

Open Joint Stock Company “BANK URALSIB”
Interim Condensed Consolidated Financial Statements

For the six-month period ended June 30, 2014

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The Supervisory Board and the Management Board of Open Joint Stock Company "BANK URALSIB" were appointed in accordance with the legislation of Russia and consist of the following members as of June 30, 2014:

The Supervisory Board

Name	Position
Nikolay A. Tsvetkov	Chairman of the Supervisory Board, Chairman of OJSC "Financial Corporation URALSIB"
Ildar R. Muslimov	General Director OJSC "Financial Corporation URALSIB"
Denis I. Korobkov	Deputy General Director OJSC "Financial Corporation URALSIB"
Ilkka S. Salonen	Chairman of the Management Board of Open Joint Stock Company "BANK URALSIB"
Airat R. Gaskarov	Member of the Supervisory Board of Open Joint Stock Company "BANK URALSIB"
Douglas W. Gardner	Member of the Supervisory Board of Open Joint Stock Company "BANK URALSIB"
Alexander M. Tolkachev	Member of the Supervisory Board of Open Joint Stock Company "BANK URALSIB"
Natalya A. Raevskaya	Advisor, Open Joint Stock Company "BANK URALSIB"
Natalia I. Zvereva	Advisor, Open Joint Stock Company "BANK URALSIB"

The Management Board

Name	Position
Ilkka S. Salonen	Chairman of the Management Board, CEO
Airat R. Gaskarov	Deputy Chairman of the Management Board
Alexei V. Sazonov	Deputy Chairman of the Management Board
Ilia V. Filatov	Deputy Chairman of the Management Board
Alexei V. Gonus	Deputy Chairman of the Management Board
Vladislav K. Vaevskiy	Deputy Chairman of the Management Board
Svetlana B. Bastrykina	Member of the Management Board
Konstantin A. Kolpakov	Member of the Management Board
Anna B. Tregubenkova	Member of the Management Board



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Auditors' Report on Review of Interim Condensed Consolidated Financial Information

To the Shareholders and the Board of Directors
Open Joint Stock Company "BANK URALSIB"

Introduction

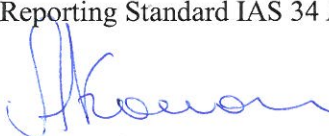
We have reviewed the accompanying interim condensed consolidated statement of financial position of Open Joint Stock Company "BANK URALSIB" and its subsidiaries (the "Bank") as at June 30, 2014, and the related interim condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and notes to the interim condensed consolidated financial information (the "interim condensed consolidated financial information"). Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial information of the Bank as at June 30, 2014 and for the six-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.


Kolosov A.E.
Director, power of attorney dated 3 October 2011 No. 37/11
ZAO KPMG
August 28, 2014
Moscow, Russian Federation



Audited entity: Open Joint Stock Company "BANK URALSIB".

Registered by the Central Bank of the Russian Federation on 8 April 1999, Registration No. 2275.

Entered in the Unified State Register of Legal Entities on 8 August 2002 by the Authority of the Ministry of Taxes and Duties of the Russian Federation in the Republic of Bashkortostan, Registration No. 1020280000190, Certificate series 02 No. 004606023.

Address of the audited entity: 8, Efremova Street, Moscow, Russian Federation, 119048.

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Interim condensed consolidated statement of financial position**As of June 30, 2014***(Thousands of Russian Rubles)*

	<i>Notes</i>	<i>June 30, 2014 (Unaudited)</i>	<i>December 31, 2013</i>
Assets			
Cash and cash equivalents	5	38 442 076	56 080 385
Obligatory reserves with the Central Bank		2 533 619	2 920 152
Amounts due from credit institutions	6	1 112 299	1 472 422
Available-for-sale securities	7	36 586 582	37 775 261
Held-to-maturity securities		9 658	44 715
Derivative financial assets	8	265 606	45 175
Loans to customers	9	219 945 226	226 217 616
Net investments in finance leases	10	8 288 164	16 454 323
Investment property		17 307 717	19 580 724
Property and equipment		20 804 582	13 077 166
Goodwill		4 527 406	4 527 406
Other assets		14 358 556	15 153 650
Total assets		364 181 491	393 348 995
Liabilities			
Derivative financial liabilities	8	53 022	41 031
Amounts due to credit institutions	11	46 042 296	49 328 128
Amounts due to customers	12	249 415 410	263 332 299
Promissory notes issued		2 642 568	4 986 423
Other borrowed funds	13	20 353 371	29 593 054
Other liabilities		3 653 087	3 663 257
Total liabilities		322 159 754	350 944 192
Equity			
Share capital	14	42 012 253	41 445 862
Additional paid-in capital	14	869 720	-
Revaluation reserve for available-for-sale securities		389 043	403 971
Revaluation surplus for buildings		3 464 555	3 464 555
Accumulated losses		(3 960 087)	(2 304 071)
Total equity attributable to shareholders of the Parent		42 775 484	43 010 317
Non-controlling interests		(753 747)	(605 514)
Total equity		42 021 737	42 404 803
Total equity and liabilities		364 181 491	393 348 995

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

Ilkka S. Salonen

Renat S. Koneev

August 28, 2014



Chairman of the Management Board

Chief Accountant

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated income statement**For the six-month period ended June 30, 2014***(Thousands of Russian Rubles)*

	<i>Notes</i>	<i>For the six-month period ended June 30,</i>	
		<i>2014</i>	<i>2013</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest income			
Loans to customers		15 133 886	15 103 389
Net investments in finance leases		1 298 466	1 268 206
Securities		638 892	808 704
Amounts due from credit institutions		216 756	458 694
		17 288 000	17 638 993
Interest expense			
Amounts due to customers		(5 899 841)	(7 313 405)
Amounts due to credit institutions		(1 654 392)	(1 316 465)
Other borrowed funds		(1 341 940)	(1 747 369)
Promissory notes issued		(141 154)	(350 059)
		(9 037 327)	(10 727 298)
Net interest income		8 250 673	6 911 695
Charge for impairment of interest earning assets	6, 7, 9, 10	(2 167 582)	(2 585 459)
Net interest income after impairment of interest earning assets		6 083 091	4 326 236
Fee and commission income		5 346 855	4 898 439
Fee and commission expense		(2 388 722)	(1 970 007)
Net fee and commission income	15	2 958 133	2 928 432
Net realised gains from available-for-sale securities		358 361	76 724
Net gains from trading securities		-	27 118
Charge for impairment of equity investments	7	-	(3 001)
Net gains from foreign currencies		231 672	908 322
Net gains (losses) from precious metals		108 879	(131 143)
Net (losses) gains from revaluation and disposal of investment property		(381 420)	77 706
Net losses from impairment and disposal of inventory		(121 301)	(296 478)
Net losses from impairment of property and equipment	10	(492 495)	-
Other income		1 016 710	1 429 243
Other non interest income		720 406	2 088 491
Personnel expenses	16	(5 980 929)	(6 609 350)
Administrative and operating expenses	16	(4 594 887)	(4 137 727)
Depreciation and amortisation		(528 430)	(596 604)
Charge for impairment of other assets		(127 806)	(10 659)
Other non interest expense		(11 232 052)	(11 354 340)
Loss before income tax expense		(1 470 422)	(2 011 181)
Income tax (expense) benefit		(39 058)	260 159
Loss for the period*		(1 509 480)	(1 751 022)
Attributable to:			
- shareholders of the Parent		(1 362 045)	(1 761 090)
- non-controlling interests		(147 435)	10 068
		(1 509 480)	(1 751 022)

Ilkka S. Salonen



Renat S. Koneev

August 28, 2014

Chairman of the Management Board

Chief Accountant

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

* Profit of the Bank before intra-group elimination of interest on other contributions from participants and dividends received from URALSIB Leasing Group, net of consolidated loss of URALSIB Leasing Group for the six-month period ended June 30, 2014 comprises RUB 20 593 (six-month period ended June 30, 2013 – loss of RUB 1 443 028). Refer to Note 4.

Interim condensed consolidated statement of comprehensive income**For the six-month period ended June 30, 2014***(Thousands of Russian Rubles)*

	<i>For the six-month period ended June 30,</i>	
	<i>2014 (Unaudited)</i>	<i>2013 (Unaudited)</i>
Loss for the period	(1 509 480)	(1 751 022)
Other comprehensive loss		
<i>Items that are or may be reclassified to profit or loss</i>		
Revaluation reserve for available-for-sale securities:		
- Net change in fair value of available-for-sale securities, net of tax	271 761	(13 961)
- Net change in fair value of available-for-sale securities transferred to profit or loss, net of tax	(286 689)	3 564
Total other comprehensive loss, net of tax	(14 928)	(10 397)
Total comprehensive loss for the period	(1 524 408)	(1 761 419)
Attributable to:		
- shareholders of the Parent	(1 376 973)	(1 771 487)
- non-controlling interests	(147 435)	10 068
Total comprehensive loss for the period	(1 524 408)	(1 761 419)

Ilkka S. Salonen

Renat S. Koneev

August 28, 2014



Chairman of the Management Board

Chief Accountant

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of changes in equity

For the six-month period ended June 30, 2014

(Thousands of Russian Rubles)

	Attributable to equity holders of the Parent							Total equity
	Share capital	Additional paid in capital	Revaluation reserve for available-for-sale securities	Revaluation surplus for buildings	Accumulated losses	Total equity attributable to shareholders of the Parent	Non-controlling interests	
Balance as of January 1, 2013	41 445 862	-	556 497	3 379 386	(17 682)	45 364 063	169 435	45 533 498
Total comprehensive loss for the six-month period, ended June 30, 2013 (Unaudited)	-	-	(10 397)	(2 092)	(1 758 998)	(1 771 487)	10 068	(1 761 419)
Charitable contributions made on behalf of shareholder (Unaudited)	-	-	-	-	(222 590)	(222 590)	-	(222 590)
Change in non-controlling interests in subsidiaries (Unaudited)	-	-	-	-	-	-	(2 840)	(2 840)
Dividends paid (Unaudited)	-	-	-	-	(538 047)	(538 047)	(45 000)	(583 047)
Balance as of June 30, 2013 (Unaudited)	41 445 862	-	546 100	3 377 294	(2 537 317)	42 831 939	131 663	42 963 602
Balance as of January 1, 2014	41 445 862	-	403 971	3 464 555	(2 304 071)	43 010 317	(605 514)	42 404 803
Total comprehensive loss for the six-month period, ended June 30, 2014 (Unaudited)	-	-	(14 928)	-	(1 362 045)	(1 376 973)	(147 435)	(1 524 408)
Issue of ordinary shares (Unaudited) (Note 14)	566 391	869 720	-	-	(257 142)	1 178 969	-	1 178 969
Charitable contributions made on behalf of shareholder (Unaudited)	-	-	-	-	(36 829)	(36 829)	-	(36 829)
Change in non-controlling interests in subsidiary (Unaudited)	-	-	-	-	-	-	(798)	(798)
Balance as of June 30, 2014 (Unaudited)	42 012 253	869 720	389 043	3 464 555	(3 960 087)	42 775 484	(753 747)	42 021 737

