192,704)	(152,938)	(360,952)	(284,239)
Net profit for the period		778,826	590,806	1,481,864	1,114,975



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29 August 2014
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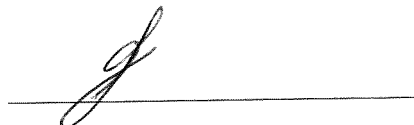
DeltaCredit Bank CJSC**Interim Condensed Consolidated Statement of Other Comprehensive Income for the 6 and 3 months ended 30 June 2014 (unaudited)***(in thousands of Russian Rubles)*

	Three-month period ended 30 June <i>(unaudited)</i>		Six-month period ended 30 June <i>(unaudited)</i>	
	2014	2013	2014	2013
Net profit for the period	778,826	590,806	1,481,864	1,114,975
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	(8,277)	5,455	3,124	7,648
Other comprehensive (loss)/ income after income tax	(8,277)	5,455	3,124	7,648
Total comprehensive income	770,549	596,261	1,484,988	1,122,623



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DeltaCredit Bank CJSC**Interim Condensed Consolidated Statement of Changes in Equity for the 6 months ended 30 June 2014 (unaudited)**
(in thousands of Russian Rubles)

	Note	Share capital	Share premium	Retained earnings	Cumulative translation reserve	Total
Balance as of 1 January 2013		2,430,763	580,551	9,075,059	(11,768)	12,074,605
Total comprehensive income for the period, net of income tax (unaudited)		-	-	1,114,975	7,648	1,122,623
Dividends declared	15	-	-	(700,000)	-	(700,000)
Balance as of 30 June 2013 (unaudited)		2,430,763	580,551	9,490,034	(4,120)	12,497,228
Balance as of 1 January 2014		2,430,763	580,551	10,981,359	(4,686)	13,987,987
Total comprehensive income for the period, net of income tax (unaudited)		-	-	1,481,864	3,124	1,484,988
Dividends declared	15	-	-	(300,000)	-	(300,000)
Balance as of 30 June 2014 (unaudited)		2,430,763	580,551	12,163,223	(1,562)	15,172,975



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	Note	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Cash flows from operating activities			
Interest received		6,210,639	4,704,590
Interest paid		(3,133,467)	(2,100,294)
Fees and commissions received		244,102	216,345
Fees and commissions paid		(47,289)	(37,449)
Other operating income received		12,043	11,397
Operating expenses paid		(788,433)	(675,315)
Cash flows from operating activities before changes in operating assets and liabilities		2,497,595	2,119,274
Changes in operating assets and liabilities			
Net change in mandatory cash balances with the CBRF		(2,632)	13,901
Net change in amounts due from banks		(7,625,416)	3,501,530
Net change in mortgage loans to individuals		(6,778,066)	(6,146,772)
Net change in other assets		177,454	26,737
Net change in customer accounts		(74,932)	(312,196)
Net change in other liabilities		(51,964)	(52,910)
Cash used in operating activities before taxation		(11,857,961)	(850,436)
Income tax paid		(343,105)	(284,630)
Net cash used in operating activities		(12,201,066)	(1,135,066)
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets		(16,751)	(22,281)
Net cash used in investing activities		(16,751)	(22,281)
Cash flows from financing activities			
Repayments of financing from related parties		-	(2,035,932)
Receipts of financing from related parties		7,000,000	1,205,031
Repayments of amounts due to banks and other financial institutions		(519,894)	(336,909)
Receipts of amounts due from banks and other financial institutions		177,800	-
Proceeds from bonds issued		12,962,530	4,955,103
Repayment of securitized notes issued		(168,739)	(179,123)
Net cash from financing activities		19,451,697	3,608,170
Effect of exchange rate changes on cash and cash equivalents		43,987	33,293
Net increase in cash and cash equivalents		7,277,867	2,484,116
Cash and cash equivalents at the beginning of the period		3,634,175	2,474,520
Cash and cash equivalents at the end of the period	5	10,912,042	4,958,636


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1 Principal Activities

These consolidated financial statements include the financial statements of Commercial Bank DeltaCredit, Closed joint stock company (the "Bank"), and its special purpose entity Limited Liability Company "Red and Black Prime Russia MBS No.1 Limited" (the "SPE"), (together "the Group").

The Bank is a commercial bank incorporated as a closed joint-stock company under the laws of the Russian Federation ("RF"). Up to January 2011 the immediate holding company of the Bank was DC Mortgage Finance Netherlands B.V. ("DCMF"), which was wholly-owned by Société Générale S.A. In January 2011 the first stage of the assets consolidation by Société Générale Group in Russia was completed. As a result, on 17 January 2011 the Bank was acquired by "Rosbank" OJSC JSCB ("Rosbank"). Rosbank is one of the largest privately owned banks in Russia in terms of network; it operates more than 700 outlets, covering over 70 of Russia's regions. Société Générale is the principal shareholder of Rosbank owning 99.4% of its shares. Société Générale is the ultimate controlling party of the Bank.

Starting from March 2014 the Bank operates under new General banking termless license issued by the Central Bank of the Russian Federation ("CBRF") which dismisses two previous termless licenses. The license allows performing all types of banking operations according to the Federal Law on Banks and Banking Activity, except for operations with precious metals. The Bank's original shareholders were JP Morgan Overseas Capital Corporation and Morgan Guarantee International Finance Corporation. The Bank previously operated as ZAO JP Morgan Bank, and on 24 July 2001 changed its name to DeltaCredit Bank.

In February 2005, the Bank became a member of the deposit insurance system provided by the State Corporation "Agency for Deposit Insurance".

The Bank's registered office is located: 125009, Russia, Moscow, 4/7 Vozdvizhenka St., Bld. 2. The Bank currently maintains outlets in St. Petersburg, Nizhniy Novgorod, Samara, Chelyabinsk, Ekaterinburg, Novosibirsk, Perm, Kazan, Ufa, Krasnoyarsk, Tumen, Kaluga, Vladimir, Togliatti, Krasnodar, Voronezh and Kemerovo. The number of the Bank's employees as at 30 June 2014 was 679 (31 December 2013: 623).

The SPE, a limited liability company, incorporated under the laws of Ireland under company registration number 432754 and having its registered office at Ireland, Dublin, 85 Merrion Square, was established for the purpose of purchasing the mortgage loan portfolio from the Bank and issuing notes against such portfolio.

The Bank is a specialized lender of which the core business is the provision of mortgage loans and mortgage loans purchases in the Russian Federation.

Residential mortgage products are distributed to retail customers through a distribution network with an emphasis on cost efficiency. The network consists of the Bank's outlets and a regional network of partner banks.

Funding is obtained from both domestic and global financial markets from wholesale credit lines, issuance of debt securities and securitisation of loans.

