SOGAZ GROUP

International Financial Reporting Standards
Consolidated Interim Condensed Financial Statements
and Independent Auditor's Report

30 June 2014

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Independent Auditor's Report

To the Shareholders and Board of Directors of OAO SOGAZ

We have audited the accompanying condensed interim consolidated financial statements of OAO SOGAZ and its subsidiaries (the "Group"), which comprise the condensed interim consolidated statement of financial position as at 30 June 2014 and the condensed interim consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the 6 months then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Condensed Interim Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these condensed interim consolidated financial statements in accordance with International Financial Reporting Standard 34 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of condensed interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these condensed interim consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the condensed interim consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed interim consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the condensed interim consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the condensed interim consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the condensed interim consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the condensed interim consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2014, and its financial performance and its cash flows for the 6 months then ended in accordance with International Financial Reporting Standard 34 *Interim Financial Reporting*.

ZAO PricewaterhouseCoopers Audit

26 November 2014
Moscow, Russian Federation

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In thousands of Russian Roubles	Notes	30 June 2014	31 December 2013
ASSETS			
Cash and cash equivalents	7	6 678 414	3 899 000
Deposits with banks	8	65 028 104	66 851 684
Loans		489 657	535 057
Securities at fair value through profit or loss	9	19 107 613	18 979 420
Investment securities available for sale	10	19 840 390	11 917 364
Investment in associates	11	7 734 047	10 718 473
Receivables	12	34 529 053	20 535 532
Prepayments	13	5 713 472	5 490 485
Current income tax asset		1 184 598	471 289
Reinsurers' share of provision for unearned premiums	17	9 383 594	8 726 021
Reinsurers' share of loss provisions	18	43 096 064	11 572 225
Investment property		445 055	445 710
Deferred acquisition costs	24	5 377 963	4 059 861
Deferred income tax asset		258 135	104 489
Premises and equipment	14	9 676 625	9 423 340
Intangible assets	15	2 216 142	2 839 607
Goodwill	16	455 564	640 676
Other assets		75 203	144 253
TOTAL ASSETS		**231 289 693**	**177 354 486**
LIABILITIES			
Provision for unearned premiums	17	66 773 040	45 774 040
Loss provision	18	87 833 962	51 897 193
Deferred commission income	24	598 159	858 243
Payables	20	19 749 616	20 478 236
Current income tax liability		122 404	108 000
Deferred income tax liability		2 483 598	2 724 157
Other financial liabilities	21	1 499 570	2 524 657
Other liabilities	21	4 099 041	2 890 474
TOTAL LIABILITIES		**183 159 390**	**127 255 000**
Share capital	22	15 328 487	15 328 487
Share premium	22	2 610	2 610
Treasury shares	22	(770 001)	-
Fair value reserve for investment securities available for sale	22	2 040	109 428
Reserve for translation to presentation currency	22	119 966	92 190
Retained earnings		32 257 266	33 310 698
Net assets attributable to the Company's owners		**46 940 368**	**48 843 413**
Non-controlling interest		**1 189 935**	**1 256 073**
TOTAL EQUITY		**48 130 303**	**50 099 486**
TOTAL LIABILITIES AND EQUITY		**231 289 693**	**177 354 486**

Approved for issue and signed on 31 October 2014.

S.S. Ivanov
Chairman of the Board

O.B. Krymova
Deputy Chairman of the Board

The notes set out on pages 7 to 44 form an integral part of these consolidated interim condensed financial statements.

In thousands of Russian Roubles	Notes	Six months ended 30 June 2014		Six months ended 30 June 2013	
INSURANCE					
Gross premiums written	27	71 543 814		57 211 763	
Premiums ceded	27	(9 191 550)		(9 709 855)	
			62 352 264		47 501 908
Change in provision for unearned premiums, gross	17	(21 000 088)		(16 807 578)	
Change in reinsurers' share of provision for unearned premiums	17	654 243		2 140 951	
			(20 345 845)		(14 666 627)
Changes in the prior years' contracts			(689 583)		(909 994)
Changes in the prior years' reinsurance contracts			259 254		15 332
Net premiums earned			**41 576 090**		**31 940 619**
Gross claims paid	27	(22 564 391)		(20 160 953)	
Reimbursement of claims for risks ceded to reinsurers	27	1 232 093		4 372 480	
			(21 332 298)		(15 788 473)
Change in loss provision, gross	18	(35 822 853)		(2 715 593)	
Change in reinsurers' share of loss provision	18	31 464 012		(1 040 002)	
			(4 358 841)		(3 755 595)
Claims handling expenses			(1 495 652)		(1 104 230)
Net claims incurred			**(27 186 791)**		**(20 648 298)**
Acquisition costs net of related commission income from reinsurance ceded	24		(2 590 119)		(2 727 671)
Subrogation income			463 201		274 920
Total results from insurance activity			**12 262 381**		**8 839 570**
INVESTMENT INCOME AND EXPENSES					
Unrealised losses less gains from securities at fair value through profit or loss			(70 083)		(86 458)
Realised (losses less gains) / gains less losses from securities at fair value through profit or loss			(16 703)		77 483
Realised losses less gains arising from securities available for sale			(1 990)		-
Interest income	23		4 196 547		3 139 103
Interest expenses			(370 102)		(56 815)
Dividend income received			48 564		4 714
Foreign exchange translation (losses less gains) / gains less losses			(19 829)		137 070
Other investment losses less gains			(7 753)		(6 288)
Investment income and expenses, net			**3 758 651**		**3 208 809**
Other operating income	25		1 599 031		1 327 147
Administrative and other operating expenses	25		(9 720 620)		(6 011 029)
Share of profit of associates			-		207 994
Profit before tax			**7 899 443**		**7 572 491**
Income tax expense			(2 213 499)		(1 583 964)
Profit for the period			**5 685 944**		**5 988 527**

