VOZROZHDENIE BANK

International Financial Reporting Standards Interim Summarised Consolidated Financial Statements

(unaudited)

June 30, 2015

CONTENTS

In millions of Russian Roubles	Note	June 30, 2015 (unaudited)	December 31, 2014
ASSETS			
Cash and cash equivalents	3	38 483	35 627
Mandatory cash balances with the Bank of Russia		1 771	1 865
Trading securities	4	5 791	13 203
Due from other banks	5	1 514	1 167
Loans and advances to customers	6	148 384	155 719
Investment securities available for sale	7	8 736	8 871
Other financial assets		1 786	1 417
Deferred tax asset		1 592	1 036
Other assets	8	5 707	5 434
Premises and equipment		3 098	3 210
Non-current assets classified as held for sale	8	142	373
TOTAL ASSETS		**217 004**	**227 922**
LIABILITIES			
Due to other banks	9	10 162	19 116
Customer accounts	10	169 414	174 218
Debt securities in issue	11	9 526	6 073
Other financial liabilities		371	647
Other liabilities		648	501
Subordinated loans	12	3 556	3 563
TOTAL LIABILITIES		**193 677**	**204 118**
EQUITY			
Share capital		250	250
Share premium		7 306	7 306
Retained earnings		15 209	15 792
Revaluation reserve for investment securities available for sale		562	456
TOTAL EQUITY		**23 327**	**23 804**
TOTAL LIABILITIES AND EQUITY		**217 004**	**227 922**

Approved for issue and signed on 24 August 2015.

Mr. Igor Antonov
Chairman of the Management Board

Ms. Elena Volik
Chief Accountant

In millions of Russian Roubles	**Note**	**6M ended June 30 (unaudited) 2015**	**6M ended June 30 (unaudited) 2014**	**3M ended June 30 (unaudited) 2015**	**3M ended June 30 (unaudited) 2014**
Interest income	13	11 998	10 012	6 080	4 949
Interest expense	13	(6 847)	(5 026)	(3 491)	(2 554)
Net interest income		**5 151**	**4 986**	**2 589**	**2 395**
Provision for loan impairment	6	(3 932)	(1 866)	(2 517)	(973)
Net interest income after provision for loan impairment		**1 219**	**3 120**	**72**	**1 422**
Fee and commission income	14	2 198	2 250	1 124	1 149
Fee and commission expense	14	(351)	(357)	(164)	(172)
Gains less losses from trading securities		226	23	40	90
Gains less losses from trading in foreign currencies		381	188	53	96
Foreign exchange translation gains less losses		(63)	(13)	172	6
Gains less losses from investments securities available for sale		124	2	36	2
Provision for losses on credit related commitments		92	-	92	-
Other operating income		148	208	69	76
Administrative and other operating expenses	15	(4 690)	(4 365)	(2 276)	(2 178)
Provision for impairment of other assets		(35)	37	(16)	46
Profit before tax		**(751)**	**1 093**	**(798)**	**537**
Income tax expense		182	(234)	189	(106)
PROFIT FOR THE REPORTING PERIOD		**(569)**	**859**	**(609)**	**431**
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss					
Available-for-sale investments:					
- Change in revaluation reserve		136	(14)	26	(19)
- Income tax recorded directly in other comprehensive income		(30)	(1)	(60)	5
Other comprehensive income for the reporting period		**106**	**(15)**	**(34)**	**(14)**
TOTAL COMPREHENSIVE INCOME FOR THE REPORTING PERIOD		**(463)**	**844**	**(643)**	**417**
Earnings per share for profit attributable to the equity holders of the Group, basic and diluted					
(expressed in RR per share)		-	34	-	17
Ordinary shares					

In millions of Russian Roubles	Share capital	Share premium	Revaluation reserve for securities available for sale	Retained earnings	Total
Balance at December 31, 2014	**250**	**7 306**	**456**	**15 792**	**23 804**
Profit for the six months ended June 30, 2015	-	-	-	(569)	(569)
Other comprehensive income for the six months ended June 30, 2015	-	-	106	-	106
Total comprehensive income for six months	**-**	**-**	**106**	**(569)**	**(463)**
Dividends declared	-	-	-	(14)	(14)
Balance at June 30, 2015	**250**	**7 306**	**562**	**15 209**	**23 327**

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

In millions of Russian Roubles	**6M ended June 30, 2015 (unaudited)**	**6M ended June 30, 2014 (unaudited)**
Cash flows from operating activities		
Interest received	11 608	10 007
Interest paid	(7 093)	(5 175)
Fees and commissions received	2 190	2 214
Fees and commissions paid	(378)	(385)
Net income received from trading in trading securities	26	5
Net income received from trading in foreign currencies	381	188
Other operating income received	148	158
Administrative and other operating expenses paid	(4 391)	(4 097)
Income tax paid	(251)	(211)
Cash flows from operating activities before changes in operating assets and liabilities	**2 240**	**2 704**
Changes in operating assets and liabilities		
Net decrease in mandatory cash balances with the Bank of Russia	94	57
Net decrease/(increase) in trading securities	7 407	(2 393)
Net (increase)/decrease in due from other banks	(360)	51
Net decrease in loans and advances to customers	2 702	2 248
Net (increase)/decrease in other financial assets	(360)	142
Net decrease in other assets	178	232
Net (decrease)/increase in due to other banks	(8 290)	1 569
Net decrease in customer accounts	(3 094)	(3 979)
Net decrease in other borrowed funds	-	(3 000)
Net increase in debt securities in issue	3 474	3 294
Net decrease in other financial liabilities	(182)	(17)
Net (decrease)/increase in other liabilities	(35)	71
Net cash from operating activities	**3 774**	**979**
Cash flows from investing activities		
Acquisition of investment securities available for sale	(6 185)	(3 906)
Proceeds from disposal of investment securities available for sale	6 416	4 843
Acquisition of premises and equipment	(67)	(215)
Proceeds from disposal of premises and equipment	11	62
Proceeds from disposal of non-current assets held for sale	293	211
Proceeds from disposal of investment properties	-	12
Dividend income received	2	1
Net cash received from investing activities	**470**	**1 008**
Cash flows from financing activities		
Dividends paid	(14)	(14)
Repayment of funds from international financial institution	(379)	(246)
Receipt of subordinated loans	-	243
Repayment of subordinated loans	-	(958)
Net cash used in financing activities	**(393)**	**(975)**
Effect of exchange rate changes on cash and cash equivalents	**(995)**	**391**
Net increase in cash and cash equivalents	**2 856**	**1 403**
Cash and cash equivalents at the beginning of the year	35 627	29 331
Cash and cash equivalents at the end of the reporting period	**38 483**	**30 734**

1 Introduction

These interim summarised consolidated financial statements have been prepared in accordance with International Financial Reporting Standards - IAS 34 - for the six months ended on June 30, 2015 for Vozrozhdenie Bank (the “Bank”) and its securitisation structured entities, CJSC “MAV 1”, CJSC “MAV 2”, CJSC “MAV 3”, and “MAV 4” LLC (together referred to as the “Group”).

The Bank was incorporated and performs the activities in the Russian Federation.

Major shareholders of the Bank are Elena Orlova (26.69% of voting shares), Otar Margania (19.67% of voting shares) (2014: major shareholder Dmirty Orlov passed away on December 5, 2014, inheritance procedures are ongoing).

The Bank's Head office is located at the following address: 7/4, bld. 1, Luchnikov pereulok, 101000, Moscow, Russian Federation.

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

The Bank of Russia principal rates of exchange used for translating foreign currency balances were USD 1 = RR 55.5240 as at June 30, 2015, USD 1 = RR 56.2584 as at December 31, 2014, USD 1 = RR 33.6306 as at June 30, 2014, and EUR 1 = RR 61.5206, 68.3427, and 45.8251 respectively.

2 Critical Accounting Estimates and Judgements in Applying Accounting Policies

These interim summarized consolidated financial statements are to be considered along with the Group’s annual financial statements for the year ended December 31, 2014.

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

Principles and methods of accounting policy applied in these interim summarized consolidated financial statements comply with the principles and methods applied and described in the Group’s annual Financial Statements for the year ended December 31, 2014.

Judgments made by the Group’s management while applying accounting policy comply with the judgments described in the Group’s annual Financial Statements for 2014. The Group’s Management did not apply any new estimates and judgments. As a result of applying estimates and judgments described in the Group’s financial statements for the year ended December 31, 2014, the Group’s assets, revenues and income for the six months ended June 30, 2015 did not change materially.

3 Cash and Cash Equivalents

In millions of Russian Roubles	**June 30, 2015 (unaudited)**	**December 31, 2014**
Cash on hand	6 617	14 878
Correspondent accounts and overnight placements with banks		
- Russian Federation	13 333	1 739
- other countries	13 210	10 885
Cash balances with the Bank of Russia (other than mandatory cash balances)	5 323	8 125
Total cash and cash equivalents	**38 483**	**35 627**

Geographical, currency and interest rate analyses are disclosed in Note 17.