As of 30 June 2014 and 31 December 2013, the shareholders, and the composition of the Board of Directors and Board of Management were as follows:

	30 June 2014		31 December 2013	
	% Ownership	% Votes	% Ownership	% Votes
"Rosbank" OJSC JSCB	100.0	100.0	100.0	100.0
	100.0	100.0	100.0	100.0

1 Principal Activities (continued)

Board of Directors as of	
30 June 2014 (unaudited)	31 December 2013
Didier Hauguel	Didier Hauguel
Serge Ozerov	Serge Ozerov
Francois Bloch	Francois Bloch
Christian Schricke	Christian Schricke
Alexis Lacroix	Alexis Lacroix

Board of Management as of	
30 June 2014 (unaudited)	31 December 2013
Serge Ozerov	Serge Ozerov
Elena Kudlik	Elena Kudlik
Irina Aslanova	Irina Aslanova
Denis Kovalev	Denis Kovalev

2 Basis of Presentation**General**

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for the year ended 31 December 2013 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures where significant events have occurred subsequent to the issuance of the Group's annual consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS. Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the information presented not misleading if these financial statements are read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS. In the opinion of management, these financial statements reflect all adjustments necessary to present fairly the Group's financial position, results of operations, statements of changes in shareholders' equity and cash flows for the interim reporting periods.

3 Significant Accounting Policies

These interim condensed consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments.

The same accounting policies, presentation and methods of computation have been followed in these interim condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2013, except for the accounting policies and impact of the adoption of the following new and amended Standards and Interpretations:

- Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities
- Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting
- IFRIC 21 Levies

3 Significant Accounting Policies (continued)

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities. These amendments do not have any effect on the Group's consolidated financial statements as the Bank is not an investment entity.

Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'. There is no effect of these amendments on the financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or cash-generating unit to periods in which an impairment loss has been recognized or reversed. In addition, they expand and clarify the disclosure requirements applicable when recoverable amount has been determined on the basis of fair value less costs of disposal. These amendments affect disclosures only and do not have any impact of interim condensed consolidated financial statements of the Group as no impairment loss was recognized or reversed during the reporting period.

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

These amendments allow the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met. There is no effect of these amendments on the Group's financial statements as the Group does not apply hedge accounting.

IFRIC 21 Levies

The interpretation is applicable to all payments imposed by governments under legislation, other than outflows that are within the scope of other standards (such as income taxes within the scope of IAS 12) and fines and penalties for breaches of legislation. The interpretation clarifies that a liability to pay a levy should only be recognised when an obligating event has occurred and provides guidance on how to determine whether a liability should be recognized progressively over specific period or in full at a specific date. The same principles should be applied in interim financial statements.

The Group did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

3 Significant Accounting Policies (continued)**Rates of exchange**

The exchange rates used by the Group in the preparation of the consolidated financial statements as at the reporting period-end are as follows:

	30 June 2014	31 December 2013
RUR/1 US Dollar	33.6306	32.7292
RUR/1 Euro	45.8251	44.9699

Significant accounting estimates

In preparing these interim condensed consolidated financial statements, the significant estimates and judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group's annual consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS.

4 Reclassifications

Certain reclassifications have been made to the consolidated statement of cash flows as at 30 June 2013 and for the six months then ended to conform to the presentation as at 30 June 2014 and for the six months then ended as current presentation provides better allocation of the cash flows.

	As previously reported	Reclassification amount	As reclassified
	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2013 (unaudited)
Cash flows from operating activities			
Interest received	4,586,405	118,185	4,704,590
Fees and commissions received	334,530	(118,185)	216,345
Fees and commissions paid	(46,893)	9,444	(37,449)
Operating expenses paid	(685,151)	9,836	(675,315)
Cash flows from operating activities before changes in operating assets and liabilities	4,188,891	19,280	4,208,171
Changes in operating assets and liabilities			
Net change in other assets	1,120	25,617	26,737
Net cash used in operating activities	4,190,011	44,897	4,234,908
Cash flows from financing activities			
Proceeds from bonds issued	5,000,000	(44,897)	4,955,103
Net cash from financing activities	5,000,000	(44,897)	4,955,103

5 Cash and Cash Equivalents

	30 June 2014 (unaudited)	31 December 2013
Cash on hand	387,148	310,461
Cash balances with the CBRF (other than mandatory cash balances)	2,165,408	213,622
Correspondent accounts, overnight placements with other banks and interbank loans less than 30 days		
- Russian Federation	5,625,163	1,809,715
- Other countries	2,734,323	1,300,377
Total cash and cash equivalents	10,912,042	3,634,175

Maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 18. Refer to Note 22 for related party transactions disclosure.

6 Amounts Due from Banks

Amounts due from banks include deposits placed with banks-members of Société Générale Group in the amount of RUR 9,852,208 thousand (31 December 2013: RUR 2,757,390 thousand).

The following table details credit rating of amounts due from banks according to Fitch that is neither past due nor impaired:

	30 June 2014 (unaudited)	31 December 2013
Rating A	4,796,931	-
Rating BBB+	5,055,277	2,757,390
Rating BBB	392,090	422,008
Rating BBB-	613,210	-
Total amounts due from banks	10,857,508	3,179,398

Maturity and interest rate analyses of amounts due from banks are disclosed in Note 18. Refer to Note 22 for related party transactions disclosure.

7 Mortgage Loans to Individuals

	30 June 2014 (unaudited)	31 December 2013
Originated loans	80,113,683	74,491,540
Purchased loans:		
- Under recourse agreement	7,380,409	6,518,056
- With no recourse agreement	11,607,757	10,528,741
Securitized loans	943,153	1,105,868
Total loans before accrued income and allowance	100,045,002	92,644,205
Accrued interest income on originated and purchased loans	774,675	713,932
Accrued interest income on securitized loans	9,595	9,434
Total loans before allowance	100,829,272	93,367,571
Less: Allowance for loan impairment	(328,518)	(288,863)
Total mortgage loans to individuals	100,500,754	93,078,708

Assets acquired by adjudication (foreclosed property) as at 30 June 2014 totaled RUR 69,520 thousand (31 December 2013: RUR 101,621 thousand) represent collateralized property repossessed by the Group from its defaulted borrowers, which the Bank intends to realize in 2014. The Group repossessed collateralized property in the amount of RUR 8,573 thousand and RUR 12,780 thousand during the six months 2014 and 2013 respectively.

As the Group originates only mortgage loans to individuals, the Group therefore does not have loans in its portfolio which are individually significant in relation to the Group's equity.