In thousands of Russian Roubles	Notes	Six months ended 30 June 2014	Six months ended 30 June 2013
OTHER COMPREHENSIVE (LOSS) / INCOME:			
Items that may be reclassified subsequently to profit or loss:			
Losses arising from securities available for sale		(106 799)	(32 544)
Realised losses transferred to profit and loss		1 990	-
Income tax recorded directly in other comprehensive income		14 587	6 922
Change in the reserve for translation to presentation currency		53 525	150 620
Other comprehensive (loss) / income for the period that may be reclassified subsequently to profit or loss		**(36 697)**	**124 998**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**5 649 247**	**6 113 525**
Profit / (loss) attributable to:			
Owners of the Company		5 794 997	6 042 106
Non-controlling interest		(109 053)	(53 579)
		5 685 944	5 988 527
Total comprehensive income / (loss) attributable to:			
Owners of the Company		5 715 385	6 124 959
Non-controlling interest		(66 138)	(11 434)
		5 649 247	6 113 525

In thousands of Russian Roubles	Notes	Share capital	Share premium	Treasury shares	Fair value reserve for investment securities available for sale	Reserve for translation to presentation currency	Retained earnings*	Total	Non-controlling interest	Total equity
		Attributable to owners of the Group								
31 December 2012		**15 328 487**	**2 610**	**-**	**124 430**	**(24 839)**	**27 505 510**	**42 936 198**	**1 318 036**	**44 254 234**
Profit / (loss) for the year		-	-	-	-	-	6 042 106	6 042 106	(53 579)	5 988 527
Other comprehensive income / (loss)		-	-	-	(17 760)	100 613	-	82 853	42 145	124 998
Total comprehensive income / (loss) for the year		-	-	-	(17 760)	100 613	6 042 106	6 124 959	(11 434)	6 113 525
Dividends declared	26	-	-	-	-	-	(5 517 187)	(5 517 187)	-	(5 517 187)
30 June 2013		**15 328 487**	**2 610**	**-**	**106 670**	**75 774**	**28 030 429**	**43 543 970**	**1 306 602**	**44 850 572**
31 December 2013		**15 328 487**	**2 610**	**-**	**109 428**	**92 190**	**33 310 698**	**48 843 413**	**1 256 073**	**50 099 486**
Profit / (loss) for the year		-	-	-	-	-	5 794 997	5 794 997	(109 053)	5 685 944
Other comprehensive income / (loss)		-	-	-	(107 388)	27 776	-	(79 612)	42 915	(36 697)
Total comprehensive income / (loss) for the year		-	-	-	(107 388)	27 776	5 794 997	5 715 385	(66 138)	5 649 247
Acquisition of treasury shares	22	-	-	(770 001)	-	-	-	(770 001)	-	(770 001)
Dividends declared	26	-	-	-	-	-	(6 848 429)	(6 848 429)	-	(6 848 429)
30 June 2014		**15 328 487**	**2 610**	**(770 001)**	**2 040**	**119 966**	**32 257 266**	**46 940 368**	**1 189 935**	**48 130 303**

*Retained earnings at 31 December 2012 and 30 June 2013 include the preventive measures reserve.