Ilkka S. Salonen

Renat S. Koneev

August 28, 2014



Chairman of the Management Board

Chief Accountant

The accompanying notes are an integral part of these interim condensed consolidated financial statements

Interim condensed consolidated statement of cash flows**For the six-month period ended June 30, 2014***(Thousands of Russian Rubles)*

	For the six-month period ended June 30,	
	2014	2013
Notes	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Interest received	17 301 331	17 822 786
Interest paid	(9 337 787)	(10 752 193)
Fees and commissions received	5 347 774	4 893 498
Fees and commissions paid	(2 285 727)	(1 923 738)
Net payments from trading and available-for-sale securities	362 596	72 766
Net (payments) receipts from dealing in foreign currencies	(1 383 703)	621 518
Net receipts (payments) from dealing in precious metals	26 363	(233 645)
Dividends received	619	450
Other income received	860 974	1 337 811
Personnel expenses paid	(5 908 597)	(6 432 413)
Administrative and operating expenses paid	(4 364 059)	(3 936 588)
Cash flows from operating activities before changes in operating assets and liabilities	619 784	1 470 252
<i>Net (increase) decrease in operating assets</i>		
Amounts due from credit institutions and obligatory reserves with the Central Bank	776 989	7 044 625
Trading securities	-	422 206
Available-for-sale securities	1 346 221	(5 837 047)
Loans to customers	5 502 881	(5 803 452)
Net investments in finance leases	1 123 694	(118 733)
Other assets	418 035	(848 012)
<i>Net increase (decrease) in operating liabilities</i>		
Amounts due to credit institutions, other than subordinated and syndicated loans	(3 940 394)	(20 617 154)
Amounts due to customers	(14 988 699)	503 808
Promissory notes issued	(2 352 144)	(2 958 884)
Other liabilities	15 408	452 460
Net used in operating activities before income tax	(11 478 225)	(26 289 931)
Income tax paid	(67 105)	(19 713)
Net cash used in operating activities	(11 545 330)	(26 309 644)
Cash flows from investing activities		
Proceeds from repayment of securities held to maturity	23 368	45 658
Purchase of property and equipment and intangible assets	(720 513)	(834 238)
Proceeds from sale of property and equipment and intangible assets	71 199	319 606
Proceeds from sale of investment property	1 891 587	330 065
Purchase of subsidiaries, less cash in acquired subsidiaries	(50 008)	-
Purchase of non-controlling interests in subsidiaries	(798)	(2 840)
Purchase of share in investments in associate	-	(6 639)
Net cash flows from (used in) investing activities	1 214 835	(148 388)
Cash flows from financing activities		
Proceeds from issue of bonds	500 000	5 000 000
Proceeds from sale of bonds issued previously repurchased	77 884	-
Repayment of bonds issued	(9 588 861)	(3 264 117)
Repurchase of bonds issued	(46 142)	(323 358)
Syndicated loans repaid	(92 622)	(273 681)
Charitable contributions made on behalf of shareholder	(36 829)	(222 590)
Dividends paid to shareholders of the Bank	-	(571 452)
Net cash (used in) from financing activities	(9 186 570)	344 802
Effect of exchange rates changes on cash and cash equivalents	1 878 756	1 483 129
Net decrease in cash and cash equivalents	(17 638 309)	(24 630 101)
Cash and cash equivalents, beginning	56 080 385	77 070 294
Cash and cash equivalents, ending	38 442 076	52 440 193

Ilkka S. Salonen

Chairman of the Management Board

Renat S. Koneev

Chief Accountant

August 28, 2014

The accompanying notes are an integral part of these interim condensed consolidated financial statements

1. Principal activities

These interim condensed consolidated financial statements include the financial statements of Open Joint Stock Company “BANK URALSIB” (the Parent, also – OJSC “URALSIB”) and its subsidiaries (together referred to as the “Bank”).

The principal activities of the Bank are deposit taking and customer account maintenance, lending and issuing guarantees, cash and settlement transactions, transactions with securities, asset management, investment banking and foreign exchange. The Bank’s leasing subsidiary provides finance leases primary to companies in Russia.

The activities of the Bank are regulated by the Central Bank of the Russian Federation (“CBR”). The Bank has a general banking license and is a member of the state deposit insurance system in the Russian Federation.

The Bank operates in industries where significant seasonal or cyclical variations in operating income are not experienced during the financial year.

Subsidiaries and branches

OJSC “URALSIB” was established in 1993 in the Russian Federation, where it currently has 13 branches from which it conducts business. The registered address of the head office is Moscow, 119048, Efremova Street, 8. The majority of the assets and liabilities are located in the Russian Federation. The average number of people employed during the six-month period ended June 30, 2014 was 13 036 (2013: 13 714). The interim condensed consolidated financial statements include the following main incorporated subsidiaries:

<i>Subsidiary</i>	<i>Control, %</i>		<i>Country</i>	<i>Date of establishment</i>	<i>Industry</i>
	<i>June 30, 2014 (Unaudited)</i>	<i>December 31, 2013</i>			
LLC “Ufa-City”	100,00%	100,00%	Russia	April 29, 2002	Construction
LLC “Amador”	-	100,00%	Russia	April 4, 2009	Investments in land
CJSC “Krasnogorskstroykomplekt”	100,00%	100,00%	Russia	July 19, 2007	Investments in land
LLC “Sportventure Moskva”	100,00%	100,00%	Russia	July 19, 1993	Investments in land
CJSC “Rivas”	100,00%	100,00%	Russia	July 23, 2007	Investments in land
CJSC “Zemelny Trust”	99,90%	99,90%	Russia	January 21, 2002	Investments in land
CJSC “Astretsovo”	91,22%	91,22%	Russia	April 1, 1991	Investments in land
CJSC “Miranda”	100,00%	100,00%	Russia	November 29, 2007	Investments in land
LLC “Oberon”	100,00%	100,00%	Russia	November 29, 2007	Investments in land
CJSC “Mortgage Agent Uralsib 01”	100,00%	100,00%	Russia	October 26, 2011	Finance services
LLC “RGO Voronezh”	99,90%	99,90%	Russia	May 12, 2012	Investments in real estate
LLC “ORTO-KHAUZ”	100,00%	100,00%	Russia	January 26, 2005	Investments in real estate
LLC “Tolstoy-M”	100,00%	100,00%	Russia	September 5, 2013	Investments in real estate
OJSC “Bashprombank”	99,99%	49,99%	Russia	November 28, 1990	Banking
<i>Members of Leasing Group Uralsib (“LG”)</i>					
LLC “URALSIB Leasing Company”	87,61%	87,61%	Russia	October 1, 2000	Leasing
Hambridge Investments Ltd	100,00%	100,00%	Cyprus	July 20, 2004	Leasing

On January 20, 2014 the Bank obtained control over its subsidiary OJSC “Bashprombank” (BPB) by acquiring 49,99996% of its shares (Refer to Note 20).

In January 2014 CJSC “Krasnogorskstroykomplekt” was merged with LLC “Amador”.

LLC “URALSIB Leasing Company” was registered in 2000 in Russia. Its main office is in Moscow and it has 48 branches (2013: 45).

The interim condensed consolidated financial statements also include the following unincorporated subsidiaries:

<i>Subsidiary</i>	<i>Control, %</i>		<i>Country</i>	<i>Date of establishment</i>	<i>Industry</i>
	<i>June 30, 2014 (Unaudited)</i>	<i>December 31, 2013</i>			
Closed Unit Investment Fund of Property "URALSIB - ARENDA"	100,00%	100,00%	Russia	November 1, 2007	Investment
Closed Unit Investment Fund of Real Estate "URALSIB –Investment in real estate"	100,00%	100,00%	Russia	August 5, 2008	Investment
Closed Unit Investment Fund of Real Estate "Construction Investments"	99,57%	99,55%	Russia	October 13, 2004	Investment
Closed Unit Investment Fund of Real Estate "URALSIB –Land investments"	99,54%	99,54%	Russia	February 18, 2008	Investment
Closed Unit Investment Fund of Real Estate "URALSIB – Development of Regions"	100,00%	100,00%	Russia	December 9, 2008	Investment
Closed Unit Investment Fund of Stock "Strategic"	100,00%	100,00%	Russia	August 19, 2009	Investment
Closed Unit Investment Fund of Stock "Active-City"	100,00%	100,00%	Russia	November 12, 2009	Investment

The effects on the financial result of the Bank from acquisition of the shares of closed unit investment funds during the six-month period ended June 30, 2014 are not significant.

Non-controlling interests in subsidiaries

The following table summarizes the information relating to the Bank's subsidiaries that have material non-controlling interests ("NCI"), before any intra-group eliminations, as of June 30, 2014 and December 31, 2013 and for the six-month periods ended June 30, 2014 and June 30, 2013 respectively:

Leasing Group Uralsib

	June 30, 2014 (Unaudited)	December 31, 2013
Cash and cash equivalents	1 015 546	2 390 884
Loans to customers	1 430 018	2 273 001
Net investments in finance leases	8 288 164	16 454 323
Goodwill	137 919	137 919
Current tax assets	101 547	105 510
Deferred tax assets	370 824	370 824
Prepaid operating taxes	145 045	251 053
Inventories	532 946	636 583
Investment property	217 386	430 175
Property and equipment	6 599 981	147 349
Other assets	1 059 984	1 596 029
Borrowed funds	(9 889 165)	(10 361 806)
Debt securities issued	(10 217 067)	(12 958 115)
Other liabilities	(894 469)	(1 045 001)
Equity	(1 101 341)	428 728
Equity attributable to NCI	(814 274)	(667 558)

	<i>For the six-month period ended June 30,</i>	
	<i>2014</i>	<i>2013</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net interest income	351 431	312 216
Charge for impairment of interest earning assets	(193 897)	(138 698)
Net fee and commission expense	(65 402)	802
Non interest income	144 133	635 179
Operating expense	(1 420 038)	(722 238)
Income tax expense	-	(5 199)
Loss	(1 183 773)	82 062
Total comprehensive loss	(1 183 771)	82 063
Loss allocated to NCI	(146 717)	10 171
Total comprehensive loss allocated to NCI	(146 717)	10 171
Cash flows from operating activities	2 084 261	496 825
Cash flows from (used in) investment activities	160 794	(1 176)
Cash flows (used in) from financing activities	(3 653 510)	435 169
Dividends paid to NCI	-	(45 000)

The following table summarizes the reconciliation of net assets of Leasing Group Uralsib with the Bank's NCI in it:

Leasing Group Uralsib

	<i>June 30, 2014</i>	<i>December 31,</i>
	<i>(Unaudited)</i>	<i>2013</i>
Equity	(1 101 341)	428 728
Less other contribution from OJSC “URALSIB”	(5 330 645)	(5 676 947)
Less goodwill	(137 919)	(137 919)
	(6 569 905)	(5 386 138)
Carrying amount of NCI (12.39%)	(814 274)	(667 558)

Leasing Group Uralsib has its principal place of business in Russia.