Analysis on overdue loans to individuals is presented below:

Class of financial asset	Carrying amount as at 30 June 2014 <i>(unaudited)</i>	neither impaired nor past due	Of which			
			not impaired as of reporting date but past due	impaired		
				less than 90 days overdue	91 - 180 days overdue	181 - 360 days overdue
Mortgage loans to individuals, excluding securitized loans	99,876,524	97,841,031	1,370,104	192,182	109,846	363,361
Less: Allowance for loan impairment	(311,349)	-	-	(19,248)	(27,503)	(264,598)
Securitized loans	952,748	902,072	21,718	7,559	4,605	16,794
Less: Allowance for loan impairment	(17,169)	-	-	(776)	(1,195)	(15,198)
Total mortgage loans to individuals	100,500,754	98,743,103	1,391,822	179,717	85,753	100,359

7 Mortgage Loans to Individuals (continued)

Class of financial asset	Carrying amount as at 31 December 2013	neither impaired nor past due	Of which			
			not impaired as of reporting date but past due	impaired		
				less than 90 days overdue	91 - 180 days overdue	181 - 360 days overdue
Mortgage loans to individuals, excluding securitized loans	92,252,269	90,843,349	873,205	94,243	136,890	304,582
Less: Allowance for loan impairment	(274,435)	-	-	(9,443)	(34,286)	(230,706)
Securitized loans	1,115,302	1,019,295	68,449	5,937	4,829	16,792
Less: Allowance for loan impairment	(14,428)	-	-	(603)	(1,231)	(12,594)
Total mortgage loans to individuals	93,078,708	91,862,644	941,654	90,134	106,202	78,074

Movements in the provision for loan impairment are as follows:

<i>(unaudited)</i>	Provision for loans impairment
31 December 2012	226,935
Write-offs	(10,951)
Recoveries of loans previously written off	564
Translation difference	889
Additional provision recognized	67,047
30 June 2013 (unaudited)	284,484
31 December 2013	288,863
Write-offs	(11,319)
Recoveries of loans previously written off	563
Translation difference	328
Additional provision recognized	50,083
30 June 2014 (unaudited)	328,518

The Group has property as collateral for its mortgage loans. For every loan the fair value of the collateral exceeds the carrying value of the loan. The property disclosed in the table below is based on its fair value at the time of loan origination.

	30 June 2014 <i>(unaudited)</i>	31 December 2013
Property	210,897,722	190,260,268
Collateral received	210,897,722	190,260,268

7 Mortgage Loans to Individuals (continued)

The fair value of properties received as collateral is disclosed based on the estimated fair value at the origination date of the loan. The fair value of properties is reestimated if the average quarterly market price per 1 square meter of residential property fluctuates for more than 30%. The average loan to value of the mortgage book is 48 percent as at 30 June 2014 (31 December 2013: 49 percent). The amount disclosed above for fair value of collateral is substantially higher than the loan outstanding balances because the loans have been amortized over time reducing the loan to value coverage and the fair value of collateral for certain loans is substantially more than the loans outstanding balances.

Maturity and interest rate analyses of mortgage loans to individuals are disclosed in Note 18.

8 Other Assets and Other Liabilities

Other Assets comprise:

	30 June 2014 (unaudited)	31 December 2013
Other financial assets		
Settlements with other debtors	131,965	99,942
Insurance agent fees receivable	59,017	59,950
Total other financial assets	190,982	159,892
Other non-financial assets		
Deferred expenses	205,405	96,917
Rent prepaid	13,365	13,365
Low-value items	7,650	2,944
Settlements with depositaries	-	322,750
Total other non-financial assets	226,420	435,976
Total other assets	417,402	595,868

Other Liabilities comprise:

	30 June 2014 (unaudited)	31 December 2013
Other financial liabilities		
Salary and bonuses payable	89,372	97,465
Commissions payable	59,755	45,827
Unused vacation provision	23,009	16,576
Other accruals	9,951	8,197
Fees for professional services	4,554	9,827
Other	27,185	38,570
Total other financial liabilities	213,826	216,462
Other non-financial liabilities		
Income tax and other taxes payable	22,327	30,460
Advances received for assets acquired by adjudication	1,750	12,000
Total other non-financial liabilities	24,077	42,460
Total other liabilities	237,903	258,922

9 Customer Accounts

Customer Accounts comprise:

	30 June 2014 (unaudited)	31 December 2013
Repayable on demand	1,521,939	1,826,359
Time deposits	841,255	586,474
Total customer accounts	2,363,194	2,412,833

Customer accounts are mainly represented by deposits of individuals kept for mortgage loans servicing or down payment accumulation.

As at 30 June 2014 and 31 December 2013 deposits by customers totaling RUR 832,998 thousand and RUR 580,344 thousand (35% and 24% of total customer accounts), respectively, were due to insurance company which represented a significant concentration (see Note 22).

10 Amounts Due to Banks and Other Financial Institutions

	30 June 2014 (unaudited)	31 December 2013
European Bank for Reconstruction and Development ("EBRD")	4,468,061	4,658,881
Overseas Private Investments Corporation ("OPIC")	2,152,557	2,190,970
Kreditanstalt fuer Wiederaufbau ("KfW")	1,673,766	1,779,706
International Finance Corporation ("IFC")	1,004,526	786,678
Total due to banks and other financial institutions	9,298,910	9,416,235

Borrowings from EBRD, OPIC, IFC and part of borrowing from KfW are secured by guarantees issued by Société Générale.

Maturity and interest rate analyses of amounts due to banks and other financial institutions are disclosed in Note 18.

The Group is obliged to comply with financial covenants in relation to certain borrowings from banks and other financial institutions disclosed above. These covenants include liquidity ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the six months ended 30 June 2014 and during the year ended 31 December 2013.

11 Financing from Related Parties

For definition of related parties and other transactions with related parties refer to Note 22.

As at 30 June 2014 and 31 December 2013 financing from related parties represents borrowings from Rosbank and Société Générale.

As at 30 June 2014 financing from Société Générale, the ultimate controlling party, represents borrowings with a nominal value of RUR 25,074,852 thousand (31 December 2013: RUR 24,696,264 thousand).

Financing from Société Générale includes a subordinated loan of RUR 1,250,000 thousand received on 30 May 2008 with maturity of 8 years. In the event of bankruptcy or liquidation of the Group, repayment of the subordinated debt is subordinate to the repayments of the Group's liabilities to all other creditors.

As at 30 June 2014 financing from Rosbank represents borrowings with a nominal value of RUR 15,345,224 thousand (31 December 2013: RUR 8,309,168 thousand).

11 Financing from Related Parties (continued)

Financing from Related Parties comprise:

	30 June 2014 (unaudited)	31 December 2013
Financing at amortized cost, long-term	40,524,136	32,638,044
Subordinated loan	1,261,740	1,261,063
Total financing from related parties	41,785,876	33,899,107

Maturity and interest rate analyses of financing from related parties are disclosed in Note 18.

12 Bonds Issued

In June 2011 the Group issued 06 series corporate bonds with a nominal value of RUR 5,000,000 thousand bearing an annual coupon rate of 7.2%. In June 2014, at the put option date, no investors exercised their put option rights. Full bond's issue was rolled over with the change of annual coupon rate to 9.9% till the final maturity date 15 June 2016.

In November 2011 the Group issued 08-IP series covered bonds with a nominal value of RUR 5,000,000 thousand bearing an annual coupon rate of 8.33%. These covered bonds include a written put option allowing the investors to sell the covered bonds back to the Group in November 2014 at par value. The bonds will mature in November 2016.