In thousands of Russian Roubles	Notes	Six months ended 30 June 2014	Six months ended 30 June 2013
Cash flows from operating activities			
Gross premiums received		57 237 544	43 486 414
Ceded premiums paid		(8 926 224)	(7 235 651)
Gross claims paid		(22 488 826)	(20 224 552)
Reimbursement of claims received		949 444	4 431 046
Acquisition costs paid		(3 557 038)	(2 621 102)
Claims handling expenses paid		(1 442 013)	(1 104 230)
Subrogation income received		378 467	183 814
Interest received		3 199 507	2 444 336
Commission income from obligatory medical insurance program		905 013	650 808
Other operating income received		871 090	676 339
Administrative and other operating expenses paid		(7 191 415)	(4 400 008)
Income tax paid		(3 295 115)	(2 233 077)
Cash flows from operating activities before changes in operating assets and liabilities		**16 640 434**	**14 054 137**
Changes in operating assets and liabilities			
Net decrease / (increase) in deposits with banks		2 626 752	(5 707 048)
Net decrease / (increase) in loans issued		44 697	(15 674)
Net decrease / (increase) in receivables		121 300	(122 675)
Net decrease / (increase) in prepayments		80 477	(357 289)
Net decrease / (increase) in other assets		87 180	(31 326)
Net decrease in net obligatory medical insurance program assets and liabilities		536 372	21 529
Net decrease in payables		(34 451)	(37 968)
Net decrease in other liabilities		(615 317)	(115 228)
Net cash from operating activities		**19 487 444**	**7 688 458**

In thousands of Russian Roubles	**Notes**	**Six months ended 30 June 2014**	**Six months ended 30 June 2013**
Cash flows from investing activities			
Cash received from realization / (used for acquisition) of securities at fair value through profit or loss		(48 189)	773 788
Proceeds from disposal and redemption of investment securities available for sale		908 905	1 113 163
Acquisition of investment securities available for sale		(8 829 330)	(1 224 446)
Proceeds from disposal of associates		3 000 428	-
Repayment of debt for acquisition of subsidiaries		(3 006 787)	-
Cash outflow resulted from acquisition of subsidiaries net of cash paid		(37 871)	-
Acquisition of premises and equipment		(721 431)	(273 765)
Acquisition of intangible assets		(67 179)	(64 184)
Proceeds from disposal of premises and equipment		129 112	9 414
Dividend income received		48 564	4 714
Net cash (used in) / received from investing activities		**(8 623 778)**	**338 684**
Cash flows from financing activities			
Dividends paid to owners of the Group	26	(6 848 429)	(5 517 187)
Acquisition of treasury shares		(770 001)	-
Repayment of finance lease		(413 687)	(427 990)
Repayment of interest on finance lease		(48 799)	(56 815)
Net cash used in financing activities		**(8 080 916)**	**(6 001 992)**
Effect of exchange rate changes on cash and cash equivalents		(3 336)	35 509
Net increase in cash and cash equivalents		**2 779 414**	**2 060 659**
Cash and cash equivalents at the beginning of the period	7	3 899 000	2 688 662
Cash and cash equivalents at the end of the period	7	**6 678 414**	**4 749 321**

1 Introduction

These consolidated interim condensed financial statements of Insurance Company of Gaz Industry SOGAZ (hereinafter - the “Company”) and its subsidiaries (together referred to as the “Group”) have been prepared in accordance with IAS 34 “Interim Financial Statements” for the six months ended 30 June 2014.

The Company was incorporated and is domiciled in the Russian Federation (hereinafter - “RF”). The Company is an open joint stock company and was set up in accordance with Russian legislation.

Principal activity. The principal activity of the Group is provision of insurance services. The Group also renders non-insurance related services (Note 31). The Company operates under insurance licenses issued by the Ministry of Finance of RF. Insurance business written by the Group includes property, liability, medical, personal accident, life insurance and reinsurance. The Group has also contracted with the Territorial Funds for Obligatory Medical Insurance (hereinafter - “TFOMI”), which carry out obligatory medical insurance (hereinafter - “OMI”) programs to provide citizens of RF with free of charge medical services through certain appointed insurers, including the Group. The Group has contracted with TFOMI to administer a portion of this program and receives commissions for providing this service.

At 30 June 2014 48.52 % of the Company’s shares are owned by LLC IK ABROS (31 December 2013: 51.02 %); 24.01 % (31 December 2013: 24.01 %) owned by OJSC Gazprom and its subsidiaries and associates; 12.50 % (31 December 2013: 12.50 %) owned by LLC Kordeks; 12.47 % (31 December 2013: 12.47 %) owned by LLC Akcept. The remaining 2.5 % shares of the Company are owned by the Group (31 December 2013: 0.00 %). At 30 June 2014 none of the parties had ultimate control over the Group (Note 32).

In August 2014, LLC IK ABROS sold 16.22 % of shares of the Company to Open Joint Stock Company Gazprom Gazoraspredelenie, a subsidiary of OJSC Gazprom.