4 Trading Securities

In millions of Russian Roubles	**June 30, 2015 (unaudited)**	**December 31, 2014**
Corporate Eurobonds	5 337	8 109
Corporate bonds	454	466
Russian Federation Eurobonds	-	4 252
Municipal bonds	-	376
Total trading securities	**5 791**	**13 203**

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

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

Trading securities are used by the Group basically for managing liquidity risk.

Geographical, currency, maturity and interest rate analyses are disclosed in Note 17.

5 Due from Other Banks

In millions of Russian Roubles	**June 30, 2015 (unaudited)**	**December 31, 2014**
Insurance deposits with non-resident banks	913	925
Short-term placements with other banks	601	242
Total due from other banks	**1 514**	**1 167**

Geographical, currency, maturity and interest rate analyses are disclosed in Note 17.

6 Loans and Advances to Customers

In millions of Russian Roubles	**June 30, 2015 (unaudited)**	**December 31, 2014**
Corporate loans - large	49 303	54 519
Corporate loans - medium	44 740	44 242
Corporate loans - small	23 255	25 181
Mortgage loans	31 544	31 870
Other loans to individuals	14 617	14 339
Total gross loans and advances to customers (before provision for loan impairment)	**163 459**	**170 151**
Less: Provision for loan impairment	(15 075)	(14 432)
Total loans and advances to customers	**148 384**	**155 719**

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

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

6 Loans and Advances to Customers (Continued)

As at June 30, 2015, mortgage loans include mortgage portfolio of RR 9,765 million securitized in 2011-2015 (less provision for impairment), as at December 31, 2014 – RR 7,135 million (less provision for impairment).

Movements in the provision for loan impairment during the six months of 2015 are as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to individuals	Total
Provision for loan impairment at January 1, 2015	**8 964**	**2 392**	**2 137**	**330**	**609**	**14 432**
Provision for impairment during the year	1 704	1 329	729	38	201	4 001
Loans and advances to customers written off during the reporting period	(2 719)	(528)	(110)	-	(1)	(3 358)
Provision for loan impairment at June 30, 2015	**7 949**	**3 193**	**2 756**	**368**	**809**	**15 075**

The provision for loan impairment during the six months of 2015 differs from the amount presented in profit or loss for the reporting period due to RR 69 million, recovery of provision for loans previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the reporting period.

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

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to individuals	Total
Provision for loan impairment at January 1, 2014	**7 602**	**2 582**	**1 381**	**261**	**547**	**12 373**
Provision for impairment during the year	1 362	898	1 053	69	212	3 594
Loans and advances to customers written off during the year as uncollectible	-	(821)	(217)	-	(1)	(1 039)
Result from disposal of loans under cession agreements	-	(267)	(80)	-	(149)	(496)
Provision for loan impairment at December 31, 2014	**8 964**	**2 392**	**2 137**	**330**	**609**	**14 432**

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

	June 30, 2015 (Unaudited)				**December 31, 2014**			
In millions of Russian Roubles	**Loans**	**%**	**Provision**	**%**	**Loans**	**%**	**Provision**	**%**
Manufacturing	48 509	30	5 851	39	47 977	28	5 012	35
Individuals	46 161	28	1 177	8	46 209	27	939	6
Trade	26 120	16	2 394	15	27 874	16	1 986	14
Construction	10 890	7	1 446	10	12 525	7	1 632	11
Real estate	8 522	5	419	3	10 398	6	2 088	14
Transport and communication	5 446	3	2 205	15	5 321	3	2 178	15
Agriculture	5 070	3	84	1	6 284	4	82	1
State and municipal organisations	2 601	2	26	-	1 129	1	9	-
Finance	1 836	1	69	-	1 636	1	287	2
Other	8 304	5	1 404	9	10 798	7	219	2
Total gross loans and advances to customers	**163 459**	**100**	**15 075**	**100**	**170 151**	**100**	**14 432**	**100**

6 Loans and Advances to Customers (Continued)

State and municipal organisations exclude government owned profit orientated businesses.

As at June 30, 2015, the Group had 32 large borrowers. The total aggregate amount of these loans was RR 49,303 million or 30% of the gross loans and advanced to customers.

As at December 31, 2014, the Group had 35 large borrowers. The total aggregate amount of these loans was RR 54,519 million or 32% of the gross loan portfolio.

Analysis by credit quality of loans outstanding as at June 30, 2015 is as follows:

In millions of Russian Roubles	**Corporate loans - large**	**Corporate loans - medium**	**Corporate loans - small**	**Mortgage loans**	**Other loans to indivi-duals**	**Total**
Neither past due nor impaired						
Borrowers with credit history over two years	39 578	-	-	-	-	39 578
Large new borrowers	-	-	-	-	-	-
Corporate loans assessed on a portfolio basis issued in 2015	-	18 067	9 561	-	-	27 628
Corporate loans assessed on a portfolio basis issued before 2015	-	23 273	10 131	-	-	33 404
Loans to individuals:						
- mortgage loans issued in 2015	-	-	-	2 289	-	2 289
- mortgage loans issued before 2015	-	-	-	28 247	-	28 247
- consumer loans	-	-	-	-	11 378	11 378
- credit cards	-	-	-	-	1 805	1 805
- car loans	-	-	-	-	169	169
Total gross neither past due nor impaired	**39 578**	**41 340**	**19 692**	**30 536**	**13 352**	**144 498**
Past due but not impaired						
- less than 30 days overdue	-	266	312	610	429	1 617
Total gross past due but not impaired	**-**	**266**	**312**	**610**	**429**	**1 617**
Loans collectively determined to be impaired						
- less than 30 days overdue	-	65	-	-	-	65
- 30 to 90 days overdue	-	43	460	86	114	703
- 91 to 180 days overdue	-	103	410	105	132	750
- 181 to 360 days overdue	-	407	746	60	138	1 351
- over 360 days overdue	-	886	1 635	147	452	3 120
Total gross collectively impaired loans	**-**	**1 504**	**3 251**	**398**	**836**	**5 989**
Loans individually determined to be impaired						
- not past due	2 964	194	-	-	-	3 158
- 91 to 180 days overdue	1 232	409	-	-	-	1 641
- 181 to 360 days overdue	731	1 027	-	-	-	1 758
- over 360 days overdue	4 798	-	-	-	-	4 798
Total gross individually impaired loans	**9 725**	**1 630**	**-**	**-**	**-**	**11 355**
Less: Provision for impairment	(7 949)	(3 193)	(2 756)	(368)	(809)	(15 075)
Total loans and advances to customers less provision for impairment	**41 354**	**41 547**	**20 499**	**31 176**	**13 808**	**148 384**

6 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at December 31, 2014 is as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to indivi-duals	Total
Neither past due nor impaired						
Borrowers with credit history over two years	41 713	-	-	-	-	41 713
Large new borrowers	2 969	-	-	-	-	2 969
Corporate loans assessed on a portfolio basis issued in 2014	-	26 250	18 190	-	-	44 440
Corporate loans assessed on a portfolio basis issued before 2014	-	15 159	4 286	-	-	19 445
Loans to individuals:						
- mortgage loans issued in 2014	-	-	-	8 406	-	8 406
- mortgage loans issued before 2014	-	-	-	22 629	-	22 629
- consumer loans	-	-	-	-	11 519	11 519
- credit cards	-	-	-	-	1 756	1 756
- car loans	-	-	-	-	213	213
Total gross neither past due nor impaired	**44 682**	**41 409**	**22 476**	**31 035**	**13 488**	**153 090**
Past due but not impaired						
- less than 30 days overdue	-	-	56	570	222	848
- 91 to 180 days overdue	628	-	-	-	-	628
Total gross past due but not impaired	**628**	**-**	**56**	**570**	**222**	**1 476**
Loans collectively determined to be impaired						
- less than 30 days overdue	-	5	8	-	-	13
- 30 to 90 days overdue	-	167	295	20	76	558
- 91 to 180 days overdue	-	114	523	40	78	755
- 181 to 360 days overdue	-	150	1 030	51	116	1 347
- over 360 days overdue	-	954	793	154	359	2 260
Total gross collectively impaired loans	**-**	**1 390**	**2 649**	**265**	**629**	**4 933**
Loans individually determined to be impaired						
- not past due	1 232	416	-	-	-	1 648
- less than 30 days overdue	460	-	-	-	-	460
- 30 to 90 days overdue	-	1 027	-	-	-	1 027
- over 360 days overdue	7 517	-	-	-	-	7 517
Total gross individually impaired loans	**9 209**	**1 443**	**-**	**-**	**-**	**10 652**
Less: Provision for impairment	(8 964)	(2 392)	(2 137)	(330)	(609)	(14 432)
Total loans and advances to customers less provision for impairment	**45 555**	**41 850**	**23 044**	**31 540**	**13 730**	**155 719**

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

6 Loans and Advances to Customers (Continued)

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

The Group's policy is to classify each loan as "neither past due nor impaired" until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology. Loans collectively determined to be impaired are represented by corporate small and medium loans, and loans to individuals except for mortgage loans, which have an overdue status as an impairment trigger event. Past due but not impaired loans represent collateralised loans where the fair value of collateral together with consideration of discounting covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The Group usually issues loans in case there is a liquid and sufficient collateral that is documented in accordance with legally established procedures (except for some credit products used for lending to individuals, overdrafts without collateral, loans to RF constituents and municipal organisations, factoring financing, loans assessed on an individual basis and authorised for issue without collateral). Loans to legal entities may be collateralised by the following:

- real estate;
- equipment;
- motor vehicles;
- goods in turnover;
- guarantee deposit;
- banking guarantee;
- state (municipal) guarantee;
- own promissory notes;
- highly liquid securities;
- refined precious metals (gold, silver, platinum and palladium);
- vested interest (for demand) implied from commitments under an agreement.