In July 2013 the Group has issued 10-IP series covered bonds with nominal amount of RUR 5,000,000 thousand and bearing an annual coupon rate of 8.65%. These covered bonds include a written put option allowing the investors to sell the covered bonds back to the Group in July 2016 at par value. The bonds mature in July 2018.

The above listed bonds issues were secured by guarantees of Société Générale (see Note 22).

In August 2012 the Group issued BO-03 series bonds with a nominal value of RUR 4,000,000 thousand bearing annual coupon rate of 9.25%. In August 2013 certain investors representing 2.46% of the bonds issued exercised their put options at par value after with annual coupon rate changed to 8.25%. The remaining bonds will mature in August 2015.

In December 2012 the Group issued 09-IP series covered bonds with a nominal value of RUR 5,000,000 thousand bearing an annual coupon rate of 9.15%. These covered bonds include a written put option allowing the investors to sell the covered bonds back to the Group in December 2015 at par value. The bonds will mature in December 2017. These covered bonds have Moody's rating of Baa1. Such rating uplift was based on additional assessment of the mortgage cover pool.

In April 2013 the Group has issued 11-IP series residential covered bonds with nominal amount of RUR 5,000,000 thousand and bearing an annual coupon rate of 8.50%. The bonds mature in April 2016. These residential covered bonds do not include put or call options.

In September 2013 the Group has issued 12-IP series residential covered bonds with nominal amount of RUR 5,000,000 thousand and bearing an annual coupon rate of 8.45%. These residential covered bonds include a written put option allowing the investors to sell the bonds back to the Group in September 2016 at par value. The bonds mature in August 2018. These covered bonds have Moody's rating of Baa1. Such rating uplift was also based on additional assessment of the mortgage cover pool.

In accordance with the terms of the covered bonds issue the Bank has to comply with the CBRF ratios. As at 30 June 2014 and as at 31 December 2013 the Bank was in compliance with such CBRF ratios.

Mortgage loans to individuals that were pledged as collateral for covered bonds are disclosed in Note 19.

12 Bonds issued (continued)

In October 2013 the Group has issued BO-05 series bonds with nominal amount of RUR 5,000,000 thousand and bearing an annual coupon rate of 8.40%. These bonds include a written put option allowing the investors to sell the bonds back to the Group in October 2016 at par value. The bonds mature in October 2023.

In March 2014 the Group has issued 14-IP series covered bonds with nominal amount of RUR 5,000,000 thousand and bearing an annual coupon rate of 12%. The bonds mature in March 2024. These covered bonds do not include put or call options.

In March 2014 the Group has registered a prospectus for the issue of 13-IP series covered bonds. Nominal amount of the issue is RUR 7,000,000 thousand. The placement is planned in the third quarter 2014.

In May 2014 the Group has issued BO-06 series bonds with nominal amount of RUR 5,000,000 thousand and bearing an annual coupon rate of 10.35%. These bonds do not include put or call options. The bonds mature in May 2024.

In June 2014 the Group has issued BO-01 series bonds with nominal amount of RUR 3,000,000 thousand and bearing an annual coupon rate of 10.55%. These bonds include a written put option allowing the investors to sell the bonds back to the Group in June 2019 at par value. The bonds mature in June 2024.

In addition to bonds issued as at 30 June 2014 the Group has also four issues of bonds admitted to trading on the MICEX Stock Exchange, but not issued yet. Nominal amount of these potential issues is RUR 17,000,000 thousand.

13 Notes Issued

In April 2007 the Group securitised mortgage loans in the amount of USD 206,300 thousand or RUR 5,346,904 thousand. The securitisation is structured as a sale of a pool of loans to the SPE. The Group financed the purchase through the issuance of Mortgage Backed Floating Rate Notes maturing in 2035.

Issued notes comprise:

	Nominal Value thousand USD	Nominal interest rate, %	Amortized value as at 30 June 2014 thousand RUR (unaudited)	Amortized value as at 31 December 2013 thousand RUR
Class A Senior Notes	173,200	1.05%+ 1 month LIBOR	572,793	668,575
Class B	14,500	1.45%+ 1 month LIBOR	63,420	71,203
Class C	18,600	3.35%+ 1 month LIBOR	145,861	171,605
Total notes issued	206,300		782,074	911,383

14 Financial Liabilities at Fair Value through Profit or Loss

As a result of the securitisation transaction (see Note 13), the SPE issued 1 month LIBOR floating rate notes and purchased mortgage loans, the majority of which consisted of fixed rate mortgage loans with the rest consisting of mortgage loans tied to 12- month LIBOR.

In order to manage its interest rate exposure, the SPE entered into two balance guaranteed swap transactions with Société Générale CIB on 12 April 2007 in the form of a confirmation letter to the ISDA Master Agreement.

As at 30 June 2014 the fair value of the swap is RUR 66,715 thousand (31 December 2013: RUR 79,201 thousand). The gain from the change in fair value is recognized in net loss on financial instruments at fair value through profit or loss in the amount of RUR 15,256 thousand (30 June 2013: RUR 24,549 thousand).

15 Shareholder's Equity

In 2014 the Group declared dividends for the year 2013 of RUR 0.11596 per share on ordinary shares. In July 2014 the Group paid dividends totaling RUR 300,000 thousand on ordinary shares.

In 2013 the Group declared dividends for the year 2012 of RUR 0.27058 per share on ordinary shares. In August 2013 the Group paid dividends totaling RUR 700,000 thousand on ordinary shares.

16 Interest Income and Expense

	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Interest income comprises:		
Interest income on financial assets recorded at amortized cost	6,279,939	4,715,002
Total interest income	6,279,939	4,715,002
Interest income on financial assets recorded at amortized cost comprises:		
Interest on mortgage loans to individuals	5,813,899	4,499,074
Interest on amounts due from banks	466,040	215,928
Total interest income on financial assets recorded at amortized cost	6,279,939	4,715,002
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	3,756,395	2,701,338
Total interest expense	3,756,395	2,701,338
Interest expense on financial liabilities recorded at amortized cost comprises:		
Interest on bonds issued	1,911,048	908,586
Interest on financing from related parties	1,525,607	1,488,034
Interest on amounts due to banks and other financial institutions	283,642	288,151
Interest on customer accounts	26,526	4,498
Interest on notes issued	9,572	12,069
Total interest expense on financial liabilities recorded at amortized cost	3,756,395	2,701,338
Net interest income	2,523,544	2,013,664