At 30 June 2014, the Company had 77 branches (31 December 2013: 76) in RF. At 30 June 2014, the subsidiaries of the Group in their turn had 75 branches (31 December 2013: 55) in RF and 5 branches in the European Union (31 December 2013: 4). The number of the Group's employees at 30 June 2014 was 11 497 (31 December 2013: 10 580). The list of principal consolidated subsidiaries and associates is disclosed in Notes 31 and 11 accordingly.

Registered address and place of business. The Company’s registered address is: Akademika Sakharova av. 10, Moscow 107078, Russia. The Company’s Head Office is located at the same address.

Presentation currency. These consolidated interim condensed financial statements are presented in thousands of Russian Roubles (hereinafter - "RR thousands").

2 Operating Environment of the Group

Russian Federation. RF economy displays certain characteristics of emerging markets. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations.

The ongoing international sovereign debt crisis, stock market volatility and other risks could have an ongoing negative effect on Russian financial and corporate sectors. Management determined the level of provisions for impairment of financial assets by considering the economic situation and outlook at the end of the reporting period, and applied the ‘incurred loss’ model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. As a result actual losses from impairment of financial assets may considerably differ from currently booked provisions (Note 4).

Management is unable to predict all developments that could have an impact on the insurance sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group.

2 Operating Environment of the Group (Continued)

The tax, currency and customs legislation within RF is subject to varying interpretations and frequent changes. The need for further developments in the bankruptcy laws, formalised procedures for the registration and enforcement of collateral and other legal and fiscal impediments continue to contribute to the challenges faced by companies operating in RF.

3 Summary of Significant Accounting Policies

The accounting policies applied by the Group in the preparation of these consolidated interim condensed financial statements are consistent with those applied in the preparation of the Group's financial statements for the year ended 31 December 2013, except for adoption of new standards and interpretations disclosed in Note 5 starting from 1 January 2014 and the paragraph below.

Treasury shares. Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid to the owners of the Company, including any directly attributable incremental external costs, net of income taxes, is deducted from equity attributable to the owners of the Company until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently disposed of or reissued, any consideration received is included in equity.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated interim condensed financial statements and the carrying amounts of assets and liabilities within the next reporting period. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

Judgements that have the most significant effect on the amounts recognised in the consolidated interim condensed financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include:

Estimation of liabilities under insurance contracts. Refer to Note 19. Based on the experience of prior reporting years, in the year ended 31 December 2013 the Group adjusted its approach to estimation of liabilities under long-term insurance contracts considering the risk of failure to ensure profitability on a portion of assets (for the portfolio of long-term pension insurance contracts). As a result the Group applied an estimate of future profitability at the level of not more than 5 %.

Impairment of available-for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the volatility in share prices. In addition, impairment may be appropriate when there is evidence of changes in technology and a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would not have suffered an additional significant loss from impairment, being a reclassification from other comprehensive income to profit or loss for the period.

Impairment of receivables and prepayments. The Group regularly reviews its receivables and prepayments to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the period, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of assets before the decrease can be identified with an individual asset in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10 % increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in impairment losses of RR 65 372 thousand (31 December 2013: RR 49 126 thousand).

Impairment of intangible assets other than goodwill. The Group tests non-amortizable intangible assets other than goodwill for impairment whenever there are indicators that intangible assets may be impaired and at the end of the reporting period. Management uses discounted cash flow models based on historical data and future projection for validating these assets.

The client base for Sheksna Group was fully amortised at 30 June 2014. At 31 December 2013, a 10 % increase or decrease in the actual amount of premiums compared to the estimated future discounted cash flows would result in an increase or decrease of RR 5 847 thousand in respect of the value of the client base.

A 1% increase or decrease in loss ratio compared to the future estimates would result in a decrease or increase of RR 49 548 thousand in respect of the value of the client base recognised on acquisition of Transneft Group. These changes will not lead to any changes in the Group's net assets.

Tax legislation. RF tax legislation is subject to varying interpretations.

5 Adoption of New or Revised Standards and Interpretations

Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations which are effective in RF became effective for the Group from 1 January 2014:

"Offsetting Financial Assets and Financial Liabilities" - Amendment to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendments added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (1) must not be contingent on a future event and (2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business, (b) the event of default and (c) the event of insolvency or bankruptcy. The amendments did not have any material impact on the Group's consolidated interim condensed financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 - "Investment Entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendments introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity. Furthermore, it is necessary to disclose information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amendments did not have any material impact on the Group's consolidated interim condensed financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The amendments did not have any material impact on the Group's consolidated interim condensed financial statements.

Amendments to IAS 36 – "Recoverable Amount Disclosures for Non-financial Assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a cash generating unit contains goodwill or indefinite lived intangible assets but there has been no impairment. The amendments did not have any material impact on the Group's consolidated interim condensed financial statements.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amendments did not have any material impact on the Group's consolidated interim condensed financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 July 2014 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (with amendments introduced in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income and those to be measured subsequently at fair value through profit or loss.