Loans collateralised by third parties may be issued once the third parties provide their guarantees as collateral. In this case:

- the financial position of a legal entity guarantor should be classified as not worse than average in accordance with the Group's internal methodologies on evaluation of financial position;
- the financial position of an individual guarantor should be classified as good in accordance with the Group's internal methodologies on evaluation of financial position.

Pledged real estate property (except for land), equipment, motor vehicles and inventory items should be insured. The insured amount of the collateral should be not less than its collateral value, the term of the insurance contract should expire not earlier than one month after the loan maturity date.

Loans to individuals may be collateralised by the following:

- real estate purchased under the sale and purchase agreement with use of credit sources, provided by the Group, and burdened with a mortgage by law;
- pledge of rights under the contract on acquisition of residential real estate at a construction stage;
- pledge of a share - for the residential real estate purchased under the contract on participation in ZhSK;
- real estate owned by individuals or legal entities, burdened with a mortgage;
- motor vehicles;
- guarantees of third parties, in particular employers of the individual borrower;
- pledge of right of claim on the individual's deposit; and
- other property owned by the borrower.

In addition, to mitigate the credit risk the Group uses insurance by borrowers of the pledged item, the individual borrower's life and disability or accident insurance and illnesses, and also insurance of the risks connected with loss of work.

Obligations of the borrowers can be collateralised with various types of collateral simultaneously. The collateral should be sufficient to repay the principal, interest and the amount of the Group's potential expenses associated with the fulfilment of debtor's obligations. The liquidity of the collateral is assessed on the basis of the period during which it can be realised.

6 Loans and Advances to Customers (Continued)

Information about collateral, as at June 30, 2015, is as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to individuals	Total
Unsecured loans	1 118	6 062	2 000	892	12 095	22 167
Loans collateralised by:						
- residential real estate	-	-	-	22 694	2	22 696
- other real estate	19 259	18 054	10 501	12	966	48 792
- rights of claim under investment agreements	-	-	-	7 890	-	7 890
- equipment, inventories, motor vehicles	9 817	10 261	6 387	-	221	26 686
- securities (promissory notes, shares)	1 760	43	59	12	114	1 988
- cash deposits	-	-	-	23	4	27
- state guarantees and guarantees of the RF constituents	808	551	193	-	-	1 552
- other guarantees and third parties' guarantees	15 655	9 741	4 115	21	1 215	30 747
- other assets (other types of property, rights)	886	28	-	-	-	914
Total gross loans and advances to customers before provision for loan impairment	**49 303**	**44 740**	**23 255**	**31 544**	**14 617**	**163 459**

Information about collateral, as at December 31, 2014, is as follows:

In millions of Russian Roubles	Corporate loans - large	Corporate loans - medium	Corporate loans - small	Mortgage loans	Other loans to individuals	Total
Unsecured loans	2 557	3 021	2 391	1 255	11 374	20 598
Loans collateralised by:						
- residential real estate	-	-	-	21 191	2	21 193
- other real estate	21 788	19 464	11 342	15	1 338	53 947
- rights of claim under investment agreements	-	-	-	8 476	-	8 476
- equipment, inventories, motor vehicles	10 885	10 116	6 834	-	267	28 102
- securities (promissory notes, shares)	1 762	194	34	-	7	1 997
- cash deposits	-	-	-	24	14	38
- state guarantees and guarantees of the RF constituents	814	1 351	354	-	-	2 519
- other guarantees and third parties' guarantees	14 496	8 940	4 149	26	1 327	28 938
- other assets (other types of property, rights)	2 217	1 156	77	883	10	4 343
Total gross loans and advances to customers before provision for loan impairment	**54 519**	**44 242**	**25 181**	**31 870**	**14 339**	**170 151**

Unsecured corporate loans mainly represent loans to RF constituents and municipalities, as well as overdraft loans. Unsecured loans to individuals mainly represent consumer loans and loans issued using banking cards.

The collateral value of property is determined when a loan is issued in accordance with the Group's effective procedure.

In addition, the Group has a right for write-off from the borrower's settlement and current accounts with the Group in case of non-fulfilment of loan contract obligations by the borrower.
Market value of property is assumed to be the collateral value of security in respect of credit products of retail portfolio. Market value of property is confirmed by the report on real estate market valuation prepared by a valuation company.

Bank card loans are secured by guarantees of individuals, life and disability insurance of the borrowers. If required and depending upon the amount of a credit limit, the borrower's occupation and place of work, the Group may request additional collateral in the form of a pledge.

7 Investment Securities Available for Sale

In millions of Russian Roubles	June 30, 2015 (unaudited)	December 31, 2014
Corporate bonds	5 972	7 670
Corporate Eurobonds	1 247	217
Russian Federation Eurobonds	403	-
Municipal bonds	209	74
Total debt securities	**7 831**	**7 961**
Corporate shares	905	910
Total investment securities available for sale	**8 736**	**8 871**

Geographical, currency, maturity and interest rate analyses are disclosed in Note 17.

8 Other Assets

In millions of Russian Roubles	June 30, 2015 (unaudited)	December 31, 2014
Inventory	5 005	4 353
Investment properties	961	961
Prepayments	366	404
Non-current assets held for sale	146	483
Income tax overpayment	118	272
Precious metals	63	-
Other	266	444
Total other assets (before provision for impairment of other assets)	**6 925**	**6 917**
Less: Provision for impairment of other assets	(1 076)	(1 110)
Total other assets	**5 849**	**5 807**

9 Due to Other Banks

In millions of Russian Roubles	June 30, 2015 (unaudited)	December 31, 2014
Placements of other banks	8 232	9 331
Deposits of the Bank of Russia	1 785	1 486
Correspondent accounts of other banks	145	299
Cash received under sale and repurchase agreements with the Bank of Russia	-	8 000
Total due to other banks	**10 162**	**19 116**

In April 2015 the Group has redeemed funds raised from the European Bank of Reconstruction and Development within the frame of small and medium enterprises lending programme.

As of 31 December 2014 funds raised from the European Bank of Reconstruction and Development in the amount of RR 415 million at rates from 5.5% to 7.0% were included into the deposits of other banks.

Geographical, currency, maturity and interest rate analyses are disclosed in Note 17.

10 Customer Accounts

In millions of Russian Roubles	June 30, 2015 (unaudited)	December 31, 2014
State and public organisations		
- Current/settlement accounts	270	275
- Term deposits	1 008	-
Other legal entities		
- Current/settlement accounts	26 872	28 563
- Term deposits	16 172	22 536
Individuals		
- Current/demand accounts	16 364	18 161
- Term deposits	108 728	104 683
Total customer accounts	**169 414**	**174 218**

State and municipal organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	June 30, 2015 (unaudited)		December 31, 2014	
In millions of Russian Roubles	Amount	%	Amount	%
Individuals	125 092	74	122 844	71
Trade	19 314	11	18 645	11
Finance	8 340	5	12 737	7
Manufacturing	6 643	4	7 560	4
Construction	3 764	2	6 944	4
Transport and communication	2 475	1	2 576	1
State and municipal organisations	1 278	1	275	-
Agriculture	1 151	1	1 465	1
Other	1 357	1	1 172	1
Total customer accounts	**169 414**	**100**	**174 218**	**100**

Geographical, currency, maturity and interest rate analyses are disclosed in Note 17.

11 Debt Securities in Issue

In millions of Russian Roubles	June 30, 2015 (unaudited)	December 31, 2014
Mortgage backed bonds, including issued:	6 964	4 809
in June 2015	2 963	--
in March 2014	2 159	2 438
in April 2013	1 307	1 598
in December 2011	535	773
Promissory notes	2 559	1 102
Deposit certificates	3	162
Total debt securities in issue	**9 526**	**6 073**

Terms of issue of mortgage backed bonds under securitisation transactions are as follows:

Issue date	Maturity date	Amount of issue RR million	Class A notes RR million	Class B notes RR million	Coupon rate %	Rating on Moody's scale
June 2015	27 January 2048	3 450	3 000	450	9,00%	Baa3
March 2014	26 October 2046	3 450	3 000	450	9,00%	Baa2
April 2013	25 August 2045	4 000	2 960	1 040	8,50%	Baa3
December 2011	10 August 2044	4 071	2 931	1 140	8,95%	Baa2

11 Debt Securities in Issue (Continued)

Class A notes were placed through open subscription on the MICEX and class B notes were bought out by the Group and, therefore, were not shown in these consolidated financial statements. Under the terms of issue of bonds, any funds received from early repayment of mortgage loans are to be used to repay the balance of face value of Class A bonds.