16 Interest Income and Expense (continued)

	3 months ended 30 June 2014 (unaudited)	3 months ended 30 June 2013 (unaudited)
Interest income comprises:		
Interest income on financial assets recorded at amortized cost	3,324,345	2,437,704
Total interest income	3,324,345	2,437,704
Interest income on financial assets recorded at amortized cost comprises:		
Interest on mortgage loans to individuals	2,983,082	2,331,877
Interest on amounts due from banks	341,263	105,827
Total interest income on financial assets recorded at amortized cost	3,324,345	2,437,704
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	2,051,547	1,398,691
Total interest expense	2,051,547	1,398,691
Interest expense on financial liabilities recorded at amortized cost comprises:		
Interest on bonds issued	1,084,213	511,253
Interest on financing from related parties	806,750	755,986
Interest on amounts due to banks and other financial institutions	141,115	125,344
Interest on customer accounts	14,850	163
Interest on notes issued	4,619	5,945
Total interest expense on financial liabilities recorded at amortized cost	2,051,547	1,398,691
Net interest income	1,272,798	1,039,013

17 Fee and Commission Income and Expense

	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Fee and commission income		
Insurance agent fees	100,415	79,766
Commission on cash and settlements transactions	64,375	58,681
Fines and penalties	30,544	31,455
Commission on rental of safe deposits boxes	12,070	8,353
Commission for underwriting services provided	10,606	8,833
Commission on issued guarantees	7,438	3,390
Correspondent programme entry fee	5,763	8,093
Commission for clients' applications processing	3,731	4,321
Other commission income	14,133	14,889
Total fee and commission income	249,075	217,781
Fee and commission expense		
Commission on guarantees received	72,290	50,104
Fees and commissions paid to banks and other financial institutions	20,208	6,229
Commission on settlement transactions	4,464	3,620
Total fee and commission expense	96,962	59,953
Net fee and commission income	152,113	157,828
	3 months ended 30 June 2014 (unaudited)	3 months ended 30 June 2013 (unaudited)
Fee and commission income		
Insurance agent fees	52,593	41,953
Commission on cash and settlements transactions	33,670	33,792
Fines and penalties	18,514	20,810
Commission on rental of safe deposits boxes	6,711	4,602
Commission for underwriting services provided	10,606	8,833
Commission on issued guarantees	3,739	1,541
Correspondent programme entry fee	1,780	5,974
Commission for clients' applications processing	2,071	2,754
Other commission income	7,458	3,872
Total fee and commission income	137,142	124,131
Fee and commission expense		
Commission on guarantees received	36,280	25,353
Fees and commissions paid to banks and other financial institutions	7,713	3,470
Commission on settlement transactions	2,500	2,287
Total fee and commission expense	46,493	31,110
Net fee and commission income	90,649	93,021

18 Income Tax Expense

Interim period income tax rate is accrued based on the estimated average annual effective income tax rate of 19 per cent (6 months ended 30 June 2013: 20%).

The change in effective tax rate from the prior year was caused mainly by the changes in estimates of non-deductible expenses for tax purposes.

19 Risk Management

Risk is inherent in the Group's activities and it is managed through a process of ongoing risk identification, measurement and monitoring subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to financial and operational risks.

There have been no changes in any risk management policies since year end.

An analysis of credit, liquidity and interest rate risk is presented in the following tables.

Credit risk

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Group's maximum exposure to credit risk under contingent liabilities, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

	30 June 2014 (unaudited)	Maximum exposure	Collateral pledged	Net exposure after offset and collateral
Cash and cash equivalents (excluding cash on hand)		10,524,894	-	10,524,894
Amounts due from banks		10,857,508	-	10,857,508
Mortgage loans to individuals		100,500,754	100,500,754	-
Other financial assets		190,982	-	190,982
Guarantees issued		2,000,000	-	2,000,000
Total credit risk exposure		124,074,138	100,500,754	23,573,384
	31 December 2013	Maximum exposure	Collateral pledged	Net exposure after offset and collateral
Cash and cash equivalents (excluding cash on hand)		3,323,714	-	3,323,714
Amounts due from banks		3,179,398	-	3,179,398
Mortgage loans to individuals		93,078,708	93,078,708	-
Other financial assets		159,892	-	159,892
Guarantees issued		2,000,000	-	2,000,000
Total credit risk exposure		101,741,712	93,078,708	8,663,004

All mortgage loans to individuals issued by the Group are collateralized with the subject property and for every loan the fair value of the collateral exceeds the carrying value of the loan.

19 Risk Management (continued)*Liquidity risk*

The liquidity position of the Group based on discounted cash flows taking into account expected prepayments as at 30 June 2014 is set out below:

30 June 2014 (unaudited)	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	Total
Non- derivative financial assets							
Cash and cash equivalents	10,912,042	-	-	-	-	-	10,912,042
Amounts due from banks	-	10,857,508	-	-	-	-	10,857,508
Mortgage loans to individuals	3,315,103	3,747,204	14,638,571	31,918,759	33,524,555	13,356,562	100,500,754
Other financial assets	-	179,816	5,583	5,583	-	-	190,982
Total non- derivative financial assets	14,227,145	14,784,528	14,644,154	31,924,342	33,524,555	13,356,562	122,461,286
Non- derivative financial liabilities and commitments							
Customer accounts	1,521,941	4,576	3,679	-	674,945	158,053	2,363,194
Amounts due to banks and other financial institutions	154,210	187,971	1,834,592	3,123,136	3,248,400	750,601	9,298,910
Financing from related parties	104,072	4,654,334	10,202,349	16,308,905	10,516,216	-	41,785,876
Bonds issued	321,096	516,504	8,398,973	33,994,683	4,853,115	4,596,062	52,680,433
Notes issued	18,243	35,712	147,156	302,143	260,339	18,481	782,074
Financial liabilities at fair value through profit or loss	2,706	5,090	18,840	30,616	9,456	7	66,715
Dividends declared	300,000	-	-	-	-	-	300,000
Other financial liabilities	-	163,325	43,913	6,588	-	-	213,826
Guarantees issued	2,000,000	-	-	-	-	-	2,000,000
Total non- derivative financial liabilities and commitments	4,422,268	5,567,512	20,649,502	53,766,071	19,562,471	5,523,204	109,491,028
Net liquidity gap	9,804,877	9,217,016	(6,005,348)	(21,841,729)	13,962,084	7,833,358	12,970,258
Cumulative liquidity gap	9,804,877	19,021,893	13,016,545	(8,825,184)	5,136,900	12,970,258	

The Bank has entered into an agreement with the AHML under which the AHML will purchase placements of residential covered bonds to be issued in the third quarter of 2014 in the amount of RUR 5,000,000 thousand. These will close a negative cumulative liquidity gap as of 30 June 2014 in the time bucket "from 1 to 3 years".