- Classification is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest. If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the solely payments of principal and interest requirement. Debt instruments that meet the solely payments of principal and interest requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as financial assets at fair value through other comprehensive income. Financial assets that do not contain cash flows that are solely payments of principal and interest must be measured at fair value through profit or loss (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the solely payments of principal and interest condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

6 New Accounting Pronouncements (Continued)

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month expected credit losses on initial recognition of financial assets that are not credit impaired (or lifetime expected credit losses for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime expected credit losses rather than 12-month expected credit losses. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is considering the implications of the standard, the impact on the Group's consolidated interim condensed financial statements and the timing of its adoption by the Group.

Amendments to IAS 19 – “Defined benefit plans: Employee contributions” (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

The revised IFRS 2 clarifies the definition of a ‘vesting condition’ and defines separately ‘performance condition’ and ‘service condition’; the amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity’s assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

6 New Accounting Pronouncements (Continued)

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

The Group is currently assessing the impact of the amendments on its consolidated interim condensed financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its consolidated interim condensed financial statements.

IFRS 14 "Regulatory Deferral Accounts" (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

"Accounting for Acquisitions of Interests in Joint Operations" – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group is currently assessing the impact of the amendments on its consolidated interim condensed financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendments on its consolidated interim condensed financial statements.

IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.

6 New Accounting Pronouncements (Continued)

When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its consolidated interim condensed financial statements.

Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The Group does not expect the amendment to have any impact on its consolidated interim condensed financial statements.

Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group does not expect the amendment to have a significant impact on its consolidated interim condensed financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its consolidated interim condensed financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.

The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the currency of the country where they arise.

IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its consolidated interim condensed financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s consolidated interim condensed financial statements.

7 Cash and Cash Equivalents

RR thousands	**30 June 2014**	**31 December 2013**
Cash on hand	11 853	8 476
Settlement accounts with banks		
- Russian Rouble denominated	6 129 845	3 332 650
- foreign currencies denominated	536 716	557 874
Total cash and cash equivalents	**6 678 414**	**3 899 000**

The information on related party balances is disclosed in Note 30. The information on fair value is disclosed in Note 29.

8 Deposits with Banks

RR thousands	**30 June 2014**	**31 December 2013**
Russian Rouble denominated	64 837 648	66 672 345
Foreign currencies denominated	190 456	179 339
Total deposits with banks	**65 028 104**	**66 851 684**

The information on related party balances is disclosed in Note 30. The information on fair value is disclosed in Note 29.

9 Securities at Fair Value through Profit or Loss

RR thousands	**30 June 2014**	**31 December 2013**
Corporate bonds	12 265 385	12 085 943
Municipal bonds	3 142 692	2 092 214
Corporate eurobonds	713 643	517 474
Federal loan bonds (OFZ)	664 160	453 355
Government eurobonds	181 189	165 448
Foreign government bonds	128 489	549 597
Promissory notes	10 257	9 878
Total debt securities	**17 105 815**	**15 873 909**
Corporate shares	1 136 389	1 917 380
Units in mutual investment funds	865 409	1 188 131
Total equity securities	**2 001 798**	**3 105 511**
Total securities at fair value through profit or loss	**19 107 613**	**18 979 420**

The information about the fair value of securities at fair value through profit or loss is disclosed in Note 29. The information on related party balances is disclosed in Note 30.

10 Investment Securities Available for Sale

RR thousands	30 June 2014	31 December 2013
Corporate bonds	10 469 681	10 432 634
Corporate eurobonds	7 805 921	-
Promissory notes	1 183 093	1 116 864
Municipal bonds	108 260	101 940
Total debt securities	**19 566 955**	**11 651 438**
Corporate shares	226 350	222 239
Units in mutual investment funds	47 085	43 687
Total equity securities	**273 435**	**265 926**
Total investment securities available for sale	**19 840 390**	**11 917 364**

At 30 June 2014, corporate eurobonds are primarily represented by eurobonds of highly reliable issuers being a part of such groups of companies as Gazprombank, Sberbank of Russia, Alfa-Bank, Russian Railways, VTB and others, with long-term ratings from international rating agencies Moody's, Standard & Poors and Fitch Ratings, ranging from Baa1, BBB+, BBB+ to Ba1, BB+, BB+, with maturity dates from 2015 to 2073 and yield to maturity from 4.36 % to 8.63 %.

The information on related party balances is disclosed in Note 30.

11 Investment in Associates

CJSC National Media Group is a holding company investing in different media related assets including Ren-TV Group, Saint Petersburg TV Broadcasting Company, OJSC Channel One, Izvestiya newspaper and other assets.