Terms of issue of mortgage bonds stipulate that Class B bonds shall be repaid only after repayment of Class A bonds.

Currency and maturity analyses are disclosed in Note 17.

12 Subordinated Loans

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

No.	Start date	Maturity	Currency	June 30, 2015 (unaudited)		December 31, 2014	
				Contractual interest rate, %	Value, RR million	Contractual interest rate, %	Value, RR million
1	August 2010	August 2018	USD	8.00	167	8.00	169
2	July 2012	July 2020	Russian Roubles	9.25	1 000	9.25	1 000
3	December 2012	July 2020	Russian Roubles	9.25	1 000	9.25	1 000
4	February 2013	July 2020	Russian Roubles	9.25	1 000	9.25	1 000
5	January 2014	January 2022	USD	8.50	389	8.50	394
Total subordinated loans					**3 556**		**3 563**

Subordinated loans No. 1, 5 were received by the Group from a related party.

Geographical, currency, maturity and interest rate analyses are disclosed in Note 17.

13 Interest Income and Expense

In millions of Russian Roubles	6M ended June 30, 2015 (unaudited)	6M ended June 30, 2014 (unaudited)
Interest income		
Loans and advances to customers - legal entities	7 634	6 321
Loans and advances to customers - individuals	3 553	3 317
Investment securities available for sale	388	226
Correspondent accounts and due from other banks	225	53
Trading securities	198	95
Total interest income	**11 998**	**10 012**
Interest expense		
Term deposits of individuals	4 721	3 129
Term deposits of legal entities	1 115	812
Due to other banks	433	361
Debt securities in issue	362	472
Subordinated loans	166	173
Current/settlement accounts of legal entities	50	16
Other borrowed funds	-	63
Total interest expense	**6 847**	**5 026**
Net interest income	**5 151**	**4 986**

14 Fee and Commission Income and Expense

In millions of Russian Roubles	**6M ended June 30, 2015 (unaudited)**	**6M ended June 30, 2014 (unaudited)**
Fee and commission income		
Bank cards and cheques settlements	672	683
Settlement transactions	566	516
Cash transactions	409	455
Guarantees issued	166	176
Payroll projects	117	158
Cash collection	103	104
Other	165	158
Total fee and commission income	**2 198**	**2 250**
Fee and commission expense		
Bank cards and cheques settlements	285	272
Settlement transactions	35	37
Settlements with currency and stock exchanges	16	15
Cash transactions	8	11
Other	7	22
Total fee and commission expense	**351**	**357**
Net fee and commission income	**1 847**	**1 893**

15 Administrative and Other Operating Expenses

In millions of Russian Roubles	**6M ended June 30, 2015 (unaudited)**	**6M ended June 30, 2014 (unaudited)**
Staff costs	2 847	2 607
Administrative expenses	351	371
Contributions to the State Deposit Insurance Agency	249	214
Other costs of premises and equipment	248	245
Rent expenses	187	171
Depreciation of premises and equipment	178	172
Taxes other than on income	146	150
Advertising and marketing services	48	58
Repairs of premises and equipment	40	41
Other	396	336
Total administrative and other operating expenses	**4 690**	**4 365**

Included in staff costs are statutory contributions to non-budget funds of RR 562 million (2014: RR 554 million).

16 Segment Analysis

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

The Group’s segments are strategic business directions that focus on different categories of customers. In these consolidated financial statements each operating segment is presented as a reportable segment. The “other” category includes unallocated items.

16 Segment Analysis (Continued)

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

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

The CODM analyses financial information prepared in accordance with the requirements of the Russian legislation and evaluates performance of each segment based on profit before income tax.

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

The table below represents the information on distribution of assets and liabilities per reportable segments as at June 30, 2015 and December 31, 2014.

(*in millions of Russian Roubles*)	Corporate business	Retail business	Bank cards transactions	Financial business	Other	Total
June 30, 2015						
Total assets of reportable segments	**108 028**	**36 737**	**4 788**	**45 297**	**15 173**	**210 023**
Total liabilities of reportable segments	**56 423**	**108 516**	**16 715**	**4 375**	**472**	**186 501**
December 31, 2014						
Total assets of reportable segments	**114 913**	**38 991**	**7 315**	**41 459**	**20 723**	**223 401**
Total liabilities of reportable segments	**60 485**	**106 051**	**18 370**	**13 556**	**573**	**199 035**

The table below represents the information on income and expense per reportable segments for the six months ended June 30, 2015. The Bank's management considers operating income before provision for loan impairment as a key measurement of reportable segments results.

16 Segment Analysis (Continued)

(in millions of Russian Roubles)	**Corporate business**	**Retail business**	**Bank cards transactions**	**Financial business**	**Liquidity**	**Other**	**Total**
June 30, 2015							
Interest income	7 448	2 927	178	1 148	-	-	11 701
Non-interest income	1 487	535	812	202	-	25	3 061
Transfer income	2 308	5 984	403	215	87	-	8 997
Total revenues	**11 243**	**9 446**	**1 393**	**1 565**	**87**	**25**	**23 759**
Interest expense	(1 767)	(4 661)	(90)	(247)	-	-	(6 765)
Non-interest expense	(50)	(34)	(280)	(23)	-	(10)	(397)
Transfer expense	(6 219)	(2 224)	(99)	(416)	-	(39)	(8 997)
Total expenses	**(8 036)**	**(6 919)**	**(469)**	**(686)**	**-**	**(49)**	**(16 159)**
Operating income before provision for loan impairment	**3 207**	**2 527**	**924**	**879**	**87**	**(24)**	**7 600**
Provision for loan impairment	(3 648)	95	(63)	-	-	(24)	(3 640)
Operating income	**(441)**	**2 622**	**861**	**879**	**87**	**(48)**	**3 960**
Administrative and other operating expenses	(1 829)	(1 249)	(844)	(68)	-	(71)	(4 061)
Depreciation of premises and equipment	(77)	(51)	(43)	(3)	-	(1)	(175)
Financial result from cession	(426)	-	-	-	-	60	(366)
Profit/(loss) before tax (Segment result)	**(2 773)**	**1 322**	**(26)**	**808**	**87**	**(60)**	**(642)**

16 Segment Analysis (Continued)

The table below represents segment information on the major reportable business lines of the Bank for the six months ended June 30, 2014:

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

16 Segment Analysis (Continued)

The reconciliation of assets and liabilities of the Bank's reportable segments.

Reconciliation of reportable segment assets:

In millions of Russian Roubles	**June 30, 2015 (unaudited)**	**December 31, 2014**
Total reportable segment assets	**210 023**	**223 401**
Adjustment of provision for impairment of loans and credit related commitments	579	823
Adjustment of provision for impairment of other assets	593	232
Recognition of financial instruments using the effective interest method	(379)	(342)
Adjustment of depreciation and cost or revalued amounts of premises and equipment	(570)	(569)
Differences in deferred tax asset	(197)	(291)
Consolidation	6 821	4 698
Other	134	(30)
Total assets under IFRS	**217 004**	**227 922**

Reconciliation of reportable segment liabilities:

In millions of Russian Roubles	**June 30, 2015 (unaudited)**	**December 31, 2014**
Total reportable segment liabilities	**186 501**	**199 035**
Accrued expenses	567	435
Recognition of fee and commission income temporary basis	156	164
Provisions for credit-related commitments	-	92
Recovery of deferred tax liability	(303)	(281)
Consolidation	6 756	4 632
Other	-	41
Total liabilities under IFRS	**193 677**	**204 118**

16 Segment Analysis (Continued)

Reconciliation of income or expense before tax of the reportable segments

Reconciliation of profit before tax and other material income or expenses for the reportable segments with the consolidated statement of profit or loss and other comprehensive income under IFRS for the six months ended June 30, 2015 is as follows:

(*in millions of Russian Roubles)*	**Before tax profit**	**Interest income**	**Non-interest income**	**Interest expense**	**Non-interest income**	**Provision for loan impairment**	**Administrative and other operating expenses**
Total amount for all reportable segments	**(642)**	**11 701**	**3 061**	**(6 765)**	**(397)**	**(4 006)**	**(4 236)**
Recognition of interest income from lending using the effective interest method	15	15	-	-	-	-	-
Recognition of fee and commission income by reference to completion of the specific transaction	8	-	8	-	-	-	-
Adjustment of provisions for loan impairment and credit related commitments	(131)	-	-	-	(54)	(77)	-
Accrued expenses	(317)	-	-	-	-	-	(317)
Differences in depreciation charges on premises and equipment	(3)	-	-	-	-	-	(3)
Provision for impairment of non-core assets	292	-	-	-	-	292	-
Reclassification of management accounts items	-	25	(56)	136	74	(84)	(95)
Consolidation	-	257	-	(218)	-	-	(39)
Other	27	-	1	-	26	-	-
Total under IFRS	**(751)**	**11 998**	**3014**	**(6 847)**	**(351)**	**(3 875)**	**4 690**

16 Segment Analysis (Continued)

Reconciliation of profit before tax and other material income or expenses for the reportable segments with the consolidated statement of profit or loss and other comprehensive income under IFRS for the six months ended June 30, 2014 is as follows:

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

17 Financial Risk Management

The Bank is the head credit unit of the banking group (the Group) including the following participants:

Name of the participant	Location
CJSC “MAV 1”	Moscow
CJSC “MAV 2”	Moscow
CJSC “MAV 3”	Moscow
“MAV 4” LLC	Moscow
Vozrozhdenie Finance LLC	Moscow
V-REGISTER CJSC	Moscow
YUNOST OJSC	Moscow Region
Baltiysky Kurort LLC	Kaliningrad Region

The share of equity of all participants of the Group in the capital of the Group is 4.9%. There are no large participants with the share exceeding 5% of equity or financial result of the Group.