Structured entity

CJSC “Mortgage Agent Uralsib 01” (MA-1) is a structured entity established to facilitate the Bank's issue of mortgage backed securities (refer to note 13). This entity is not owned by the Bank. Control arises from practical ability to direct the relevant activities of MA-1 and the size of its exposure to the variability of returns of MA-1.

Shareholders

The major shareholder of the Bank is OJSC “Financial Corporation URALSIB”. Related party transactions are detailed in note 18.

The following shareholders held the issued shares of Open Joint Stock Company “BANK URALSIB”:

Shareholder	<i>June 30, 2014</i>	<i>December 31, 2013</i>
	<i>% (Unaudited)</i>	<i>%</i>
OJSC “Financial Corporation URALSIB”	97,20	97,14
Other	2,80	2,86
Total	100,00	100,00

The Bank is ultimately controlled by Mr. Nikolay A. Tsvetkov.

Russian business environment

The Bank's operations are primarily located in the Russian Federation. Consequently, the Bank is exposed to the economic and financial markets of the Russian Federation, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. In addition, the contraction felt after the 2008 economic downturn in the capital and credit markets and the impact of this on the Russian economy further increased the level of economic uncertainty in the environment.

In March, April and July 2014 the United States of America and the European Union imposed sanctions against some Russian public officials, entrepreneurs and companies. These actions, especially in the case of further tightening, may have a negative impact on the Russian economy caused by limited access of Russian business to foreign capital markets and exports, increase of capital outflows, rouble devaluation and other negative consequences. At the current moment it is difficult to assess the impact of these events on the operations and financial position of the Bank.

The interim condensed consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and financial position of the Bank. The future business environment may differ from management's assessment.

2. Basis of preparation

Statement of compliance

These interim condensed consolidated financial statements for the six-month period ended June 30, 2014 (the interim condensed consolidated financial statements) are prepared in accordance with IAS 34 "Interim Financial Reporting" and should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Basis of measurement

These interim condensed consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss, available-for-sale securities and investment property are stated at fair value, and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries is the Russian Ruble ("RUB") as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these interim condensed consolidated financial statements. Financial information presented in RUB is rounded to the nearest thousand, except where indicated.

Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities, income and expense, and the disclosure of contingent assets and liabilities to prepare these interim condensed consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

3. Summary of accounting policies

The accounting policies applied by the Bank in these interim condensed consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2013 as described in those consolidated financial statements.

Certain amendments to IFRS became effective from 1 January 2014 and have been adopted by the Bank since that date. These changes do not have a significant effect on the interim condensed consolidated financial statements.

4. Segment analysis

Management has ascertained and designated the operating segments of the Bank based on the reports regularly reviewed by the Management Board in making strategic decisions. All operating segments of the Bank derive their revenue - as various types of financial income - primarily from sources in the Russian Federation. Because of relatively similar business environment throughout the country, management emphasizes the "product line" analysis approach rather than geographical segmentation. All of the Bank's business activities and operating segments are reported within the reportable segments. The Management Board considers the business based on the following operating segments:

- 1 **Corporate banking:** full range of banking services to large and medium corporate entities including commercial lending and deposit taking, settlements and cash transactions, as well as trade finance and transactions with precious metals.
- 2 **Retail banking:** full range of banking services to individuals, such as deposit taking and lending to individuals, money transfer and foreign exchange services and a range of banking card products.
- 3 **Small business:** full range of banking services to individual entrepreneurs and small business entities, such as lending, settlements and cash transactions, deposit taking.
- 4 **Leasing:** leasing transactions performed by LG.
- 5 **Financial services and markets:** primary and secondary equity and debt capital markets activities, brokerage services and securities trading, including repurchase agreements transactions and derivative transactions, placement and raising of funds at interbank market and Bank's funding through debt securities issues and subordinated loans.
- 6 **Private banking and asset management:** full range of banking services to high net worth individuals, including their savings management and financial consulting; trust management, services to corporate and private clients through fiduciary and collective investment schemes including open-end mutual funds which are distributed through the Bank's regional network.
- 7 **Treasury and asset-liability management ("ALM") unit:** treasury places and raises funds on money markets and conducts foreign exchange transactions. This segment is also responsible for accumulation and further distribution of all funds raised by other segments.
- 8 **Corporate investments and other transactions:** corporate transactions that are not conducted by and attributed to any business segment. This segment is responsible for transactions with related parties of the Bank and certain securities transactions. This segment is responsible for managing the Bank's capital.
- 9 **Corporate center:** expenses incurred by the central administrative divisions of the Bank, Head Office expenditures and indirect overhead expenses such as the marketing of the brand, which is common to all reportable segments. It also carries out service transactions that are not related to the main business activity of the Bank, such as management of real estate.

In 2014 the Management decided to transfer duties on placement and raising of funds at interbank market and Bank's funding through debt securities issues and subordinated loans from "Treasury and asset-liability management ("ALM") unit" segment to "Financial services and markets" segment, which was also renamed from "Investment banking" segment.

The segment reporting is submitted to the Management Board on a regular basis as part of the management reporting. It is used to assess the effectiveness of the segments and to assist in taking decisions on the allocation of resources. In accordance with internal methodology, equity is allocated to the corporate investments and other transactions segment.

Changes in accounting policies for segment reporting

In 2014 the Bank revised the accounting policy for segment reporting following the Management's intention to transform management reporting principles to "IFRS-basis". The main principles for measurement of assets and liabilities and recognition of income and expenses were amended to conform to IFRS in all material respects. The presentation of comparative information as of December 31, 2013 and for the six-month period ended June 30, 2013 is amended for these changes.

Information about major customers

Substantially all revenues from external customers are from residents of the Russian Federation. Substantially all of non-current assets are located in the Russian Federation.

Information on losses related to operations of URALSIB Leasing Group included in the interim condensed consolidated financial statements prepared in accordance with IFRS

The table below provides information on results of operations and intra-group equity transactions related to URALSIB Leasing Group ("LG") which are included in loss for the period presented in the interim condensed consolidated income statement:

	<i>For the six-month period ended June 30,</i>	
	<i>2014 (Unaudited)</i>	<i>2013 (Unaudited)</i>
Profit (loss) of the Bank before elimination of interest on other contributions from participants and dividends received from LG, net of loss of LG	20 593	(1 443 028)
(Loss) profit of LG	(1 183 773)	82 062
Elimination of interest on other contributions from participants and dividends received from LG	(346 300)	(390 056)
Loss for the period as presented in the interim condensed consolidated income statement	(1 509 480)	(1 751 022)

A reconciliation of total segmental loss before income tax expense as measured in the management accounting to the total loss before income tax as presented in these interim condensed consolidated financial statements is provided below.

	<i>For the six-month period ended June 30,</i>	
	<i>2014 (Unaudited)</i>	<i>2013 (Unaudited)</i>
Loss before income tax expense per management accounting	(1 338 323)	(1 940 887)
Consolidation adjustments	(6 430)	(16 652)
Interest and commission accruals	(4 133)	(2 552)
Personnel, administrative and operating expenses accrued	(179 797)	(273 296)
Adjustment of impairment allowance	(2 502)	(4 075)
Other adjustments	60 763	226 281
Loss before income tax expense per IFRS financial statements	(1 470 422)	(2 011 181)

A reconciliation of total segmental assets/liabilities as measured in the management accounting to the total assets/liabilities as presented in these interim condensed consolidated financial statements is provided below.

	<i>June 30, 2014 (Unaudited)</i>		<i>December 31, 2013</i>	
	<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
Total assets/ liabilities per management accounting (unaudited)	364 581 967	322 139 355	393 966 121	350 983 641
Consolidation adjustments	7 127	6 395	10 027	6 854
Revaluation and other adjustments to property and equipment	363 287	-	(101 062)	-
Adjustment of current and deferred tax assets and liabilities	73 894	714	144 419	-
Accrual of administrative and operating expenses	(870 131)	7 223	(695 727)	(54 987)
Adjustments to impairment allowances	663	-	(315)	-
Accrual of employee compensation payable	-	(2 056)	-	-
Other adjustments	24 684	8 123	25 532	8 684
Total assets/ liabilities per IFRS consolidated financial statements	364 181 491	322 159 754	393 348 995	350 944 192

(Thousands of Russian Rubles)

Segment breakdown of assets and liabilities as of June 30, 2014 is set out below (unaudited):

	Corporate banking	Retail banking	Small business	Leasing	Financial services and markets	Private banking and asset management	Treasury and ALM unit	Corporate investments and other transactions	Corporate center	Intersegmental transactions	Total
Assets											
Cash and cash equivalents	875	1 988 094	-	1 016 116	4 258 245	-	30 276 190	1 167 599	-	(262 502)	38 444 617
Obligatory reserves with the Central Bank	-	-	-	-	-	-	2 533 619	-	-	-	2 533 619
Amounts due from credit institutions	-	361 198	-	-	526 632	-	7 194	217 276	-	-	1 112 300
Available-for-sale securities	-	-	-	-	13 909 526	-	-	22 677 060	-	-	36 586 586
Held-to-maturity securities	-	-	-	-	9 659	-	-	-	-	-	9 659
Derivative financial assets	87 098	-	-	-	699	-	177 809	-	-	-	265 606
Loans to customers	80 398 634	123 487 269	11 901 427	-	-	70 033	-	5 826 075	-	(1 746 367)	219 937 071
Net investments in finance leases	-	-	-	8 288 164	-	-	-	-	-	-	8 288 164
Investment property	287 786	-	-	217 386	-	-	-	16 349 538	-	-	16 854 710
Property and equipment	-	-	-	6 599 981	-	-	-	14 336 559	-	-	20 936 540
Goodwill	-	-	-	-	-	-	-	-	4 527 406	-	4 527 406
Other assets	1 679 413	471 112	62 815	1 833 088	1 033	-	149 285	8 216 466	2 672 477	-	15 085 689
Total assets	82 453 806	126 307 673	11 964 242	17 954 735	18 705 794	70 033	33 144 097	68 790 573	7 199 883	(2 008 869)	364 581 967
Liabilities											
Derivative financial liabilities	6 375	-	-	-	30	-	46 617	-	-	-	53 022
Amounts due to credit institutions	250 634	4 699 764	-	8 396 185	28 634 057	245 107	5 524 130	41 103	-	(1 748 637)	46 042 343
Amounts due to customers	52 206 620	133 615 922	37 924 699	1 492 981	470 381	15 669 451	567 821	7 727 713	-	(260 232)	249 415 356
Promissory notes issued	945 763	34 510	5 063	-	1 478 912	-	-	178 320	-	-	2 642 568
Other borrowed funds	-	2 266 874	-	9 855 972	8 230 573	-	-	-	-	-	20 353 419
Other liabilities	14 194	332 310	6 963	894 472	23 623	16 914	474 240	686 481	1 183 450	-	3 632 647
Total liabilities	53 423 586	140 949 380	37 936 725	20 639 610	38 837 576	15 931 472	6 612 808	8 633 617	1 183 450	(2 008 869)	322 139 355