Tele 2 (Netherlands) B.V. (hereinafter - "Tele 2") is a holding company for a group of companies which provides telecommunication services in RF. Tele 2 was registered in the Netherlands, with principal activity carried out in RF. The Group has significant influence over the company and its subsidiaries in accordance with the shareholders agreements.

On 27 February 2014, the Group sold its share in CJSC Leader. The gain from this sale was RR 16 002 thousand.

11 Investments in Associates (Continued)

The Group's interests in its associates were as follows:

	30 June 2014		31 December 2013	
	% interest held	**Country of registration**	**% interest held**	**Country of registration**
CJSC National Media Group	21.219	RF	21.219	RF
Tele 2	5	The Netherlands	5	The Netherlands
CJSC Leader	-	-	35	RF

12 Receivables

RR thousands	**30 June 2014**	**31 December 2013**
Receivables arising out of direct insurance	31 737 749	18 169 417
Receivables arising from inward reinsurance operations	1 981 987	1 625 674
Receivables arising from outward reinsurance operations	997 246	742 592
Less provision for impairment	(590 417)	(427 301)
Total receivables arising out of insurance operations	**34 126 565**	**20 110 382**
Receivables arising out of securities transactions	17 825	101 683
Other financial receivables	444 609	381 048
Less provision for impairment	(63 306)	(62 927)
Total financial receivables	**399 128**	**419 804**
Receivables from non-budget state funds	3 360	5 346
Total non-financials receivables	**3 360**	**5 346**
Total receivables	**34 529 053**	**20 535 532**

13 Prepayments

RR thousands	30 June 2014	31 December 2013
Prepayments for tendering	128 124	204 213
Total financial prepayments	**128 124**	**204 213**
Prepayments under obligatory medical insurance programs	4 514 109	4 516 866
Prepayments under voluntary medical insurance programs	382 711	264 048
Prepaid taxes other than income tax	68 583	59 276
Rental prepayments	65 327	64 403
Prepayments for software	54 924	48 339
Other prepayments	499 694	334 374
Less provision for impairment	-	(1 034)
Total non-financial prepayments	**5 585 348**	**5 286 272**
Total prepayments	**5 713 472**	**5 490 485**

The information on related party balances is disclosed in Note 30.

14 Premises and Equipment

RR thousands	Land and premises	Transport, office and computer equipment	Other premises and equipment	Construction in progress	Total
Carrying amount at 31 December 2012	**5 633 800**	**587 684**	**2 259 648**	**163 647**	**8 644 779**
Cost					
Balance at the beginning of the year	6 016 930	1 520 324	3 096 817	163 647	10 797 718
Additions	-	217 837	1 947	3 169	222 953
Disposals	(15 166)	(63 414)	(968)	-	(79 548)
Balance at 30 June 2013	**6 001 764**	**1 674 747**	**3 097 796**	**166 816**	**10 941 123**
Accumulated depreciation					
Balance at the beginning of the year	383 130	932 640	837 169	-	2 152 939
Depreciation charge (Note 25)	58 513	129 582	126 135	-	314 230
Disposals	-	(45 303)	(673)	-	(45 976)
Balance at 30 June 2013	**441 643**	**1 016 919**	**962 631**	**-**	**2 421 193**
Carrying amount at 30 June 2013	**5 560 121**	**657 828**	**2 135 165**	**166 816**	**8 519 930**
Carrying amount at 31 December 2013	**6 243 991**	**409 647**	**2 668 264**	**101 438**	**9 423 340**
Cost					
Balance at the beginning of the year	6 871 018	1 556 507	3 781 320	101 438	12 310 283
Additions	205 620	242 546	401 437	11 438	861 041
Acquisition of subsidiary (Note 31)	11 767	51	-	-	11 818
Transfers	226 987	22 763	(125 595)	(100 622)	23 533
Disposals	(225 968)	(89 111)	(29 981)	-	(345 060)
Balance at 30 June 2014	**7 089 424**	**1 732 756**	**4 027 181**	**12 254**	**12 861 615**
Accumulated depreciation					
Balance at the beginning of the year	627 027	1 146 860	1 113 056	-	2 886 943
Depreciation charge (Note 25)	85 343	119 082	157 380	-	361 805
Transfers	240	12 340	-	-	12 580
Disposals	(21 424)	(40 825)	(14 089)	-	(76 338)
Balance at 30 June 2014	**691 186**	**1 237 457**	**1 256 347**	**-**	**3 184 990**
Carrying amount at 30 June 2014	**6 398 238**	**495 299**	**2 770 834**	**12 254**	**9 676 625**

The information on related party balances is disclosed in Note 30.