The Group views establishing an efficient risk management system as its top priority. Quality of the risk management system is a Group's competitive advantage that increases its capitalisation.

The operations of the Group's members are affected by a wide range of risks, among which, due to the nature of the Group's business, the most significant are: credit risk, market risk (including currency, interest rate and other price risk), liquidity risk and operational risk.

In addition to the above risks the Group's operations are exposed to the following risks: country risk, legal risk, reputation risk and strategic risk. The overall impact of these risks is not material and does not create significant threat to the Group entities, or to its customers.

Key planned measures of risk mitigation policy are established within the scope of the Group's strategy, which complies with the Group members' strategic goals and is aimed at further improvement of risk management system in accordance with the business objectives, the number and the size of accepted risks and the optimal balance between profitability and risk level.

The Group's risk management system ensures timely risk identification, analysis, measurement and assessment of risk positions and also application of risk management methods (prevention, mitigation, distribution and absorption). Risk assessment and management procedures are integrated into current operations.

The decisions on the development of new lines of business (new products) are taken with account for preliminary analysis of potential risks, to which particular line of business (product) can be exposed.

Key components of the risk management system of the Group, including specialised structural units in charge of risk control, are concentrated in the Group's head credit unit.

Risk management is performed by allocating authority and responsibility, through the system of management reports on the results of control over significant risks and procedures for their management, as well as feedback (corrective actions) based upon the results of control.

Principal risk management responsibilities are allocated as follows:

1. Heads of independent internal divisions of the Group's head credit unit (including branch managers) are responsible for management of risks inherent to their operations.

Control over the level and condition of the system of management of significant risks is conducted by an independent department of the Group's head credit unit - the Risk Management Department.

Independent assessment of completeness and efficiency of the procedures for management of banking risks is performed by Internal Audit Service in the course of internal audits.

2. The Management Board of the Group's head credit unit organises implementation of the Group's risk management strategy and policy via a system of committees and by allocating authorities and

17 Financial Risk Management (Continued)

responsibilities for managing specific risks to the Board members. Risk management responsibilities are allocated to permanent committees as follows:

- The Credit and Investment Committee is responsible for comprehensive management of risk management issues;
- The Assets and Liabilities Management Committee is responsible for liquidity risk management and takes decisions on the amounts of balance sheet items (assets and liabilities), off-balance sheet items, level of interest rates, price of realisation of claims and obligations, timeline of transactions and positions related to these items, including the decisions on setting limits on acceptance of certain types of risks (limits on the use of financial instruments and limits on open currency positions);
- The Technology Committee is responsible for implementation of the strategy of the Group's head credit unit as related to the development of banking information technologies, which contributes to strengthening the system of management and mitigation of IT risk in the Group's head credit unit;
- The Project Committee is responsible for overall management of project activities, the project portfolio and the process of project implementation. The Committee's activities contribute to strengthening the system of management and mitigation of strategic risk in the Group's head credit unit.

The responsibilities for operating management of the most significant risks of the Group are distributed among the members of the Management Board within the lines of business under their supervision.

3. The Board of Directors of the Group's head credit unit is responsible for establishing risk management system, approving the risk management strategy, establishing and maintaining the required mechanisms of control over the accepted risks.

In order to ensure efficient operation of the Group's risk management system the following was implemented:

- the Board of Directors approved the Corporate Governance Code and Corporate Ethics Code, compliance with which is obligatory for all Group's management bodies and the employees of the Group's head credit unit;
- permanent committees at the Board of Directors are established. The committees are composed primarily of independent directors whose authority includes consideration of the following matters related to risk management:

    The Audit Committee prepares recommendations to the Board of Directors on the improvement and implementation of risk management strategy, carries out preliminary consideration of proposals aimed at risk mitigation and improvement of risk management system;

    The HR and Compensation Committee defines the policy of remuneration of the Group's head credit unit staff, including the principles and criteria for determining the amount of remuneration paid to the members of the Board of Directors, the Chairman of the Management Board, the members of the Management Board and the members of the Audit Commission of the Group's head credit unit. The Committee informs the Board of Directors about the exposure to reputation risk.

The Group's head credit unit regularly (once in six months) conducts stress testing, which is an assessment of potential negative impact on the Group's financial position of certain changes in the factors of significant risks, which correspond to exceptional but probable events.

For the purposes of stress testing the Group developed a proprietary mathematical model based upon the historical data about changes in the performance indicators of the Group's head credit unit resulting from changes in the published macroeconomic indicators in the crisis environment.

In order to permanently monitor the operation of risk management system and timely take corrective actions, the Group's head credit unit developed a system of reports, within the scope of which, reports by key risks are prepared and provided to the Chairman of the Board of Directors and the Chairman of the Management Board of the Group's head credit unit. Detailed reports on the Group's significant risks are provided for consideration of the Board of Directors and the Management Board on a quarterly basis.

Risk management system of the Group's structured entities corresponds to the nature and scope of their operations and allows to identify, prevent and limit the risks significant for the Group.

17 Financial Risk Management (Continued)

Each Group member operates in accordance with its charter, established internal procedures for transaction (deal) approval and execution, as well as for compliance of the necessary procedures of control over the accepted risks by the management and control bodies. Additional control over the operation of the Group members is organised at the level of the Group's head credit unit.

All material terms and conditions of the transactions (deals) intended for execution by mortgage agents and contracts intended for conclusion are agreed in advance with the Group's head credit unit. All decisions about allocation and spending of the funds required for current business activities are taken upon approval by the Inspector - Head of Internal Audit Service of the Group's head credit unit.

The level of operational risk of the Group's structured entities was significantly reduced at the stage of their establishment by:

- detailed development of the securitisation scheme and contractual base with involvement of international consulting firms having significant experience in such transactions;
- proper segregation of rights and obligations between the participants of securitisation transactions (service agent, back-up servicer, management company, the bank where the account for payment collection is kept, settlement agent, the bank where the issuer account and the account for mortgage coverage are kept).

Credit risk. The Group takes exposure to credit risk, which is defined by the Group as the risk of losses as a result of the default, untimely or partial discharge of obligations by borrower under the contract terms.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to provide loans, the maximum exposure to credit risk is the amount of the commitment. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 6.

Goals, objectives and principles of the credit risk assessment and management and a set of interrelated steps and measures aimed at preventing and mitigating damages that may be caused to the Group as a result of credit risk exposure are defined in the Regulation on the organization of management and control over credit risk approved by the Board of Directors of the Group's head credit unit.

The credit policy which is annually designed in view of the overall development strategy constitutes a basis of the credit risk management system.

Credit risk exposure is managed through the system of limits and authorities, centralised system for applying and adjusting interest rates and tariffs and centralised approval and revision of credit product terms.

The key elements of the credit risk management system include the following:

A. IT system

As part of the credit risk management framework, the existing IT system allows for the following:

- the effective processing of source initial information about clients, assessing their credit standing at the time of loan applications approval;
- performing analysis in the period of credit risk monitoring and at the stage of the credit product repayment;
- managing non-performing loans;
- drafting and providing management with analytical reports on the credit risk at any level of complexity that contain accurate and objective information for management decision making purposes.

The lending process is based on three main sources of client information: internal database, information provided by a client, external databases (credit history bureaus, information and analytical systems, Internet sources, etc.).

17 Financial Risk Management (Continued)

To evaluate the credit standing of corporate clients the Group uses Risk Calc v3.1 Russia developed by Moody's Analytics rating agency and capable for calculating specific default risk indicators for Russian private companies on the basis of their financial statements.

The retail banking function uses CRM Dynamics system and Deductor decision making support module which ensure achieving the high level of process automation and improving operating efficiency and quality of the decisions made.

B. Limits compliance

The list of the key limits set is specified in the credit policy and is determined by the following factors:

- the Bank of Russia's regulatory requirements;
- corporate and retail lending strategy;
- limitations on high-risk transactions;
- diversification of risks taken.