(Thousands of Russian Rubles)

Segment breakdown of assets and liabilities as of December 31, 2013 is set out below:

	Corporate banking	Retail banking	Small business	Leasing	Financial services and markets	Private banking and asset management	Treasury and ALM unit	Corporate investments and other transactions	Corporate center	Intersegmental transactions	Total
Assets											
Cash and cash equivalents	343	2 233 771	-	2 398 340	266 364	-	52 269 258	638 044	-	(1 696 898)	56 109 222
Obligatory reserves with the Central Bank	-	-	-	-	-	-	2 920 152	-	-	-	2 920 152
Amounts due from credit institutions	-	336 083	-	-	17 618	-	909 502	209 221	-	-	1 472 424
Available-for-sale securities	-	-	-	-	21 625 217	-	-	16 149 896	-	-	37 775 113
Held-to-maturity securities	-	-	-	-	44 715	-	-	-	-	-	44 715
Derivative financial assets	3 514	-	-	-	22 838	-	18 823	-	-	-	45 175
Loans to customers	86 708 895	122 692 052	12 012 893	842 654	18 879	74 790	337 147	3 868 863	-	(376 027)	226 180 146
Net investments in finance leases	-	-	-	16 454 323	-	-	-	-	-	-	16 454 323
Investment property	277 785	-	-	430 175	-	-	-	18 419 757	-	-	19 127 717
Property and equipment	-	-	-	147 350	-	-	-	11 732 464	1 797 057	-	13 676 871
Goodwill	-	-	-	-	-	-	-	-	4 527 406	-	4 527 406
Other assets	984 976	605 695	15 746	2 960 005	1 503 566	2	165 053	4 201 054	5 197 223	(463)	15 632 857
Total assets	87 975 513	125 867 601	12 028 639	23 232 847	23 499 197	74 792	56 619 935	55 219 299	11 521 686	(2 073 388)	393 966 121
Liabilities											
Derivative financial liabilities	41 031	-	-	-	-	-	-	-	-	-	41 031
Amounts due to credit institutions	-	8 296 009	-	8 750 587	9 312 496	693 019	14 463 563	8 188 482	-	(376 027)	49 328 129
Amounts due to customers	59 165 950	137 866 449	44 325 913	1 611 219	1 766	15 572 591	1 892 748	4 593 029	-	(1 697 361)	263 332 304
Promissory notes issued	1 286 992	104 395	28 416	32 032	-	-	3 356 791	177 797	-	-	4 986 423
Other borrowed funds	-	2 812 673	-	12 532 568	-	-	-	14 247 926	-	-	29 593 167
Other liabilities	113 671	447 044	46 675	1 045 001	21 159	26 822	356 701	828 830	816 684	-	3 702 587
Total liabilities	60 607 644	149 526 570	44 401 004	23 971 407	9 335 421	16 292 432	20 069 803	28 036 064	816 684	(2 073 388)	350 983 641

(Thousands of Russian Rubles)

Segment information for the main reportable segments for the six-month period ended June 30, 2014 is set out below (unaudited):

	Corporate banking	Retail banking	Small business	Leasing	Financial services and markets	Private banking and asset management	Treasury and ALM unit	Corporate investments and other transactions	Corporate center	Intersegmental transactions	Total
Interest income											
Loans to customers	4 460 520	9 721 179	886 697	21 516	30 676	4 936	24	214 885	-	(45 523)	15 294 910
Net investments in finance leases	-	-	-	1 298 466	-	-	-	-	-	-	1 298 466
Securities	-	-	-	-	537 452	-	-	465 144	-	(363 745)	638 851
Amounts due from credit institutions	5	16 244	-	32 391	59 566	-	51 866	62 768	-	(9 003)	213 837
Transfer income	2 224 858	5 269 069	1 514 429	-	2 249 291	589 474	13 986 492	283 407	-	(26 117 020)	-
	6 685 383	15 006 492	2 401 126	1 352 373	2 876 985	594 410	14 038 382	1 026 204	-	(26 535 291)	17 446 064
Interest expense											
Amounts due to customers	(1 193 827)	(3 755 631)	(170 185)	(46 276)	(3 079)	(467 588)	-	(270 211)	-	9 003	(5 897 794)
Amounts due to credit institutions	-	(104 318)	-	(599 811)	(657 169)	-	-	-	-	363 732	(997 566)
Promissory notes issued	(8 735)	(10 940)	(8 123)	(413 592)	(1 058 222)	(5 980)	(191 276)	-	-	45 523	(1 651 345)
Other borrowed funds	(25 232)	(5 259)	(156)	(968)	(109 539)	-	-	-	-	-	(141 154)
Transfer expense	(3 824 352)	(6 964 389)	(687 418)	-	(359 592)	(12 021)	(12 870 163)	(1 399 085)	-	26 117 020	-
	(5 052 146)	(10 840 537)	(865 882)	(1 060 647)	(2 187 601)	(485 589)	(13 061 439)	(1 669 296)	-	26 535 278	(8 687 859)
Net interest income (expense)	1 633 237	4 165 955	1 535 244	291 726	689 384	108 821	976 943	(643 092)	-	(13)	8 758 205
(Charge for) recovery of impairment of interest earning assets	(445 540)	(1 415 061)	(96 312)	(193 897)	1 633	19	(631)	(205 230)	-	-	(2 355 019)
Net interest income (expense) after impairment of interest earning assets	1 187 697	2 750 894	1 438 932	97 829	691 017	108 840	976 312	(848 322)	-	(13)	6 403 186
Fee and commission income	531 718	3 611 532	1 127 856	1 596	22 694	8 024	21 334	20 838	-	-	5 345 592
Fee and commission expense	(43 881)	(1 986 185)	(72 926)	(66 505)	(24 878)	(2 117)	(10 837)	(162 157)	(18 000)	-	(2 387 486)
Intersegment fee income	107 654	525 069	-	-	2 655	7 171	-	-	-	(466 557)	175 992
Intersegment fee expense	(4 505)	(530 092)	(50 046)	-	(31 174)	(748)	(25 984)	-	-	466 557	(175 992)
Net fee and commission income (expense)	590 986	1 620 324	1 004 884	(64 909)	(30 703)	12 330	(15 487)	(141 319)	(18 000)	-	2 958 106
Net gains (losses) on available-from-sale securities	-	482 321	-	-	(149 282)	-	-	25 330	-	13	358 382
Charge for impairment of equity investments	-	-	-	-	-	-	-	-	-	-	-
Net gains (losses) from foreign currency	97 753	192 797	23 304	20 369	-	382	(134 842)	17 374	-	-	217 137
Net gains from transactions with precious metals	108 724	-	-	-	-	-	-	-	-	-	108 724
Net gains (losses) from revaluation and disposal of investment property	573	-	-	(47 536)	-	(6 429)	-	(328 028)	-	-	(381 420)
Net (losses) gains from impairment and disposal of inventory	(45 885)	5 661	(5 799)	(568 095)	-	-	-	-	-	-	(614 118)
Other income (expense)	108 200	295 712	39 407	160 082	207	3 462	-	4 878	540 786	(449 175)	703 559
	269 365	976 491	56 912	(435 180)	(149 075)	(2 585)	(134 842)	(280 446)	540 786	(449 162)	392 264
Personnel expenses	(500 955)	(1 356 919)	(347 341)	(313 535)	(46 389)	(68 096)	(27 219)	(28 956)	(3 111 017)	-	(5 800 427)
Administrative and operating expenses	(55 565)	(1 216 722)	(55 842)	(588 346)	(9 430)	(50 438)	(26 307)	(209 157)	(2 889 162)	449 175	(4 651 794)
Depreciation and amortisation	(18 872)	(92 343)	(21 469)	(29 676)	(1 351)	(2 759)	(1 379)	(854)	(307 547)	-	(476 250)
(Charge for) recovery of impairment of other assets	(32 492)	(199 302)	(20 901)	90 339	-	(235)	27 756	(26 855)	(1 718)	-	(163 408)
	(607 884)	(2 865 286)	(445 553)	(841 218)	(57 170)	(121 528)	(27 149)	(265 822)	(6 309 444)	449 175	(11 091 879)
Profit (loss) before income tax expense	1 440 164	2 482 423	2 055 175	(1 243 478)	454 069	(2 943)	798 834	(1 535 909)	(5 786 658)	-	(1 338 323)
Income tax expense	-	-	-	-	-	-	-	(105 606)	-	-	(105 606)
Profit (loss) for the period	1 440 164	2 482 423	2 055 175	(1 243 478)	454 069	(2 943)	798 834	(1 641 515)	(5 786 658)	-	(1 443 929)
External revenue	4 992 243	13 831 276	2 014 553	1 353 969	501 106	12 960	73 224	788 965	-	-	23 568 296

(Thousands of Russian Rubles)

Segment information for the main reportable segments for the six-month period ended June 30, 2013 is set out below (unaudited):