15 Intangible Assets

RR thousands	Computer software licences	Client base	Other intangible assets	Total
Carrying amount at 31 December 2012	**547 894**	**228 500**	**364 870**	**1 141 264**
Cost				
Balance at the beginning of the year	1 033 115	1 068 000	594 831	2 695 946
Additions	66 933	-	-	66 933
Disposals	(3 838)	-	-	(3 838)
Balance at 30 June 2013	**1 096 210**	**1 068 000**	**594 831**	**2 759 041**
Accumulated depreciation				
Balance at the beginning of the year	485 221	839 500	229 961	1 554 682
Amortisation charge (Note 25)	95 187	111 933	122 834	329 954
Disposals	(1 089)	-	-	(1 089)
Balance at 30 June 2013	**579 319**	**951 433**	**352 795**	**1 883 547**
Carrying amount at 30 June 2013	**516 891**	**116 567**	**242 036**	**875 494**
Carrying amount at 31 December 2013	**590 227**	**2 140 066**	**109 314**	**2 839 607**
Cost				
Balance at the beginning of the year	1 010 064	3 222 558	594 831	4 827 453
Acquisition of subsidiary (Note 31)		37 133	-	37 133
Additions	65 723	-	1 456	67 179
Transfers	-	-	370	370
Disposals	(374 263)	-	-	(374 263)
Balance at 30 June 2014	**701 524**	**3 259 691**	**596 657**	**4 557 872**
Accumulated depreciation				
Balance at the beginning of the year	419 837	1 082 492	485 517	1 987 846
Amortisation charge (Note 25)	107 827	401 791	36 184	545 802
Transfers	271	-	(194)	77
Disposals	(191 995)	-	-	(191 995)
Balance at 30 June 2014	**335 940**	**1 484 283**	**521 507**	**2 341 730**
Carrying amount at 30 June 2014	**365 584**	**1 775 408**	**75 150**	**2 216 142**

At 30 June 2014 and 31 December 2013 there were no indicators of impairment of intangible assets.

16 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

RR thousands	Six months ended 30 June 2014	Six months ended 30 June 2013
Carrying amount at 1 January	**640 676**	**188 368**
Impairment of goodwill	(185 112)	-
Carrying amount at 30 June	**455 564**	**188 368**

17 Provision for Unearned Premiums

	Six months ended 30 June 2014			Six months ended 30 June 2013		
RR thousands	**Gross**	**Reinsurers' share**	**Net**	**Gross**	**Reinsurers' share**	**Net**
Provision for unearned premiums at 1 January	**45 774 040**	**(8 726 021)**	**37 048 019**	**38 830 391**	**(7 268 381)**	**31 562 010**
Change in provision, gross	21 000 088	-	21 000 088	16 807 578	-	16 807 578
Change in reinsurers' share in provision	-	(654 243)	(654 243)	-	(2 140 951)	(2 140 951)
Effect of exchange differences	(1 088)	(3 330)	(4 418)	36 745	(17 379)	19 366
Provision for unearned premiums at 30 June	**66 773 040**	**(9 383 594)**	**57 389 446**	**55 674 714**	**(9 426 711)**	**46 248 003**

18 Loss Provision

	30 June 2014				
RR thousands	**OCP* and IBNR****	**Life reserve**	**Subrogation asset**	**URP*****	**Total**
Gross provision	78 564 629	10 052 895	(898 069)	114 507	87 833 962
Reinsurers' share of provision	(43 184 902)	(3 496)	93 789	(1 455)	(43 096 064)
Loss provision, net of reinsurance	**35 379 727**	**10 049 399**	**(804 280)**	**113 052**	**44 737 898**

	31 December 2013				
RR thousands	**OCP* and IBNR****	**Life reserve**	**Subrogation asset**	**URP*****	**Total**
Gross provision	42 707 910	9 679 889	(828 552)	337 946	51 897 193
Reinsurers' share of provision	(11 660 643)	(3 778)	92 196	-	(11 572 225)
Loss provision, net of reinsurance	**31 047 267**	**9 676 111**	**(736 356)**	**337 946**	**40 324 968**

* hereinafter OCP - outstanding claims provision
** hereinafter IBNR - provision for losses incurred but not yet reported
*** hereinafter URP - unexpired risk provision

18 Loss Provisions (Continued)

Movements in the loss provision are as follows:

	Six months ended 30 June 2014				
RR thousands	**OCP and IBNR**	**Life reserve**	**Subrogation asset**	**URP**	**Total**
Loss provision, net of reinsurance, at 1 January	**31 047 267**	**9 676 111**	**(736 356)**	**337 946**	**40 324 968**
Change in provision, gross	35 744 341	373 006	(69 518)	(224 976)	35 822 853
Change in reinsurers' share in provision	(31 464 433)	282	1 594	(1 455)	(31 464 012)
Effect of exchange differences	52 552	-	-	1 537	54 089
Loss provision, net of reinsurance, at 30 June	**35 379 727**	**10 049 399**	**(804 280)**	**113 052**	**44 737 898**