The Group's head credit unit has set the following limits (restraints) on the maximum exposure to credit risk:

- for collegial bodies of the Group's head credit unit;
- for types of business;
- for 20 major borrowers/group of related borrowers;
- for the Group's shareholders/one shareholder and insiders;
- for one industry;
- for Russia's constituents and municipal entities;
- for loans provided to one borrower/group of related borrowers;
- for unsecured loans.

Additionally to the general limits, the credit policy sets certain qualitative and quantitative targets representing the segment, industry and regional structure of the corporate loan portfolio and the structure of the loan portfolio in terms of currency, maturity and credit product types.

To mitigate exposure to credit risk, the Group has developed an accreditation process for developers that enables it to set and manage limits on mortgage loans provided to individuals for acquisition of flats in one residential property building in the process of construction by a developer.

The list of limits set by the Group's head credit unit is not closed and the system of limits is in the constant process of improvement to meet the goals of the risk management system development.

C. Credit risks identification and assessment

The Group's head credit unit has developed internal techniques that enable identification and assessment of the credit risk level for all client categories.

Assessment of an individual credit standing of legal entities and individuals is based on a comprehensive analysis of a client using internal and external data sources. The credit standing assessment checks:

- for corporate clients and their beneficial owners: financial position, business reputation, quality of management, cash flows, quality of collateral;
- for retail clients: background information about a client (passport details, criminal or administrative checks, etc.), credit history, ability to pay debts, quality of collateral.

17 Financial Risk Management (Continued)

When considering loan applications from legal entities and individuals and supporting lending transactions, the formalised procedures are required to be used for identification of related borrowers groups and assessment of the aggregate credit risk for the groups identified.

To enhance control and monitor the credit risk level for large borrowers, the Group's head credit unit has the Large Corporate Lending Division.

Products exposed to credit risk are provided if there is a liquid collateral that secures repayment of the loan by a borrower, payment of interest, related commission charges and the Group's expenses related to discharging the borrower's obligations (except for certain types of credit products).

There are procedures in place for calculating collateral discounts, valuation of collateral, insuring collateral and/or a borrower (including through engagement of appraisers and insurers who meet the Group's criteria), as well as policies and timetable for verification collateral for completeness and liquidity.

The centralised collateral valuation and monitoring functions are performed by the specialised department of the Group's head credit unit, the Collateral Management Division.

D. Lending transaction authorisation

Pursuant to the strategy and credit policy, the authorities, certain types of and limits on lending transactions are delegated to the Management Board from time to time by decision of the Board of Directors. Further redistribution of authorities and limits between the collegial bodies by the Group's head credit unit is performed by decision of the Management Board and is subject to quarterly revisions.

Within the credit risk management framework there is a multilevel system of authorities that enables independent decision-making on providing credit products:

- authorities of the Group's head credit unit's Management Board;
- authorities of the Credit and Investment Committee (hereinafter, “CIC”) of the Group's head credit unit which comprise the authorities of:
  - the “small” Bank's CIC;
  - the Bank's CIC subcommittee for corporate clients;
  - the Bank's CIC subcommittee for micro-business lending;
  - the Bank's CIC subcommittee for retail lending, including three different groups depending on the type and amount of credit products.

If credit products are to be provided outside the scope of authorities of the Management Board and Collegial Bodies of the Group's head credit unit, such issues are submitted for consideration by the Board of Directors.

To optimise the decision-making process on lending transactions, the authorities of the branches' credit committees to make independent corporate lending decisions have been abolished since March 2014. From that date all decisions on loan applications have been made in a centralised manner.

The Risk Control Department specialists are included in the Collegial Bodies of the Group's head credit unit with a right to bring an issue of providing credit products (in individual cases) up to the superior Collegial Body.

E. Credit risk monitoring

To monitor outstanding loans due from the borrowers, multiple monitoring tools have been developed, including:

- regular assessment of the borrower's financial position and economic effectiveness of the arrangements and projects financed;
- identification of the groups of related clients/borrowers;

17 Financial Risk Management (Continued)

- compliance with the current limits and the Bank of Russia's requirements for calculation of statutory ratios;
- assessment of liquidity and adequacy of the collateral provided;
- ongoing monitoring of how borrowers meet their obligations to the Group and whether the collateral is available and in the proper condition;
- assessment of the quality category of credit products provided;
- assessment of whether provisions made for potential loan losses and other credit-related commitments are adequate;
- procedure for identification and control over authorities of the Collegial Bodies of the Group's head credit unit to provide credit products;
- mandatory regular client checks by the Economic Security Service.

At the level of the Group's head credit unit, the monitoring procedures are performed by the Risk Management Department and the Economic Security Service using internal and external data sources and automatic controls.

The Early Warning System is used to ensure efficient credit risk monitoring of corporate borrowers. Using the computer-aided procedures, the system enables to detect signs of deterioration in the corporate borrowers' financial performance at an early stage and take preventive steps to minimise exposure to credit risk before the related loans become non-performing.

F. Non-performing loans management

Upon identification of risk factors or indicators that a credit product may become uncollectible, the Group's head credit unit develops a set of measures to address the issue. Continued lending (additional funding), debt restructuring, enforcement of collateral, transference of debt to a third party, assignment of receivables to a third party and debt collection can be potentially used as such measures.

Debt retirement procedures are performed in a centralised manner with involvement of the Group's head credit unit's departments responsible for relevant business lines and specialised departments such as the Distressed Assets Department, Asset Restructuring Department and the Legal Enforcement Division of the Legal Department.

If an outstanding loan cannot be settled it is written off against the provision made for credit portfolio impairment.

Market risk. Market risk is defined by the Group as the risk of losses resulting from unfavourable movements in the market value of financial instruments of trade portfolio and derivative financial instruments of the credit organisation and also of foreign currency exchange rates and (or) precious metals. Market risk includes equity, currency and interest rate risks.

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.

17 Financial Risk Management (Continued)

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

The table below summarises the Group's exposure to foreign currency exchange rate risk at June 30, 2015:

In millions of Russian Roubles	RR	USD	Euro	Other	Total
Monetary financial assets					
Cash and cash equivalents	23 159	8 194	7 031	99	38 483
Mandatory cash balances with the Bank of Russia	1 265	373	133	-	1 771
Trading securities	454	4 191	1 146	-	5 791
Due from other banks	570	944	-	-	1 514
Loans and advances to customers	132 813	13 055	2 516	-	148 384
Investment securities available for sale	6 181	-	1 650	-	7 831
Other financial assets	543	1 240	2	1	1 786
Total monetary financial assets	**164 985**	**27 997**	**12 478**	**100**	**205 560**
Monetary financial liabilities					
Due to other banks	7 697	3	2 462	-	10 162
Customer accounts	130 997	28 291	10 092	34	169 414
Debt securities in issue	9 444	51	31	-	9 526
Other financial liabilities	336	22	13	-	371
Subordinated loans	3 000	556	-	-	3 556
Total monetary financial liabilities	**151 474**	**28 923**	**12 598**	**34**	**193 029**
Net balance sheet position	**13 551**	**(926)**	**(120)**	**66**	**12 531**

17 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at December 31, 2014:

In millions of Russian Roubles	**RR**	**USD**	**Euro**	**Other**	**Total**
Monetary financial assets					
Cash and cash equivalents	20 372	7 789	7 422	44	35 627
Mandatory cash balances with the Bank of Russia	1 311	382	172	-	1 865
Trading securities	842	6 825	5 536	-	13 203
Due from other banks	69	1 098	-	-	1 167
Loans and advances to customers	137 403	14 495	3 821	-	155 719
Investment securities available for sale	7 744	217	-	-	7 961
Other financial assets	412	915	89	1	1 417
Total monetary financial assets	**168 153**	**31 721**	**17 040**	**45**	**216 959**
Monetary financial liabilities					
Due to other banks	15 283	435	3 398	-	19 116
Customer accounts	129 721	30 701	13 774	22	174 218
Debt securities in issue	6 070	3	-	-	6 073
Other financial liabilities	634	3	10	-	647
Subordinated loans	3 000	563	-	-	3 563
Total monetary financial liabilities	**154 708**	**31 705**	**17 182**	**22**	**203 617**
Net balance sheet position	**13 445**	**16**	**(142)**	**23**	**13 342**

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

If as of June 30, 2015, the US Dollar exchange rate were 20.0% higher (or 20.0% lower) while all other variables would remain unchanged, the pre-tax profit for the year would be RR 185 million less (RR 185 million more).

If as of December 31, 2014, the US Dollar exchange rate were 20.0% higher (or 20.0% lower) while all other variables would remain unchanged, the pre-tax profit for the year would be RR 3 million more (RR 3 million less).

If as of June 30, 2015, the Euro exchange rate were 20.0% higher (or 20.0% lower) while all other variables would remain unchanged, the pre-tax profit for the year would be RR 24 million less (RR 24 million more).