	Corporate banking	Retail banking	Small business	Leasing	Financial services and markets	Private banking and asset management	Treasury and ALM unit	Corporate investments and other transactions	Corporate center	Intersegmental transactions	Total
Interest income											
Loans to customers	5 894 357	7 984 856	945 740	13 066	66 758	6 652	4 897	306 864	-	(5 723)	15 217 467
Net investments in finance leases	-	-	-	1 268 206	-	-	-	-	-	-	1 268 206
Securities	-	-	-	-	884 000	-	279 063	-	-	(352 907)	810 156
Amounts due from credit institutions	-	14 955	-	81 685	29 544	-	321 872	81 798	-	(71 162)	458 692
Transfer income	3 711 540	5 630 415	1 437 474	-	-	680 802	15 408 700	2 091 777	-	(28 960 708)	-
	9 605 897	13 630 226	2 383 214	1 362 957	980 302	687 454	16 014 532	2 480 439	-	(29 390 500)	17 754 521
Interest expense											
Amounts due to customers	(2 473 576)	(3 761 260)	(127 756)	(108 284)	(1 442)	(559 944)	(94 693)	(253 371)	-	69 848	(7 310 478)
Amounts due to credit institutions	-	(151 317)	-	(593 255)	-	-	(3 639)	(1 006 486)	-	8 549	(1 746 148)
Promissory notes issued	(2 166)	(6 592)	-	(326 170)	(54 264)	(8 983)	(653 772)	(273 171)	-	7 037	(1 318 081)
Other borrowed funds	(34 274)	(3 666)	(2 157)	(83 019)	-	-	(226 245)	-	-	-	(349 361)
Transfer expense	(5 620 065)	(5 484 895)	(678 324)	-	(399 312)	(7 432)	(14 912 056)	(1 388 746)	(469 878)	28 960 708	-
	(8 130 081)	(9 407 730)	(808 237)	(1 110 728)	(455 018)	(576 359)	(15 890 405)	(2 921 774)	(469 878)	29 046 142	(10 724 068)
Net interest income (expense)	1 475 816	4 222 496	1 574 977	252 229	525 284	111 095	124 127	(441 335)	(469 878)	(344 358)	7 030 453
Charge for of impairment of interest earning assets	(1 510 303)	(779 843)	(75 356)	(138 699)	(9 384)	(9 469)	(1 663)	(201 405)	-	-	(2 726 122)
Net interest (expense) income after impairment of interest earning assets	(34 487)	3 442 653	1 499 621	113 530	515 900	101 626	122 464	(642 740)	(469 878)	(344 358)	4 304 331
Fee and commission income	653 661	3 078 516	1 052 191	54 965	443	4 304	29 883	26 479	-	(1 990)	4 898 452
Fee and commission expense	(59 496)	(1 629 770)	(14 634)	(48 955)	(145)	(100)	(44 983)	(264 417)	-	-	(2 062 500)
Intersegment fee income	255 861	265 788	-	-	-	7 570	5 032	51 279	-	(585 530)	-
Intersegment fee expense	(129 023)	(264 578)	(43 056)	-	-	(383)	(126 384)	(22 106)	-	585 530	-
Net fee and commission income (expense)	721 003	1 449 956	994 501	6 010	298	11 391	(136 452)	(208 765)	-	(1 990)	2 835 952
Net gains from trading securities	-	-	-	-	-	-	27 119	-	-	-	27 119
Net (losses) gains on available-from-sale securities	-	-	-	-	(9 072)	-	-	86 160	-	(366)	76 722
Net gains (losses) from foreign currency	221 923	111 221	47 031	(250 712)	-	-	742 604	-	-	-	872 067
Net losses gains from transactions with precious metals	(131 143)	-	-	-	-	-	-	-	-	-	(131 143)
Net (losses) gains from revaluation and disposal of investment property	-	-	-	(41 752)	-	-	-	118 120	-	-	76 368
Net (losses) gains from impairment and disposal of inventory	(4 935)	843	(8 104)	(238 740)	-	-	-	(50 569)	2 335	-	(299 170)
Other income (expense)	157 470	243 529	45 924	733 834	2 610	1 757	145	10 753	721 917	(267 848)	1 650 091
	243 315	355 593	84 851	202 630	(6 462)	1 757	769 868	164 464	724 252	(268 214)	2 272 054
Personnel expenses	(612 735)	(1 363 243)	(377 193)	(322 187)	(24 876)	(81 934)	(69 758)	(52 997)	(3 528 850)	-	(6 433 773)
Administrative and operating expenses	(91 367)	(1 129 253)	(165 387)	(275 734)	(8 582)	(52 661)	(30 893)	(150 041)	(3 072 329)	614 562	(4 361 685)
Depreciation and amortisation	(25 315)	(91 287)	(24 394)	(3 950)	(856)	(3 675)	(2 613)	(6 441)	(407 524)	-	(566 055)
(Charge for) recovery of impairment of other assets	(388 837)	(12 045)	(1 841)	155 986	-	(655)	218 302	36 501	878	-	8 289
	(1 118 254)	(2 595 828)	(568 815)	(445 885)	(34 314)	(138 925)	115 038	(172 978)	(7 007 825)	614 562	(11 353 224)
(Loss) profit before income tax expense	(188 423)	2 652 374	2 010 158	(123 715)	475 422	(24 151)	870 918	(860 019)	(6 753 451)	-	(1 940 887)
Income tax benefit	-	-	-	-	-	-	-	260 161	-	-	260 161
(Loss) profit for the period	(188 423)	2 652 374	2 010 158	(123 715)	475 422	(24 151)	870 918	(599 858)	(6 753 451)	-	(1 680 726)
External revenue	6 548 018	11 078 327	1 997 931	1 417 922	971 673	10 956	662 834	501 301	-	-	23 188 962

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>June 30, 2014</i> <i>(Unaudited)</i>	<i>December 31,</i> <i>2013</i>
Cash on hand	19 837 708	21 508 523
Current accounts with the CBR	7 465 940	12 150 918
Time deposits with credit institutions up to 90 days		
-Other Russian banks	3 289 604	3 128 305
-Other foreign banks	1 309 893	178 892
-OECD banks	156 527	1 282 862
-Largest 30 Russian banks	4 117	801
Current accounts with credit institutions		
-OECD banks	1 693 638	14 547 167
-Other Russian banks	1 690 228	1 717 930
-Largest 30 Russian banks	615 347	676 885
-Other foreign banks	37 890	12 561
Reverse repurchase agreements with credit and other finance institutions up to 90 days		
-Other Russian banks	1 059 415	638 154
-Largest 30 Russian banks	150 000	-
-Other Russian finance institutions	56 330	-
Accounts with stock exchanges	1 075 439	237 387
Cash and cash equivalents	38 442 076	56 080 385

Corporate and municipal bonds and corporate shares totalling RUB 1 421 553 (2013: RUB 701 694) were pledged under reverse repurchase agreements.

No cash and cash equivalents are past due or impaired.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<i>June 30, 2014</i> <i>(Unaudited)</i>	<i>December 31,</i> <i>2013</i>
Time deposits with original maturity of more than 90 days or past due		
-Other Russian banks	585 408	953 018
-Largest 30 Russian banks	361 198	336 083
-Other foreign banks	220 457	239 178
	1 167 063	1 528 279
Less allowance for impairment	(54 764)	(55 857)
Amounts due from credit institutions	1 112 299	1 472 422

As of June 30, 2014 the gross amount of past due amounts due from credit institutions is RUB 54 764 (2013 – RUB 55 857).

The movements in allowance for impairment of amounts due from credit institutions are as follows:

	<i>For the six-month period</i> <i>ended June 30,</i>	
	<i>2014</i> <i>(Unaudited)</i>	<i>2013</i> <i>(Unaudited)</i>
As of January 1	55 857	58 418
(Recovery) charge (Unaudited)	(1 093)	2 103
As of June 30 (Unaudited)	54 764	60 521

7. Available-for-sale securities

Available-for-sale securities comprise:

	<i>June 30, 2014 (Unaudited)</i>	<i>December 31, 2013</i>
Corporate shares	20 260 540	20 174 478
Corporate Ruble bonds	8 070 868	7 259 119
<i>Rated from BBB- to BBB+</i>	<i>4 515 971</i>	<i>5 097 133</i>
<i>Rated from BB- to BB+</i>	<i>214 844</i>	<i>96 951</i>
<i>Rated below B+</i>	<i>1 501 959</i>	<i>226 550</i>
<i>Not rated</i>	<i>1 838 094</i>	<i>1 838 485</i>
Russian Government bonds	4 458 022	4 653 346
Corporate Eurobonds	3 896 023	5 230 746
<i>Rated from BBB- to BBB+</i>	<i>2 890 242</i>	<i>4 212 589</i>
<i>Rated from BB- to BB+</i>	<i>2 822</i>	<i>9 075</i>
<i>Rated below B+</i>	<i>1 002 959</i>	<i>1 009 082</i>
Units in closed unit investment funds	487 896	560 942
Government bonds of foreign countries	-	481 039
<i>Rated from AAA- to AAA+</i>	-	<i>481 039</i>
Share participation in limited liability companies and other equity investments	124 519	124 519
Municipal and government bonds	72 589	74 947
	37 370 457	38 559 136
Less allowance for impairment	(783 875)	(783 875)
Available-for-sale securities	36 586 582	37 775 261

Rating are based on the ratings from Standard and Poor's if they exist, otherwise, Fitch or Moody's equivalents are used.

The 92.7% investment in OJSC “Holding Insurance Group Uralsib” (“IG”) is accounted at cost of RUB 19 468 556 (2013 – 19 468 556) and is included in corporate shares above. The purpose of holding this investment is to facilitate a subsequent sale to a third party, which is expected to occur in one single transaction. The Bank entered into a series of agreements with a related party that effectively gives the related party the power to direct the relevant activities of IG, including the power to appoint and remove the majority of the Board of Directors. Accordingly, the Bank continues to account for this investment as “Available-for-sale securities”.

As the result of the impairment testing of investment in IG as of June 30, 2014 no impairment losses are recognised.

The gross amount of impaired available-for-sale securities as of June 30, 2014 is RUB 908 210, for which a RUB 783 875 impairment allowance is created (2013 - RUB 908 210 and RUB 783 875, respectively).

The movements in allowance for impairment of available-for-sale securities are as follows:

	<i>For the six-month period ended June 30,</i>	
	<i>2014 (Unaudited)</i>	<i>2013 (Unaudited)</i>
As of January 1	783 875	1 231 363
Recovery (Unaudited)	-	(1 197)
Amounts written off (Unaudited)	-	(533 047)
As of June 30 (Unaudited)	783 875	697 119

For the six-month period ended June 30, 2013 the charge for impairment includes impairment on equity investments of RUB 3 001 and recovery of impairment on interest earning assets of RUB 4 198, respectively.