19 Risk Management (continued)*Liquidity risk (continued)*

The liquidity position of the Group based on discounted cash flows taking into account prepayments as at 31 December 2013 is set out below:

31 December 2013	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	Total
Non- derivative financial assets							
Cash and cash equivalents	3,634,175	-	-	-	-	-	3,634,175
Amounts due from banks	-	3,179,398	-	-	-	-	3,179,398
Mortgage loans to individuals	3,286,897	3,527,791	13,347,384	29,217,917	30,809,164	12,889,555	93,078,708
Other financial assets	-	150,381	-	9,511	-	-	159,892
Total non- derivative financial assets	6,921,072	6,857,570	13,347,384	29,227,428	30,809,164	12,889,555	100,052,173
Non- derivative financial liabilities and commitments							
Customer accounts	1,826,359	-	6,127	-	264,099	316,248	2,412,833
Amounts due to banks and other financial institutions	159,722	324,675	1,594,121	2,954,278	3,384,649	998,790	9,416,235
Financing from related parties	-	433,519	10,730,342	13,797,464	8,937,782	-	33,899,107
Bonds issued	322,296	372,282	11,746,326	27,146,461	-	-	39,587,365
Notes issued	20,479	39,889	165,008	339,414	292,851	53,742	911,383
Financial liabilities at fair value through profit or loss	2,782	5,809	21,796	37,743	10,922	149	79,201
Other financial liabilities	-	183,274	21,967	11,221	-	-	216,462
Guarantees issued	-	-	2,000,000	-	-	-	2,000,000
Total non- derivative financial liabilities and commitments	2,331,638	1,359,448	26,285,687	44,286,581	12,890,303	1,368,929	88,522,586
Net liquidity gap	4,589,434	5,498,122	(12,938,303)	(15,059,153)	17,918,861	11,520,626	11,529,586
Cumulative liquidity gap	4,589,434	10,087,556	(2,850,747)	(17,909,900)	8,961	11,529,587	

The Group monitors long term liquidity gap and plans to manage it through arranging new bonds issues and attracting new funding from international financial institutions.

19 Risk Management (continued)

Interest rate risk

The interest rates on the mortgage loans to individuals are either fixed or variable or combined. As at 30 June 2014 1.26% of the Group's mortgage loan portfolio included loans with an interest rate indexed to LIBOR (31 December 2013: 1.47%) and 0.84% (31 December 2013: 1.03%) with an interest rate indexed to MosPrime, which is reset on an annual basis and quarterly basis, respectively.

The table below summarizes the Group's exposure to interest rate risks. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

30 June 2014 (unaudited)	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	Non-interest bearing	Total
Non- derivative financial assets								
Cash and cash equivalents	8,010,502	-	-	-	-	-	2,901,540	10,912,042
Amounts due from banks	-	10,857,508	-	-	-	-	-	10,857,508
Mortgage loans to individuals	4,973,801	3,756,291	15,900,870	36,700,470	37,060,073	2,109,249	-	100,500,754
Other financial assets	-	-	-	-	-	-	190,982	190,982
Total non- derivative financial assets	12,984,303	14,613,799	15,900,870	36,700,470	37,060,073	2,109,249	3,092,522	122,461,286
Non- derivative financial liabilities and commitments								
Customer accounts	3,934	4,576	3,679	-	674,945	158,053	1,518,007	2,363,194
Amounts due to banks and other financial institutions	154,210	187,971	1,834,592	3,123,137	3,248,400	750,600	-	9,298,910
Financing from related parties	104,072	4,654,334	10,202,350	16,308,906	10,516,214	-	-	41,785,876
Bonds issued	321,096	516,504	8,398,973	33,994,683	4,853,115	4,596,062	-	52,680,433
Notes issued	18,243	35,712	147,156	302,143	260,339	18,481	-	782,074
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	66,715	66,715
Dividends declared	-	-	-	-	-	-	300,000	300,000
Other financial liabilities	-	-	-	-	-	-	213,826	213,826
Guarantees issued	-	-	-	-	-	-	2,000,000	2,000,000
Total non- derivative financial liabilities and commitments	601,555	5,399,097	20,586,750	53,728,869	19,553,013	5,523,196	4,098,548	109,491,028
Net interest sensitivity gap	12,382,748	9,214,702	(4,685,880)	(17,028,399)	17,507,060	(3,413,947)	(1,006,026)	12,970,258
Net cumulative interest sensitivity gap	12,382,748	21,597,450	16,911,570	(116,829)	17,390,231	13,976,284		

The Bank has entered into an agreement with the AHML under which the AHML will purchase placements of residential covered bonds to be issued in the third quarter of 2014 in the amount of RUR 5,000,000 thousand. This will close a negative net interest sensitivity gap as of 30 June 2014 in the time bucket "from 1 to 3 years".

19 Risk Management (continued)

Interest rate risk (continued)

31 December 2013	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	Non-interest bearing	Total
Non- derivative financial assets								
Cash and cash equivalents	2,818,629	-	-	-	-	-	815,546	3,634,175
Amounts due from banks	-	3,179,398	-	-	-	-	-	3,179,398
Mortgage loans to individuals	3,862,206	4,159,312	14,709,181	32,958,936	34,841,760	2,547,313	-	93,078,708
Other financial assets	-	-	-	-	-	-	159,892	159,892
Total non- derivative financial assets	6,680,835	7,338,710	14,709,181	32,958,936	34,841,760	2,547,313	975,438	100,052,173
Non- derivative financial liabilities and commitments								
Customer accounts	4,057	-	6,127	-	264,099	316,248	1,822,302	2,412,833
Amounts due to banks and other financial institutions	159,722	324,675	1,594,121	2,954,279	3,384,649	998,789	-	9,416,235
Financing from related parties	-	433,519	10,730,342	13,797,464	8,937,782	-	-	33,899,107
Bonds issued	322,296	372,282	11,746,326	27,146,461	-	-	-	39,587,365
Notes issued	20,479	39,889	165,008	339,414	292,851	53,742	-	911,383
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	79,201	79,201
Other financial liabilities	-	-	-	-	-	-	216,462	216,462
Guarantees issued	-	-	-	-	-	-	2,000,000	2,000,000
Total non- derivative financial liabilities and commitments	506,554	1,170,365	24,241,924	44,237,618	12,879,381	1,368,779	4,117,965	88,522,586
Net interest sensitivity gap	6,174,281	6,168,345	(9,532,743)	(11,278,682)	21,962,379	1,178,534	(3,142,527)	11,529,587
Net cumulative interest sensitivity gap	6,174,281	12,342,626	2,809,883	(8,468,799)	13,493,580	14,672,114		

19 Risk Management (continued)*Interest rate risk (continued)*

The table below summarizes the weighted average interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using period-end effective interest rates.

	30 June 2014 (unaudited)		31 December 2013	
	USD	RUR	USD	RUR
Non- derivative financial assets				
Cash and cash equivalents	0.08%	6.6%	0.02%	6.2%
Amounts due from banks	-	8.8%	-	6.5%
Mortgage loans to individuals	9.8%	12.8%	9.8%	12.7%
Non- derivative financial liabilities and commitments				
Customer accounts	3.5%	8.4%	3.1%	8.4%
Amounts due to banks and other financial institutions	4.6%	10.4%	4.6%	10.4%
Financing from related parties	5.0%	9.9%	5.0%	10.2%
Bonds issued	-	9.7%	-	8.8%
Notes issued	2.1%	-	2.1%	-
Guarantees issued	-	7.25%	-	5.8%

20 Contingencies and Commitments**Russian operating environment**

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. In April 2014, an international credit agency Standard & Poor's downgraded Russia's long-term foreign currency sovereign rating from BBB to BBB- with a negative outlook. In July 2014 Fitch Ratings credit agency downgraded Russia's Country Ceiling from BBB+ to BBB with a negative outlook. Following this downgrade Fitch Ratings has downgraded the Long-term Issuer Default Ratings (IDRs) of 13 Russian foreign-owned banks. As the result the Bank's IDR was downgraded to BBB from BBB+.