If as of December 31, 2014, the Euro exchange rate were 20.0% higher (or 20.0% lower) while all other variables would remain unchanged, the pre-tax profit for the year would be RR 28 million less (RR 28 million more).

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

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

17 Financial Risk Management (Continued)

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

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

A general analysis of the Group's interest risk as of June, 30, 2015, and December 31, 2014, is presented in the table below.

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 1 year**	**Total**
June 30, 2015					
Total financial assets exposed to interest rate movements	43 444	49 006	33 191	64 422	190 063
Total financial liabilities exposed to interest rate movements	60 321	40 580	51 471	40 286	192 652
Net interest sensitivity gap at June 30, 2015	**(16 871)**	**8 426**	**(18 280)**	**24 136**	**(2 589)**
Gap coefficient (aggregate relative cumulative gap)	**0,72**	**0,92**	**0,82**	**0,99**	
December 31, 2014					
Total financial assets exposed to interest rate movements	40 387	47 531	40 688	70 193	198 799
Total financial liabilities exposed to interest rate movements	69 995	34 766	29 098	69 111	202 970
Net interest sensitivity gap at 31 December 2014	**(29 608)**	**12 765**	**11 590**	**1 082**	**(4 171)**
Gap coefficient (aggregate relative cumulative gap)	**0,58**	**0,84**	**0,96**	**0,98**	

If as of June 30, 2015, the interest rates were 200 base points higher (December 31, 2014: 600 base points higher) while the other variables would remain unchanged, the pre-tax profit for the year would be RR 295 million (December 31, 2014: RR 986 million) lower due to higher interest costs under the term deposits of individuals and legal entities and funds of other banks. The other equity components as of June 30, 2015, would be RR 77 million (December 31, 2014: RR 238 million) more mainly due to an increase of the fair value of fixed-rate financial instruments classified as available for sale.

If as of June 30, 2015, the interest rates were 200 base points lower (December 31, 2014: 600 base points lower) while the other variables would remain unchanged, the pre-tax profit for the year would be RR 295 million (December 31, 2014: RR 986 million) more due to lower interest costs under the term deposits of individuals and legal entities and funds of other banks. The other equity components as of June 30, 2015, would be RR 77 million (December 31, 2014: RR 238 million) less mainly due to a decrease of the fair value of fixed-rate financial instruments classified as available for sale.

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

17 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on effective interest rates at the end of the reporting period used for amortisation of the respective assets/liabilities. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

	30 June 2015			31 December 2014		
In % p.a.	**RR**	**USD**	**EUR**	**RR**	**USD**	**EUR**
Assets						
Cash and cash equivalents	6%	0%	0%	2%	0%	0%
Trading securities	11%	3%	3%	13%	5%	6%
Due from other banks	12%	0%	-	0%	4%	-
Loans and advances to customers						
- legal entities	16%	7%	6%	14%	7%	6%
- individuals	16%	11%	10%	15%	11%	12%
Investment securities available for sale	12%	-	4%	13%	8%	-
Liabilities						
Due to other banks	8%	0%	1%	13%	6%	2%
Customer accounts						
- current and settlement accounts	0%	0%	0%	0%	0%	0%
- term deposits of legal entities	13%	6%	1%	13%	5%	1%
- term deposits of individuals	12%	5%	4%	16%	6%	6%
Debt securities in issue	10%	1%	1%	9%	1%	-
Subordinated loans	9%	8%	-	9%	8%	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

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

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

17 Financial Risk Management (Continued)

Geographical risk concentration. An analysis of the geographical concentration of assets and liabilities of the Group as of June 30, 2015, is presented below:

In millions of Russian Roubles	**Russia**	**OECD**	**Other countries**	**Total**
Financial assets				
Cash and cash equivalents	25 273	13 210	-	38 483
Mandatory cash balances with the Bank of Russia	1 771	-	-	1 771
Trading securities	5 791	-	-	5 791
Due from other banks	601	913	-	1 514
Loans and advances to customers	148 350	-	34	148 384
Investment securities available for sale	8 191	545	-	8 736
Other financial assets	1 772	12	2	1 786
Total financial assets	**191 749**	**14 680**	**36**	**206 465**
Non-financial assets	**10 539**	**-**	**-**	**10 539**
Total assets	**202 288**	**14 680**	**36**	**217 004**
Financial liabilities				
Due to other banks	7 701	2 461	-	10 162
Customer accounts	166 591	630	2 193	169 414
Debt securities in issue	9 526	-	-	9 526
Other financial liabilities	371	-	-	371
Subordinated loans	3 000	-	556	3 556
Total financial liabilities	**187 189**	**3 091**	**2 749**	**193 029**
Non-financial liabilities	**648**	**-**	**-**	**648**
Total liabilities	**187 837**	**3 091**	**2 749**	**193 677**
Net balance sheet position	**14 451**	**11 589**	**(2 713)**	**23 327**
Credit related commitments (Note 19)	**13 175**	**-**	**-**	**13 175**

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

17 Financial Risk Management (Continued)

An analysis of the geographical concentration of assets and liabilities of the Group as of December 31, 2014, is presented below:

In millions of Russian Roubles	**Russia**	**OECD**	**Other countries**	**Total**
Financial assets				
Cash and cash equivalents	24 742	10 884	1	35 627
Mandatory cash balances with the Bank of Russia	1 865	-	-	1 865
Trading securities	13 203	-	-	13 203
Due from other banks	100	925	142	1 167
Loans and advances to customers	155 719	-	-	155 719
Investment securities available for sale	8 321	550	-	8 871
Other financial assets	1 401	15	1	1 417
Total financial assets	**205 351**	**12 374**	**144**	**217 869**
Non-financial assets	**10 053**	**-**	**-**	**10 053**
Total assets	**215 404**	**12 374**	**144**	**227 922**
Financial liabilities				
Due to other banks	15 317	3 799	-	19 116
Customer accounts	171 072	1 002	2 144	174 218
Debt securities in issue	6 073	-	-	6 073
Other financial liabilities	647	-	-	647
Subordinated loans	3 000	-	563	3 563
Total financial liabilities	**196 109**	**4 801**	**2 707**	**203 617**
Non-financial liabilities	**501**	**-**	**-**	**501**
Total liabilities	**196 610**	**4 801**	**2 707**	**204 118**
Net balance sheet position	**18 794**	**7 573**	**(2 563)**	**23 804**
Credit related commitments (Note 19)	**13 649**	**-**	**-**	**13 649**

17 Financial Risk Management (Continued)

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

The process of control over liquidity risk is regulated by the Bank of Russia instructions and internal regulations of the Group.

Liquidity risk management function is allocated among collegial bodies of the Group and its internal divisions:

- The Board of Directors – defines and approves the Group's general strategy in liquidity risk management;
- The Bank's Management Board – performs general management and control;
- The Assets and Liabilities Management Committee – manages liquidity within requirements set by the Bank's Management Board.
- The Treasury – carries out operational liquidity management.

For the purpose of liquidity loss risk assessment and analysis, the Bank applies various methods, including the method of liquidity analysis based on cash flows.

The Group seeks to maintain a stable funding base comprising amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, such as trading securities.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the Bank of Russia. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 87.6% at 30 June 2015 (2014: 67.8%). As at 30 June 2015 and 31 December 2014 the minimum required level for N2 ratio was 15%.
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 105.73% at 30 June 2015 (2014: 94.9%). As at 30 June 2015 and 31 December 2014 the minimum required level for N3 ratio was 50%.
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to Bank’s regulatory capital and liabilities maturing after one year. The ratio was 78.76% at 30 June 2015 (2014: 65.4%). As at 30 June 2015 and 31 December 2014 the maximum required level for N4 ratio was 120%.

17 Financial Risk Management (Continued)

For managing liquidity risk the Group monitors expected maturities, which may be summarised as follows at June 30, 2015:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Financial assets					
Cash and cash equivalents	38 483	-	-	-	38 483
Mandatory cash balances with the Bank of Russia	602	370	514	285	1 771
Trading securities	5 791	-	-	-	5 791
Due from other banks	601	-	-	913	1 514
Loans and advances to customers	9 723	44 867	32 574	61 220	148 384
Investment securities available for sale	786	4 139	617	3 194	8 736
Other financial assets	1 786	-	-	-	1 786
Total financial assets	**57 772**	**49 376**	**33 705**	**65 612**	**206 465**
Non-financial assets	**-**	**63**	**142**	**10 334**	**10 539**
Total assets	**57 772**	**49 439**	**33 847**	**75 946**	**217 004**
Financial liabilities					
Due to other banks	1 738	3 804	641	3 979	10 162
Customer accounts	57 244	35 170	49 378	27 622	169 414
Debt securities in issue	1 339	1 606	1 452	5 129	9 526
Other financial liabilities	371	-	-	-	371
Subordinated loans	-	-	-	3 556	3 556
Total financial liabilities	**60 692**	**40 580**	**51 471**	**40 286**	**193 029**
Non-financial liabilities	**-**	**-**	**-**	**648**	**648**
Total liabilities	**60 692**	**40 580**	**51 471**	**40 934**	**193 677**
Net liquidity gap based on expected maturities	**(2 920)**	**8 796**	**(17 766)**	**25 326**	**13 436**
Cumulative liquidity gap	**(2 920)**	**5 876**	**(11 890)**	**13 436**	
Credit related commitments (Note 19)	**13 175**	**-**	**-**	**-**	**13 175**

The above analysis is based on expected maturities. The entire portfolio of trading securities is therefore classified within demand and less than one month based on management's assessment of the portfolio's liquidity..The expected maturity of investment securities available for sale is based on offer agreement date.