Transferred financial assets that are not derecognized in their entirety

The Bank has transactions to sell securities under agreements to repurchase.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Bank recognises a financial liability for cash received as collateral included in amounts due to credit

institutions (note 11). These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

Transferred available-for-sale securities that are not derecognised in their entirety comprise:

	<i>June 30, 2014 (Unaudited)</i>	<i>December 31, 2013</i>
Carrying amount of available-for-sale securities	8 596 260	9 810 132
<i>Corporate Ruble bonds</i>	5 204 385	3 901 858
<i>Russian Government bonds</i>	1 855 017	4 149 760
<i>Corporate Eurobonds</i>	1 464 269	1 758 514
<i>Municipal bonds</i>	72 589	-
Carrying amount of associated financial liabilities (note 11)	7 908 225	9 312 495

8. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

The outstanding deals with derivative financial instruments are as follows:

	<i>June 30, 2014 (Unaudited)</i>			<i>December 31, 2013</i>		
	<i>Notional amount</i>	<i>Fair values</i>		<i>Notional amount</i>	<i>Fair values</i>	
		<i>Asset</i>	<i>Liability</i>		<i>Asset</i>	<i>Liability</i>
Precious metals contracts						
Forwards and Swaps – foreign counterparties	2 160 944	35 320	4 307	2 099 521	3 514	41 031
Foreign exchange contracts						
Forwards and Swaps – domestic counterparties	25 354 225	164 015	6 385	2 303 336	18 823	-
Forwards and Swaps – foreign counterparties	10 365 894	65 749	42 300	-	-	-
Equity contracts						
Forwards – foreign counterparties	45 206	22	30	-	-	-
Forwards – domestic counterparties	555 918	500	-	1 477 065	22 838	-
Total derivative assets/liabilities	38 482 187	265 606	53 022	5 879 922	45 175	41 031

9. Loans to customers

Loans to customers comprise:

	<i>June 30, 2014 (Unaudited)</i>	<i>December 31, 2013</i>
Loans to individuals, gross	133 097 590	131 107 534
Less allowance for loan impairment	(7 989 933)	(6 570 812)
Loans to individuals, net	125 107 657	124 536 722
Loans to corporate entities, gross	100 023 613	106 896 695
Less allowance for loan impairment	(16 707 042)	(16 894 954)
Loans to corporate entities, net	83 316 571	90 001 741
Loans to small entities, gross	12 643 686	12 765 086
Less allowance for loan impairment	(1 122 688)	(1 085 933)
Loans to small entities, net	11 520 998	11 679 153
Total loans to customers	219 945 226	226 217 616

Loans to customers by class are presented below:

	<i>June 30, 2014</i> <i>(Unaudited)</i>	<i>December 31,</i> <i>2013</i>
Loans to individuals:		
Consumer lending	48 396 286	44 779 966
Residential mortgages	43 953 160	45 101 797
Auto loans	27 425 302	28 876 690
Credit cards	11 630 771	10 586 404
Other loans to individuals	1 692 071	1 762 677
Loans to corporate entities	100 023 613	106 896 695
Loans to small entities	12 643 686	12 765 086
Gross loans to customers	245 764 889	250 769 315
Less allowance for loan impairment	(25 819 663)	(24 551 699)
Loans to customers	219 945 226	226 217 616

A reconciliation of the allowance for impairment of loans to customers by classes is as follows:

	<i>Residential</i> <i>mortgages</i>	<i>Consumer</i> <i>lending</i>	<i>Auto</i> <i>loans</i>	<i>Credit cards</i>	<i>Other loans</i> <i>to</i> <i>individuals</i>	<i>Corporate</i> <i>lending</i>	<i>Loans to</i> <i>small</i> <i>entities</i>	<i>Total</i>
As of January 1, 2014	1 841 440	2 665 783	746 684	866 062	450 843	16 894 954	1 085 933	24 551 699
(Recovery) charge (Unaudited)	(90 947)	957 120	231 370	337 112	(6 755)	483 959	66 026	1 977 885
Amounts written off (Unaudited)	(8 653)	(126)	-	-	-	(671 871)	(29 271)	(709 921)
As of June 30, 2014 (Unaudited)	1 741 840	3 622 777	978 054	1 203 174	444 088	16 707 042	1 122 688	25 819 663
As of January 1, 2013	2 164 730	2 305 739	586 293	326 549	518 049	17 111 487	1 513 178	24 526 025
Charge (recovery) (Unaudited)	41 367	317 606	126 632	239 192	68 925	1 773 128	(114 895)	2 451 955
Amounts written off (Unaudited)	-	-	-	-	-	(513 411)	(382 157)	(895 568)
As of June 30, 2013 (Unaudited)	2 206 097	2 623 345	712 925	565 741	586 974	18 371 204	1 016 126	26 082 412

Concentration of loans to customers

As of June 30, 2014, the Bank has a concentration of loans totalling RUB 22 856 248 due from the ten largest third party borrowers (9% of gross loan portfolio) (2013 – RUB 21 449 756 or 9%). An allowance for impairment of RUB 6 515 445 (2013 – RUB 6 524 544) is recognised against these loans.

Reverse repurchase agreements

There are no outstanding balances of loans granted under reverse repurchase agreements as of June 30, 2014 (2013 – RUB 1 075 584 which were fully placed with related counterparties and collateralised by corporate shares with the fair value of RUB 1 311 674).

Changes in accounting estimates

During 2014 the Bank adjusted its internal model on estimation of loan impairment for loans to individuals in terms of loss given default (LGD) by expanding analyzed time period for assessment of consideration received on defaulted loans from two to four years. Application of the unadjusted approach for estimation of loan impairment to loans to individuals as of June 30, 2014 would have increased allowance for loan impairment by RUB 1 222 190.

Loans are made principally within Russia in the following industry sectors:

	<i>June 30, 2014</i> <i>(Unaudited)</i>	<i>December 31,</i> <i>2013</i>
Individuals	133 097 590	131 107 534
Trading enterprises	49 288 361	54 165 101
Construction and transactions with real estate	19 441 332	17 951 993
Manufacturing	7 325 185	8 310 336
Food processing	6 744 386	7 655 681
Gold mining	6 085 003	5 682 406
Metallurgy	5 908 614	5 245 705
Financial services, other than credit institutions	4 547 445	5 293 754
Transport	3 061 096	3 650 790
Forest industry	1 732 044	1 779 623
Services	1 702 459	1 690 713
Machine-building	759 161	1 315 698
Oil and gas	694 377	1 546 537
Agriculture	629 626	958 124
Light industry	464 121	382 403
Chemical	400 307	404 495
Energy	113 690	79 543
Telecommunication	38 850	85 461
Other	3 731 242	3 463 418
Total loans to customers, gross	245 764 889	250 769 315

Reclassification of comparative information

During 2014 the Bank reconsidered the classification of loans issued under "express-lending" programme from other loans to individuals to consumer lending. Comparative information has been reclassified to conform to changes in presentation in the current period. The effect of these changes in presentation as of December 31, 2013 is as follows:

	As previously reported	Reclassification	Reclassified
Loans to individuals, gross			
Consumer lending	42 666 486	2 113 480	44 779 966
Other loans to individuals	3 876 157	(2 113 480)	1 762 677
Allowance for impairment of loans to individuals			
Consumer lending	(1 994 809)	(670 974)	(2 665 783)
Other loans to individuals	(1 121 817)	670 974	(450 843)

10. Net investments in finance leases

Net investments in finance leases comprise:

	<i>June 30, 2014</i> <i>(Unaudited)</i>	<i>December 31,</i> <i>2013</i>
Gross investments in finance leases	11 159 967	22 591 210
Less unearned finance lease income	(2 143 031)	(5 333 920)
	9 016 936	17 257 290
Less allowance for impairment	(728 772)	(802 967)
Net investments in finance leases	8 288 164	16 454 323

Net investments in finance leases generally comprise lease contracts on various types of equipment and vehicles.

Future minimum lease payments to be received following June 30, 2014 and December 31, 2013 are disclosed below:

	<i>June 30, 2014</i> <i>(Unaudited)</i>	<i>December 31,</i> <i>2013</i>
Within 1 year	6 606 778	8 292 490
From 1 to 5 years	4 553 188	14 298 717
More than 5 years	1	3
Minimum lease payments receivable	11 159 967	22 591 210

The movements in allowance for impairment of investments in finance leases are as follows:

	<i>For the six-month period</i> <i>ended June 30,</i>	
	<i>2014</i> <i>(Unaudited)</i>	<i>2013</i> <i>(Unaudited)</i>
January 1	802 967	653 530
Charge (Unaudited)	190 790	135 599
Amounts written off (Unaudited)	(264 985)	(20 087)
June 30 (Unaudited)	728 772	769 042

In May 2014 the Bank transferred railroad wagons to operating lease which were previously held by the Bank under terminated finance lease contract. Correspondingly the Bank reclassified these assets from net investments in finance leases to property and equipment. At the date of reclassification the Bank performed impairment review which resulted in net losses from impairment of property and equipment of RUB 492 495.

11. Amounts due to credit institutions

The amounts due to credit institutions comprise:

	<i>June 30, 2014</i> <i>(Unaudited)</i>	<i>December 31,</i> <i>2013</i>
Time and demand deposits and loans	18 441 480	17 656 321
Subordinated loan	8 406 454	8 215 538
Repurchase agreements with the CBR	7 908 225	9 312 495
Time deposits and loans from the CBR	5 759 967	5 008 055
Current accounts	5 497 137	8 997 310
Syndicated loan	29 033	138 409
Amounts due to credit institutions	46 042 296	49 328 128

During 2007, the Bank received a subordinated loan of USD 250 million from an OECD bank. The contractual maturity of the subordinated loan is 2017, and the interest rate is LIBOR plus 4,95 per cent during the first 5-year period and LIBOR plus 6,45 per cent after the first five year period.

12. Amounts due to customers

Amounts due to customers include the following:

	<i>June 30, 2014</i> <i>(Unaudited)</i>	<i>December 31,</i> <i>2013</i>
Time deposits	154 300 931	158 913 490
Time deposits of corporate clients	38 379 765	43 640 759
Time deposits of individuals	115 921 166	115 272 731
Current accounts	95 114 479	104 418 809
Current accounts of corporate clients	61 385 653	66 253 704
Current accounts of individuals	33 728 826	38 165 105
Amounts due to customers	249 415 410	263 332 299

As of June 30, 2014, amounts due to customers of RUB 14 924 544 or 6% of gross amount due to customers were due to the ten largest third party customers (2013 - RUB 12 189 497 or 5%).