These developments, particularly if sanctions are further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Ruble and other negative economic consequences. The impact of these developments on future operations and financial position of the Company is at this stage difficult to determine.

During the six months of 2014 the exchange rate of Russian Ruble ("RUR") for 1 dollar of the United States ("USD") has depreciated from 32.73 to 33.63. Average exchange rate for the 6 six months 2014 was 34.98 RUR for USD (2013: 31.85 RUR for USD). The GDP of Russia for the reporting period has increased by 1% in comparison to GDP of the same period of 2013 year per CBRF.

According to the statistical analytical data provided by the CBRF, the volume of originated mortgage loans for the first half of 2014 compared to the same period of 2013 has increased by 1.4 times: RUR 770 billion against RUR 542 billion. The number of mortgage loans originated during this period has increased by 1.3 times in comparison with the same period of 2013 and constituted 448 thousand loans.

20 Contingencies and Commitments (continued)

Russian operating environment (continued)

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

Legal proceedings

From time to time and in the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group and accordingly no provision has been made in these consolidated financial statements.

Tax legislation

Provisions of the RF tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the RF tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the RF tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the RF tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of "unjustified tax benefit", "primary commercial goal of transaction" and the criteria of "commercial purpose (substance) of transaction".

Such uncertainty could, in particular, be attributed to tax treatment of financial instruments/derivatives and determination of market price of transactions for transfer pricing purposes. It could also lead to temporary taxable differences occurred due to loan impairment provisions and income tax liabilities being treated by the tax authorities as understatement of the tax base. The management of the Group is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Russian transfer pricing legislation was amended starting from January 1, 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules is unclear, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also according to the clarification of the RF Constitutional Court the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayers has obstructed or hindered a tax inspection.

The SPE is a qualifying Company within the meaning of Section 110 of the Taxes Consolidation Act, 1997. As such, the profits are chargeable to corporation tax under Case III of Schedule D at a rate of 25 per cent but are computed in accordance with the provisions applicable to Case I of Schedule D.

As at 30 June 2014 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

20 Contingencies and Commitments (continued)**Contingencies and commitments**

As at 30 June 2014 and 31 December 2013 the Group's commitments and contingencies comprised the following:

	30 June 2014 (unaudited)	31 December 2013
Contingent liabilities		
Guarantees issued	2,000,000	2,000,000
Operating lease commitments		
Not later than 1 year	26,565	46,257
Later than 1 year but not later than 5 years	-	2,535
Total operating lease commitments	26,565	48,792
Commitments and contingencies	2,026,565	2,048,792

Guarantees issued as at 30 June 2014 and 31 December 2013 represent guarantees issued by the Group in favor of the CBRF on behalf of Rusfinance bank. The guarantees will mature in July 2014.

Assets pledged and restricted

As at 30 June 2014 RUR 32,075,372 thousand of mortgage loans to individuals were pledged as collateral under covered bonds and notes issued (31 December 2013: RUR 27,045,832 thousand). As at 30 June 2014 RUR 7,013,541 thousand of mortgage loans to individuals were pledged as collateral under covered bonds registered but not yet issued (31 December 2013: 0).

Mandatory cash balances with the CBRF in the amount of RUR 33,456 thousand (31 December 2013: RUR 30,824 thousand) represent mandatory reserve deposits which are not available to finance the Group's day to day operations. The Group is required to maintain mandatory reserve deposits at the CBRF at all times.

21 Segment Reporting

The Group's operations primarily constitute a single industry segment as the Group sells standard mortgage products within the Russian Federation. As such no disclosure of revenue, costs, assets and liabilities has been made in the financial statements as required by IFRS 8 "Operating segments" as the Group considers itself to be a single operating segment.

22 Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value.

22 Fair Value Measurements (continued)

Financial and non-financial instruments recognized at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products does not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2) – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The following methods and significant assumptions have been applied to estimate the fair values of following financial instruments:

- Cash and cash equivalents and Mandatory cash balances with the Central Bank of the Russian Federation (CBRF), due to the short-term environment and availability restrictions of these types of assets, the carrying amount is assumed to be reasonable estimate of their fair value.
- The fair value of amounts due from banks and mortgage loans to individuals is estimated by application of market interest rates when the loans were originated with the reporting period-end market rates offered on similar loans with the deduction of the allowances for credit losses from the calculated fair value amounts.
- The fair value of the term deposits is estimated by application of market interest rates when the deposits were placed with the reporting period-end market rates offered on similar deposits. The carrying amount of current customer accounts is assumed to be reasonable estimate of their fair value due to the short-term environment and availability requirements of these types of liability.
- The fair value of amounts due to banks and other financial institutions and financing from related parties is estimated by application of market interest rates when the financing was received with the reporting period-end market rates offered on similar financing.
- The fair value of issued bonds and notes is based on quoted prices. Where these are not available, fair value is based on expected cash flows discounted using market interest rates for similar securities or funds whose market rates are quoted.
- Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.

The valuation techniques have been consistently applied across the years.

Management of the Group considers that the fair value of financial assets and liabilities approximates their carrying value.

22 Fair Value Measurements (continued)

Fair value of the Group's financial and non-financial assets and financial and non-financial liabilities measured at fair value on a recurring basis

The following table provides an analysis of financial and non-financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	30 June 2014 (unaudited)	Valuation techniques using observable inputs (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Non-current assets held for sale				
Assets acquired by adjudication		69,520	-	69,520
Total non-current assets held for sale		69,520	-	69,520
Non- derivative financial liabilities				
Financial liabilities at fair value through profit or loss		-	66,715	66,715
Total non- derivative financial liabilities		-	66,715	66,715
	31 December 2013	Valuation techniques using observable inputs (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Non-current assets held for sale				
Assets acquired by adjudication		101,621	-	101,621
Total non-current assets held for sale		101,621	-	101,621
Non- derivative financial liabilities				
Financial liabilities at fair value through profit or loss		-	79,201	79,201
Total non- derivative financial liabilities		-	79,201	79,201

There were no transfers between Levels 1 and 2 in the period. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

Derivative financial instruments under Level 3 represent swaps which the SPE has entered to, disclosed in Note 14. The valuation technique is based on the assumptions of the projected mortgage pool repayments and the share of floating rate loans in the total mortgage pool. These assumptions are relatively stable and are not expected to change so that to affect the swaps fair value significantly.