The total amount of contractual commitments on granting loans included into the above table, does not necessarily comprise funds to be paid in the future as many of them may not be demanded or be terminated before their maturity. In accordance with amendments to IFRS 7, Financial Instruments: Disclosures, issued financial guarantee contracts should include at the maximum amount of the guarantee in the earliest period in which the guarantee could be demanded. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

17 Financial Risk Management (Continued)

The analyses of Group's liquidity risk as at December 31, 2014 is as follows:

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Financial assets					
Cash and cash equivalents	35 627	-	-	-	35 627
Mandatory cash balances with the Bank of Russia	644	346	263	612	1 865
Trading securities	13 203	-	-	-	13 203
Due from other banks	242	-	-	925	1 167
Loans and advances to customers	6 193	41 187	35 406	72 933	155 719
Investment securities available for sale	-	4 445	3 299	1 127	8 871
Other financial assets	1 417	-	-	-	1 417
Total financial assets	**57 326**	**45 978**	**38 968**	**75 597**	**217 869**
Non-financial assets	**-**	**-**	**373**	**9 680**	**10 053**
Total assets	**57 326**	**45 978**	**39 341**	**85 277**	**227 922**
Financial liabilities					
Due to other banks	9 279	1 597	3 667	4 573	19 116
Customer accounts	60 035	32 035	24 674	57 474	174 218
Debt securities in issue	681	1 134	757	3 501	6 073
Other financial liabilities	647	-	-	-	647
Subordinated loans	-	-	-	3 563	3 563
Total financial liabilities	**70 642**	**34 766**	**29 098**	**69 111**	**203 617**
Non-financial liabilities	**-**	**-**	**-**	**501**	**501**
Total liabilities	**70 642**	**34 766**	**29 098**	**69 612**	**204 118**
Net liquidity gap of financial assets and financial liabilities	**(13 316)**	**11 212**	**9 870**	**6 486**	**14 252**
Cumulative liquidity gap	**(13 316)**	**(2 104)**	**7 766**	**14 252**	
Credit related commitments (Note 19)	**13 649**	**-**	**-**	**-**	**13 649**

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

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

17 Financial Risk Management (Continued)

Operational risk. Operational risk is defined by the Group as the risk of losses arising from insufficient organisation of the Group's processes, deliberate or non-deliberate actions of employees or third parties, failure of information, technology or other systems and as a result of external events.

The organisational process of operational risk management, the structure, roles and functions of the process participants are set out in internal documents of the Group's head credit unit in accordance with the recommendations of the Bank of Russia and the Basel Committee for Bank Supervision (Basel II).

The main stages of the operational risk management include:

- identification of operational risk factors, documentation of events (incidents);
- assessment of direct (monetary) and indirect (quality) losses;
- analysis and classification of risk factors into categories;
- development of measures intended to mitigate operational risk level;
- monitoring and control of the operational risk level and taking measures to mitigate it.

Operational risk exposure is identified by analysing data from all available sources for all main areas of the Group's activities in the context of availability of operational risk factors (reasons). To this end, information is collected about operational risk events and business processes and banking technological processes (including as part of the self-assessment process) are analysed.

Distribution of authorities and duties in the operational risk management system is based on the three areas – “lines of defence”:

- management in functional areas (lines of services);
- independent corporate risk management function;
- independent efficiency analysis and assessment.

At **the first “line of defence”**, structural units (including branches) of the Group's head credit unit identify and manage risks. Management of operational risk at the first “line of defence” is exercised by the Chairman and Members of the Management Board of the Group's head credit unit in relevant areas of activities.

The second “line of defence” is independent operational risk management function which is assigned to the Credit Risk Monitoring Department of the Group's head credit unit. At this level, the Credit Risk Monitoring Department establishes and controls the operational risk management system, collects data about operational risk events and documents information in analytical systems, identifies operational risk factors, investigates each material incident and develops measures to mitigate risk and prevent similar incidents in the future, prepares and submits summary reports to the Management Board and the Board of Directors of the Group's head credit unit.

The third “line of defence” represents independent assessment of how operational risk control measures, processes and procedures for management of the Group's operational risk are implemented. The assessment is performed by the Internal Audit Department or officers of the Group's head credit unit, independent of the business process or system under analysis.

The amount of capital required to cover operational risk exposure of the Group is calculated for the Group's head credit unit and for all group entities as required by the Bank of Russia.

17 Financial Risk Management (Continued)

The amount of operational risk is calculated on an annual basis. The amount of operational risk and amount of income (interest and non-interest) for the purposes of calculating capital for operational risk coverage for the Group were as follows:

(in millions of Russian Roubles)	**2014**
Amount of operational risk	**2 116**
Average income for the 3 previous years for the purposes of calculating capital for operational risk coverage including:	**14 110**
- Net interest earnings	8 667
- Net non-interest earnings	5 443

The amount of actual and potential losses from the materialization of operational risk events in 2015 and the 2014 was significantly less than the calculated amount of operational risk.

Main methods used by the Group to mitigate its operational risk exposure are as follows:

- clear documentation of rules and procedures for executing banking and other transactions;
- implementation of principles for segregation and restriction of personnel functions, authorities and duties;
- taking collegial decisions, setting risk limits for individual transactions;
- implementing internal controls over business processes and compliance with statutory and internal regulatory requirements;
- ensuring physical and information security of the Bank;
- ensuring required personnel qualification level and staff training;
- automation of bank processes and technologies, organisation of effective monitoring of IT-systems performance.

In order to reduce financial losses from operational risk occurrence, the Group's head credit unit has a comprehensive insurance programme providing for comprehensive insurance of financial institution's risks (BBB), directors' and officers' liability insurance (D&O), insurance of valuables in transit, insurance of electronic devices and cash therein, voluntary medical insurance of the Bank's employees, insurance of real estate, movable and other valuable property of the Bank. All the above insurance contracts have been entered into with leading Russian and international insurance companies.

The focus of the Group management on establishing of the effective operational risk management system has resulted in the fact that actual and potential losses from occurrence of operational risk events are insignificant for the Group and have no material impact on its operations.

18 Management of Capital

The Bank’s objectives when managing capital are (i) to comply with the capital requirements set by the Bank of Russia, (ii) to safeguard the Bank’s ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord.

In order to implement and achieve goals and objectives of the management of capital the Bank uses the following procedures:

- forecasting core performance indicators;
- planning capital requirements;
- capital adequacy monitoring.

As at 30 June 2015, required capital calculated pursuant to the framework of determining the size and assessment of capital adequacy (“Basel III”) set by the Bank of Russia, was RR 25 433 million (at 31 December 2014: RR 26 202 million).

Pursuant to the requirements of the Bank of Russia, banks shall maintain the ratio of required capital and assets weighted subject to risk (‘the capital adequacy ratio’) at a level above the required minimum value, which is 10%. As of June 30 2015, the required capital adequacy ratio amounted to 12.0% (as of December 31 2014: 12.0%).

19 Contingencies and Commitments

Legal proceedings**.** From time to time and in the normal course of business, claims against the Group are received. At 31 December 2014, the Group was engaged in litigation proceedings in relation to its commitments under the issued guarantee in the amount of RR 251 million. As of 30 June 2015 the Group has fulfilled the commitment.

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

Commitments to extend credit represent unused portions of authorisations by the Group's management to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs.

Outstanding credit related commitments and performance guarantees are as follows:

In millions of Russian Roubles	**June 30, 2015 (unaudited)**	**December 31, 2014**
Unused limits on overdraft loans and credit lines with debt limit	11 716	12 585
Undrawn credit lines with a payment limit	1 390	926
Financial guarantees	62	109
Import letters of credit	7	29
Total credit related commitments	**13 175**	**13 649**
Performance guarantees	9 619	11 461
Total credit related commitments and performance guarantees	**22 794**	**25 110**

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

20 Events After the Reporting Date

In July 2015 the major shareholder of the Bank Elena Orlova has transferred her shares (26.69% of voting shares) to her daughter Tatiana Orlova.

The Board of Directors of Vozrozhdenie Bank has set 28 August 2015 as the date of the extraordinary General Meeting of Shareholders to be held in order to approve particular terms of the agreement between the Bank and the State Corporation Deposit Insurance Agency on monitoring activity of the bank within the framework of recapitalization programme.

In August 2015 one of the major shareholders of the Bank Otar Margania has reduced his stake to 0% of voting shares.