In accordance with the Russian Civil Code, the Bank is obliged to repay time deposits of individuals upon demand of the depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

13. Other borrowed funds

Other borrowed funds comprise:

	<i>June 30, 2014 (Unaudited)</i>	<i>December 31, 2013</i>
Bonds (LG)	9 855 992	12 532 568
Bonds (OJSC "URALSIB")	2 289 812	8 367 745
Subordinated deposit	5 940 761	5 880 181
Mortgage backed securities (MA-1)	2 266 806	2 812 560
Other borrowed funds	20 353 371	29 593 054

Bonds issued comprise the following non-convertible documentary bonds:

<i>Issue date</i>	<i>Maturity date</i>	<i>Offer date</i>	<i>Issuer</i>	<i>Interest payments</i>	<i>Interest rate</i>	<i>Amount of issue</i>		<i>Carrying value</i>	
						<i>June 30, 2014 (Unaudited)</i>	<i>December 31, 2013</i>	<i>June 30, 2014 (Unaudited)</i>	<i>December 31, 2013</i>
March 2011	February 2014	-	LG	quarterly	9,50%	-	167 400	-	168 510
July 2011	July 2014	-	LG	quarterly	8,50%	251 100	750 900	216 163	760 105
January 2012	January 2015	-	LG	quarterly	11,50%	2 000 000	2 000 000	89 657	91 695
February 2012	February 2015	-	LG	quarterly	11,50%	750 900	1 250 700	762 552	1 265 622
February 2012	February 2015	-	LG	quarterly	11,50%	750 900	1 250 700	760 206	1 264 449
February 2012	February 2015	-	LG	quarterly	11,50%	1 500 000	1 500 000	98 394	89 413
March 2012	March 2017	September 2014	OJSC "URALSIB"	semi-annually	8,75%	1 645 296	1 145 296	1 652 475	1 147 037
April 2012	April 2015	-	LG	quarterly	11,00%	667 200	1 000 400	679 238	1 018 390
July 2012	October 2018	-	MA-1	quarterly	8,75%	2 226 325	2 761 675	2 266 806	2 812 560
August 2012	August 2017	March 2015	OJSC "URALSIB"	semi-annually	9,70%	612 889	7 000 000	637 337	7 220 708
December 2012	December 2015	-	LG	quarterly	10,50%	2 000 000	2 000 000	98 056	102 530
December 2012	December 2015	-	LG	quarterly	10,50%	1 500 000	1 500 000	185 738	192 069
March 2013	March 2019	March 2016	LG	quarterly	10,25%	3 000 000	3 000 000	3 001 861	3 002 719
April 2013	April 2016	-	LG	quarterly	11,00%	1 333 600	1 666 800	1 272 539	1 547 138
November 2013	November 2016	-	LG	quarterly	11,50%	1 666 800	2 000 000	1 688 168	2 026 263
December 2013	December 2016	-	LG	quarterly	9,00%	1 000 000	1 000 000	1 003 420	1 003 665
								14 412 610	23 712 873

Bond issues of LG were partially purchased by the Bank and are eliminated in consolidation.

In March 2014 OJSC "URALSIB" partially repaid non-convertible documentary bonds issued in August 2012 under the terms of a tender offer with a nominal value of RUB 6 387 111.

In July 2012 MA-1 issued two tranches of mortgage backed securities with a nominal value of RUB 5 375 000. Tranche A securities with a nominal amount of RUB 4 300 000 have a coupon rate of 8,75% and mature in 2045. Tranche B securities with a nominal amount of RUB 1 075 000 have a floating coupon rate and mature in 2045. Tranche B securities were purchased by OJSC "URALSIB" and thus are not recognised in these consolidated financial statements. The ultimate maturity of mortgage backed securities may be different from the contractual due to earlier repayment of the underlying mortgage loans.

In November 2008 the Bank received a subordinated deposit of RUB 6 000 000 from OJSC "Regional fund". The contractual maturity of the subordinated deposit is 2019, and the effective interest rate is 16,63%. In case of bankruptcy, the repayment of the subordinate deposit will be made after repayment in full of all other liabilities of the Bank.

14. Equity

The movements in share capital for the six-month period ended June 30, 2014 are as follows:

	<i>Number of ordinary shares</i>	<i>Nominal amount</i>	<i>Inflation Adjustment</i>	<i>Total</i>
December 31, 2013	292 575 808 568	29 257 581	12 188 281	41 445 862
Issue of ordinary shares	5 663 916 168	566 391	-	566 391
June 30, 2014	298 239 724 736	29 823 972	12 188 281	42 012 253

During 2014 the Bank issued and duly registered 5 663 916 168 new ordinary shares with the nominal value of RUB 566 391 in return for office buildings located in Moscow with a fair value of RUB 1 436 111 at the date of contribution. The difference of RUB 869 720 between nominal value of issued share capital and fair value of assets received from the shareholder was recognized as additional paid-in capital. Deferred tax liability of RUB 257 142 in respect of these office buildings accrued at the date of capital contribution is recognised in accumulated losses.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Parent from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with Russian Accounting Legislation.

The share capital of the Parent was contributed by the shareholders in Russian Rubles and they are entitled to dividends and any capital distribution in Russian Rubles.

15. Net fee and commission income

Net fee and commission income comprises:

	<i>For the six-month period ended June 30,</i>	
	<i>2014 (Unaudited)</i>	<i>2013 (Unaudited)</i>
Fee and commission income		
Settlement transactions	3 861 228	3 240 819
Cash transactions	1 111 797	1 197 564
Guarantees and letters of credit	171 653	214 091
Foreign exchange transactions	158 350	165 629
Securities transactions	17 771	22 619
Agent fees for insurance	1 596	49 757
Other	24 460	7 960
Total fee and commission income	5 346 855	4 898 439
Fee and commission expense		
Settlement transactions	1 627 414	1 295 152
Cash transactions	282 658	308 191
Collection agencies services	200 339	150 838
Trust transactions	169 443	159 053
Guarantees	86 857	39 321
Currency conversion transactions	9 348	6 337
Securities transactions	7 142	10 905
Other	5 521	210
Total fee and commission expense	2 388 722	1 970 007
Net fee and commission income	2 958 133	2 928 432

Settlement commissions represent commissions received for transfer of customer funds and other transactions with client accounts, issue and processing of payments by cards and from other financial institutions on acquiring services. Commissions on cash transactions consist of commissions received from clients on encashment transactions. Guarantees and letters of credit commissions represent payments for the origination of guarantees and letters of credit facilities by the Bank. Foreign exchange transactions commissions represent commissions charged for currency exchange transactions and currency control function performed by the Bank.

16. Personnel expenses, administrative and operating expenses

Personnel, administrative and operating expenses comprise:

	<i>For the six-month period ended June 30,</i>	
	<i>2014 (Unaudited)</i>	<i>2013 (Unaudited)</i>
Salaries and bonuses	4 746 005	5 277 056
Social security costs	1 234 924	1 332 294
Personnel expenses	5 980 929	6 609 350
Rental fees	894 135	896 402
Operating taxes	631 213	585 506
Professional services	526 036	307 173
Repairs and maintenance of property and equipment	470 237	402 781
Obligatory deposit insurance system contributions	311 335	303 577
Marketing and advertising	266 941	137 306
Security costs	191 382	170 808
Business development	163 261	139 057
Communications	179 291	156 915
Data processing	165 999	147 525
Expenses under leasing contracts	134 531	62 981
Office materials	106 906	274 036
Insurance	91 097	93 181
Business travel and related expenses	71 004	88 448
Personnel training	4 786	145 865
Charity	1 504	17 402
Other	385 229	208 764
Administrative and operating expenses	4 594 887	4 137 727

17. Fair values of financial instruments

The estimated fair value of trading securities and available-for-sale securities quoted on an active market is based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair value of derivative financial assets and liabilities is based on valuation techniques where all the model inputs are observable.

Fair values of illiquid financial instruments are based on pricing models that utilize market observable inputs or management's estimates of amounts to be realised on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. The Bank utilizes a variety of security valuation models that are based on valuation techniques commonly used by market participants. The most frequently used models include analysis based on discounted cash flows, multiples of EV to EBITDA and revenues, and reference to the current fair value of another instrument that is substantially the same.

The estimated fair value of all other financial assets and liabilities is calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

As of June 30, 2014 and December 31, 2013 the Bank concluded that the fair values of its financial assets and financial liabilities are not materially different from their carrying values, except for subordinated loan and subordinated deposit included in amounts due to credit institutions and other borrowed funds respectively.

The management estimates that fair value of subordinated loan and subordinated deposit is RUB 8 184 032 and RUB 6 984 901 as of June 30, 2014 respectively (December 31, 2013: RUB 7 973 574 and RUB 6 989 996 respectively).

Financial instruments recorded at fair value

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 30 June 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets				
Available-for-sale securities	15 367 714	-	1 750 312	17 118 026
Derivative financial assets	-	265 606	-	265 606
Financial liabilities				
Derivative financial liabilities	-	53 022	-	53 022

The table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets				
Available-for-sale securities	16 563 286	-	1 829 438	18 392 724
Derivative financial assets	-	45 175	-	45 175
Financial liabilities				
Derivative financial liabilities	-	41 031	-	41 031

Movements within category of Level 3 financial instruments where the valuation techniques involve the use of non-market observable inputs for the six-month period ended June 30 are as follows:

	<i>For the six-month period ended June 30</i>	
	<i>2014</i>	<i>2013</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
At January 1	1 829 438	999 681
Coupon paid	(493)	-
Net result recognised in other comprehensive income	(78 633)	(56 327)
Net result recognised in the income statement – impairment of equity securities	-	92 693
Disposals - cash consideration received	-	(262 577)
At June 30	1 750 312	773 470

As disclosed in note 7, the investment in IG is accounted for at cost. Accordingly, it is not included in the fair value hierarchy above.

The Bank has a control framework with respect to the measurement of fair values. The Internal Audit Department has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Significant valuation issues are reported to the Audit Committee.

Fair values of Level 3 financial instruments are based on pricing models that utilise market unobservable inputs or management's estimates of amounts to be realised on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time.

The Bank utilises a variety of security valuation models that are based on valuation techniques commonly used by market participants. The most frequently used models include analyses based on discounted cash flows, multiples of EV to EBITDA and revenues, and reference to the current fair value of another instrument that is substantially the same.

Impact on fair value of Level 3 financial instruments of changes to key assumptions

Investment in mutual fund of corporate shares

Fair value of investment in mutual fund's units of corporate shares is determined based on fair value of securities which comprise the mutual funds portfolio at the date of valuation adjusted to the ability of the Bank to realise these units. Application of market average quotes within market range, which is considered to be a reasonably possible change of assumptions used in valuation model for calculation of fair value of such units, resulted in increase/ decrease of fair value by RUB 24 395 (2013 – RUB 28 047) in case of application of the highest/ lowest level of the range respectively.