22 Fair Value Measurements (continued)**Fair value of the Group's financial and non-financial assets and financial and non-financial liabilities measured at fair value on a recurring basis (continued)**

Changes in the swaps fair value during the period are as follows:

	30 June 2014 (unaudited)	31 December 2013
Fair value at 1 January	79,201	112,658
Total gains for the period recognised in profit or loss	(15,256)	(41,061)
Translation difference	2,770	7,604
Fair value at the end of the period	66,715	79,201

Total gains for the period are presented in the consolidated statement of profit or loss. Translation difference is comprised of RUR 588 thousand translation loss (31 December 2013: RUR 1,137 thousand translation gain) presented in the consolidated statement of other comprehensive income and RUR 2,181 thousand exchange difference loss (31 December 2013: RUR 8,741 thousand) presented in the consolidated statement of profit or loss.

23 Related Party Transactions

For the purposes of these consolidated financial statements, related parties are considered to be as defined by IAS 24 "Related Party Disclosures":

- (a) A person or a close member of that person's family is related to the Group if that person:
 - i. has control or joint control over the Group;
 - ii. has significant influence over the Group; or
 - iii. is a member of the key management personnel of the Group or of a parent of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
 - i. The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the reporting entity is itself such a plan, the sponsoring employers are also related to the Group.
 - vi. The entity is controlled or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with the shareholder of the Bank, Société Générale, its affiliates, directors and senior management. The outstanding balances at the end of the reporting period and income and expense items as well as other transactions for the first 6 months 2014 with related parties are as follows:

23 Related Party Transactions (continued)*(a) Transactions with key management personnel*

Total remuneration included in personnel expenses is as follows:

	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Key management personnel	28,675	25,380
Social security costs	3,492	3,220
Total management remuneration	32,167	28,600
	3 months ended 30 June 2014 (unaudited)	3 months ended 30 June 2013 (unaudited)
Key management personnel	15,761	13,236
Social security costs	1,577	1,324
Total management remuneration	17,338	14,560

(b) Transactions with Société Générale Group entities except for Rosbank Group entities

Included in the consolidated statement of financial position:

	30 June 2014 (unaudited)	31 December 2013
Cash and cash equivalents	1,480,837	360,600
Customer accounts	579,959	580,344
Amounts due from banks	4,796,931	-
Financing from related parties	25,925,333	25,301,070
Financial liabilities at fair value through profit or loss	66,715	79,201
Other financial liabilities	47,052	48,346

Included in the consolidated statement of profit or loss:

	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Interest on amounts due from banks	195,750	836
Interest on financing from related parties	(895,713)	(1,101,451)
Interest on customer accounts	(23,243)	-
Commission on settlement transactions	(90)	(29)
Commissions on guarantees received	(72,290)	(50,104)
Net loss on financial liabilities at fair value through profit or loss	(13,509)	(11,171)
Other operating income	1,523	1,419
Insurance agent fees	1,703	412
Professional services	(1,715)	(12,374)

23 Related Party Transactions (continued)*(b) Transactions with Société Générale Group entities except for Rosbank Group entities (continued)*

	3 months ended 30 June 2014 (unaudited)	3 months ended 30 June 2013 (unaudited)
Interest on amounts due from banks	180,160	489
Interest on financing from related parties	(451,200)	(557,360)
Interest on customer accounts	(11,686)	-
Commission on settlement transactions	(54)	(19)
Commissions on guarantees received	(36,280)	(25,353)
Net loss on financial liabilities at fair value through profit or loss	(5,221)	(3,103)
Other operating income	708	754
Insurance agent fees	1,703	412
Professional services	(1,715)	(6,274)

The Group has entered into two interest rate swap agreements with Société Générale CIB on 12 April 2007 to manage the interest rate risk associated with the floating rate notes, as described in Note 14.

(c) Transactions with Rosbank Group entities

Included in the consolidated statement of financial position:

	30 June 2014 (unaudited)	31 December 2013
Cash and cash equivalents	117,610	1,254,058
Amounts due from banks	5,055,277	2,757,390
Financing from related parties	15,860,543	8,598,037

Included in the consolidated statement of profit or loss:

	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Interest on amounts due from banks	177,880	180,520
Interest on financing from related parties	(629,893)	(386,583)
Commission on issued guarantees	7,438	3,390
Commission for underwriting services provided	7,366	6,297
Other commission income	7,369	-
Commission on settlement transactions	(170)	(335)
Other operating expenses	(6)	-

23 Related Party Transactions (continued)(c) *Transactions with Rosbank Group entities (continued)*

	3 months ended 30 June 2014 (unaudited)	3 months ended 30 June 2013 (unaudited)
Interest on amounts due from banks	116,358	83,367
Interest on financing from related parties	(355,549)	(198,626)
Commission on issued guarantees	3,739	1,541
Commission for underwriting services provided	7,366	6,297
Other commission income	3,783	-
Commission on settlement transactions	(99)	(183)
Other operating expenses	-	18

Commitments and contingencies:

	30 June 2014 (unaudited)	31 December 2013
Guarantees issued	2,000,000	2,000,000

Guarantees provided by Société Générale on behalf of the Group for financing received and bonds issued as at 30 June 2014 totaled RUR 24,458 thousand (31 December 2013: RUR 29,786 thousand).

24 Capital Management

The Group actively manages its capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBRF in supervising the Group.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group's overall capital risk management policy remains unchanged from 2008.

CBRF capital adequacy ratio

The CBRF requires banks to maintain a minimum capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As of 30 June 2014 and 31 December 2013, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

Capital adequacy ratio under Basel Capital Accord 1988 with amendments

For Basel I ratio calculation purposes, two tiers of capital are distinguished:

Tier I capital is "core" bank capital and includes paid share capital (less the carrying value of treasury shares), minority interests in the equity of subsidiaries and retained earnings (including their allocations to reserves), less certain deductions, such as goodwill.

Tier II capital is "supplementary" bank capital that includes subordinated debt, hybrid instruments with characteristics of both capital and equity and certain revaluation reserves, such as unrealized gains on the revaluation of financial instruments classified as available-for-sale and property revaluation surplus.

24 Capital Management (continued)*Capital adequacy ratio under Basel Capital Accord 1988 with amendments (continued)*

The Group's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, are 26.83% and 28.26% as of 30 June 2014 and 31 December 2013, respectively, exceed the minimum ratio of 8% recommended by the Basel Accord.

	30 June 2014 (unaudited)	31 December 2013
Tier 1 capital	15,118,034	13,934,371
Tier 2 capital	252,348	504,425
Total capital	15,370,382	14,438,796
Risk weighted assets	57,288,557	51,098,300

25 Share Based Payments

On 2 November 2010 Société Générale announced granting of 16 shares and 24 shares to each employee of the Société Générale Group, including those of the Bank, in the years ending 31 December 2015 and 2016, respectively. The share price at the initiation of the program was EUR 42.10. This share based payment program will be accounted as a cash settled share based program over the vesting periods. The cost of the program will be reimbursed by the SG at the end of the vesting periods.