Investment in corporate bonds

The Bank determines fair value of the investment based on discounted cash flow model which implies a discount rate of 9%. Should the discount rate used by the Bank in the valuation model increase/decrease by 100 b.p., the carrying value of the financial instrument would be RUB 23 988 lower / RUB 24 924 higher.

The estimates of fair values are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

18. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party directly, or indirectly through one or more intermediaries controls, is controlled by, or is under common control with, the entity; has an interest in the entity that gives it significant influence over the entity; the party is an associate of the entity; the party is a member of the key management personnel of the entity or its parent.

Related parties may enter into transactions on such terms and conditions that may not be effected between unrelated parties.

A significant amount of related party transactions are carried out by the Bank with other members of OJSC "Financial Corporation URALSIB" (together referred to as the "Group") as the Bank plays an important role in the Group, providing a full range of financial and banking services. All members of the Group are regarded as related parties since they represent entities under common control. Additionally, there are also other entities under common control that are not members of the Bank.

The outstanding balances and the related average interest rates as of June 30, 2014 (unaudited) with the related parties are as follows:

	<i>Companies of Financial Corporation Uralsib</i>		<i>Other entities under common control</i>		<i>Key management personnel</i>	
	<i>Value</i>	<i>Average interest rate</i>	<i>Value</i>	<i>Average interest rate</i>	<i>Value</i>	<i>Average interest rate</i>
Assets						
Cash and cash equivalents						
– time deposits	-	-	1 167 589	10,71%	-	-
Amounts due from credit institutions, gross	-	-	217 276	12,00%	-	-
Available-for-sale securities						
– interest bearing	-	-	67 586	11,50%	-	-
– non-interest bearing	-	-	19 468 716	-	-	-
Loans to customers (gross)	286 981	10,00%	2 332 552	10,53%	35 358	9,48%
Less allowance for loan impairment	(3 444)	-	(224 722)	-	(4)	-
Loans to customers (net)	283 537	-	2 107 830	-	35 354	-
Other assets	3 521	-	1 286 004	-	-	-
Liabilities						
Amounts due to credit institutions						
– time deposits and loans	-	-	-	-	-	-
– current accounts	-	-	41 103	-	-	-
Amounts due to customers						
– time deposits	1 639 748	6,81%	4 681 861	7,75%	1 701 830	5,60%
– current accounts	1 957 930	2,90%	1 805 910	0,63%	7 183	0,24%
Promissory notes issued	-	-	187 825	6,40%	-	-
Other borrowed funds	52 632	10,36%	961 817	11,18%	-	-
Other liabilities	27 489	-	97 791	-	69 192	-
Off-balance sheet commitments						
Commitments and contingencies, gross	446 119	-	360 341	-	-	-

The outstanding balances and the related average interest rates as of December 31, 2013 with the related parties are as follows:

	<i>Companies of Financial Corporation Uralsib</i>		<i>Other entities under common control</i>		<i>Key management personnel</i>	
	<i>Amount</i>	<i>Average interest rate</i>	<i>Amount</i>	<i>Average interest rate</i>	<i>Amount</i>	<i>Average interest rate</i>
Assets						
Cash and cash equivalents						
– time deposits	638 034	6,94%	1 024 928	5,22%	-	-
Amounts due from credit institutions (gross)	-	-	366 453	11,09%	-	-
Available-for-sale securities						
– interest bearing	-	-	110 662	11,50%	-	-
– non-interest bearing	-	-	19 468 716	-	-	-
Loans to customers (gross)	1 355 661	2,26%	2 854 149	9,58%	54 129	10,13%
Less allowance for loan impairment	(1 008)	-	(191 459)	-	(24)	-
Loans to customers (net)	1 354 653	-	2 662 690	-	54 105	-
Other assets	4 354	-	1 673 192	-	-	-
Other assets (investments in associate)	-	-	293 220	-	-	-
Liabilities						
Amounts due to credit institutions						
– time deposits and loans	-	-	101 041	5,85%	-	-
– current accounts	-	-	59 614	-	-	-
Amounts due to customers						
– time deposits	1 142 284	7,62%	5 850 043	7,61%	1 627 290	4,88%
– current accounts	1 972 015	3,50%	1 747 110	0,80%	4 544	0,33%
Promissory notes issued	32 032	10,00%	154 383	6,40%	-	-
Other borrowed funds	832 812	11,43%	1 299 393	11,02%	-	-
Other liabilities	9 462	-	203 958	-	38 235	-
Off-balance sheet commitments						
Commitments and contingencies, gross	3 014 038	-	153 840	-	-	-

The related profit or loss amounts of transactions with the related parties for the six-month periods ended June 30, 2014 and 2013 are as follows:

	<i>For the six-month period ended June 30, 2014 (Unaudited)</i>			<i>For the six-month period ended June 30, 2013 (Unaudited)</i>		
	<i>Companies of Financial Corporation Uralsib</i>	<i>Other entities under common control</i>	<i>Key management personnel</i>	<i>Companies of Financial Corporation Uralsib</i>	<i>Other entities under common control</i>	<i>Key management personnel</i>
Interest income	26 455	156 665	2 188	82 629	209 529	3 073
Interest expense	(120 352)	(211 163)	(48 382)	(103 087)	(279 859)	(58 252)
Net realised gains from available-for-sale securities	43 213	-	-	8 310	-	-
Net gains (losses) from foreign currencies	9	10	-	3 660	742	-
– Fees and commission income	6 946	13 930	-	4 718	29 348	-
– Fees and commission expenses	(193 422)	(175 375)	-	(196 059)	(262 757)	-
Other operating income	36 876	20 459	-	16 174	27 454	-
(Charge for) reversal of impairment of interest earning assets	(2 436)	(33 263)	20	(5 619)	28 876	12
Administrative and operating expenses:						
– insurance	-	(59 824)	-	-	(63 208)	-
– rent	(115 447)	(10 473)	-	(154 294)	(10 870)	-
– personnel training	-	(4 197)	-	-	(136 716)	-
– expenses under leasing contracts	(13 947)	-	-	-	-	-
– other	(3 296)	(11)	-	(252)	-	-
Salaries and bonuses	-	-	(173 178)	-	-	(245 388)
Social security costs	-	-	(14 218)	-	-	(21 552)

The Bank uses the services of an affiliate broker to facilitate purchases and sales of securities to third parties. The terms of these transactions are at market. During the six-month period ended June 30, 2014 these transactions resulted in a net gain of RUB 821 and are not disclosed as related party transactions in the table above (the six-month period ended June 30, 2013 – RUB 8 310).

Management establishes the terms and conditions for transactions with related parties in the same way as for other clients.

19. Capital adequacy

The primary objectives of the Bank's capital management are the following:

- full compliance with the capital requirements imposed by the CBR and Russian legislation
- maintaining the Bank's ability to continue as a going concern in order to maximize shareholder value and provide economic benefits to other parties
- ensuring that the amount of capital is sufficient for business expansion and development.

Capital adequacy under the Basel Accord guidelines (the "Basel ratio")

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

1. Tier 1 capital is "core" bank capital and includes paid share capital (less the carrying value of treasury shares), non-controlling interests in the equity of subsidiaries and retained earnings (including their allocations to reserves), less certain deductions, such as goodwill.

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

In computing regulatory capital, Tier 1 and Tier 2 capital amounts are reduced by post-acquisition changes in the Bank's share in net assets of associates.

The table below presents the composition of capital complying with Basel and discloses the capital adequacy ratio:

	<i>June 30, 2014</i> <i>(Unaudited)</i>	<i>December 31,</i> <i>2013</i>
Tier 1 capital	33 640 733	34 008 871
Tier 2 capital	14 898 188	15 596 136
Less investments in associates and shares of credit institutions	-	(293 220)
Total risk based capital	48 538 921	49 311 787
Risk-weighted assets:		
Recognised	304 188 317	320 699 315
Unrecognised	24 643 011	32 691 009
Total risk-weighted assets	328 831 328	353 390 324
Total capital	14,76%	13,95%
Tier 1	10,23%	9,62%

The capital adequacy ratios exceeded the minimum ratio of 8% recommended by the Basel Accord. As of June 30, 2014 and December 31, 2013, the Bank complied with Basel capital requirements.

The Bank's overall capital management policy is aimed at the dynamic optimization of capital required for the Bank's expansion and maintenance of sufficient capital adequacy to protect the Bank from unfavourable changes in market conditions and to minimize liquidity risk. The capital management policy supports the shareholders' vision and strategy of long-term development. As compared with 2013, the above policy of capital management remained unchanged.

LG is subject to minimum capital adequacy requirements established by covenants under liabilities incurred by LG. LG was in compliance with all externally imposed capital requirements as of June 30, 2014.

20. Acquisition of subsidiary

On January 20, 2014 the Bank increased its share in BPB by acquiring additional 49,99996% shares of BPB from unrelated party which were paid in cash.

The fair value amounts of assets and liabilities of the acquired subsidiary recognised in the Bank's consolidated financial statements were as follows at the date of acquisition:

	Recognised amounts on acquisition
ASSETS	
Cash and cash equivalents	120 992
Obligatory reserves with the Central Bank	637
Amounts due from credit institutions	2 710
Loans to customers	508 504
Property and equipment	834
Other assets	6 065
Total assets	639 742

	Recognised amounts on acquisition
LIABILITIES	
Amounts due to credit institutions	155 000
Amounts due to customers	44 257
Promissory notes issued	5 252
Other liabilities	13 685
Total liabilities	218 194
Net identifiable assets and liabilities	421 548
Share of net assets acquired	210 774
Negative goodwill on acquisition (included in other income)	(20 774)
Consideration paid	(190 000)
Cash acquired	120 992
Net cash outflow	(69 008)
Less prepayment made in 2013	19 000
Net cash outflow in 2014	(50 008)

If the acquisition of BPB had occurred on January 1, 2014 the main indicators of the Bank's performance would not have significantly differed to those presented in these interim condensed consolidated financial statements. The impact of acquiring BPB on loss and comprehensive loss for the six-month period ended June 30, 2014 is immaterial.

21. Events after the reporting date

In July 2014 non-profit organisation Non-State Pension Fund "Uralo-Sibirskiy Pension Fund" was reorganised into Closed Joint-Stock Company "Non-State Pension Fund URALSIB" ("NPF URALSIB") following the campaign for re-registration of non-state pension funds as joint-stock companies initiated by the CBR. Being the sole shareholder of NPF URALSIB the Bank obtained control over NPF URALSIB as a result of this reorganisation.

Ilkka S. Salonen

Chairman of the Management Board

Renat S. Koneev

Chief Accountant

August 28, 2014