	Six months ended 30 June 2013				
RR thousands	**OCP and IBNR**	**Life reserve**	**Subrogation asset**	**URP**	**Total**
Loss provision, net of reinsurance, at 1 January	**22 456 837**	**9 459 637**	**-**	**224 193**	**32 140 667**
Change in provision, gross	2 161 698	236 765	-	317 130	2 715 593
Change in reinsurers' share in provision	1 039 804	198	-	-	1 040 002
Effect of exchange differences	179 307	-	-	-	179 307
Loss provision, net of reinsurance, at 30 June	**25 837 646**	**9 696 600**	**-**	**541 323**	**36 075 569**

19 Evaluation of Insurance Liabilities

Short-term insurance contracts. The Group uses a number of statistical methods to estimate ultimate claim costs for all types of risks. The Chain-Ladder method, the method based on independence of standard increments of losses from the occurrence period, and Bornhuetter-Ferguson method are most frequently used for this purpose.

The Chain Ladder method can be applied to claims paid or to the amount of claims reported but not yet settled. The main approach implies analysis of claims development factors (coefficients) for past periods and selection of estimated development factors based on the previous experience. After that, selected development factors are applied to aggregate loss data for each period within which an insured event occurs for the purpose of estimation of ultimate claims for each period. The Chain Ladder method mostly fits developed lines of business with a relatively stable development model implying independence of mathematical expectation of individual development coefficients from the occurrence period. It is less useful when an insurer does not have a developed experience of claims in a specific line of business.

The Bornhuetter-Ferguson method is preferable when there is a reason to assume the independence of mathematical expectation of individual development coefficients from the occurrence period and independence of mathematical expectation of losses from the occurrence period.

The method based on independence of standard increments of losses from occurrence period is based on the assumption that the normalised (to the parameter of amount) increments of loss do not depend on the period of occurrence of the insured event and have similar distributions. If no sufficiently homogeneous statistics is available, this method is preferable to the above methods, as it is less exposed to the impact of inhomogenuity of claims statistics, therefore it may give a more smoothed estimation of loss provision in case of extremely high or extremely low values in the claims triangle.

If any assumptions of certain method are obviously not realised, however some consistent pattern is observed (trend, periodicity, etc.), such methods may be used with some modifications (i.e. subject to selected coefficients).

The final estimation of loss provision for each period of loss in each line of business depends on how adequate each method or technique is to observable events over past periods. In some cases, different claims evaluation techniques or a combination of several techniques can be selected for certain insured event periods within the same line of business.

Significant unusual claims which can substantially distort the results of computations are excluded from the analysis.

OCP is established by experts. IBNR is calculated for each occurrence period as the difference between a projected ultimate cost of claims incurred within this period and an amount of reported, but not yet settled claims within the same period. IBNR for each period cannot be less than zero.

The loss provision is adjusted subject to the subrogation component which is calculated using actuarial methods based on historic data on cash inflows under subrogation and recourse claims. For calculation purposes data is grouped by quarter of insurance event, for which claims are put in, and by quarter of actual cash receipt. In relation to the resulting development triangles the Group applies actuarial methods similar to those used for calculation of provisions.

Voluntary medical insurance. Voluntary medical insurance (hereinafter – “VMI”) represents 38 % (six months ended 30 June 2013: 35 %) of the non-life portfolio. During the six months ended 30 June 2014 92 % (six months ended 30 June 2013: 100 %) of gross premiums were underwritten by the Company. VMI was unprofitable in 2001-2014.

The Group calculates loss provision for VMI using the Chain-Ladder method.

The claims settlement trend indicates that VMI is not a “long tail” business. Thus the amount of IBNR is not materially sensitive to the reasonable changes in the assumptions about duration of the claim settlement process.

19 Evaluation of Insurance Liabilities (Continued)

The Group's claim settlement process is effectively a settlement of medical bills, the risk portfolio is well diversified and the Group does not anticipate a possibility of significant influence of claim inflation on liability for incurred claims.

Property insurance. Property insurance represents 37 % (six months ended 30 June 2013: 40 %) of the non-life portfolio. During the six months ended 30 June 2014 90 % (six months ended 30 June 2013: 98 %) of property insurance of the Group was underwritten by the Company. A significant part of business is represented by the property and construction risks insurance of large corporate clients, such as OJSC Gazprom, OJSC Rosneft, OJSC Russian Railways, companies of nuclear industry, electricity, etc. Due to the nature of this line of business, there is a significant probability of large-scale losses, and the Group manages risks by means of reinsurance of the property insurance portfolio, which includes obligatory excess of loss reinsurance, as well as optional reinsurance of individually large objects. The significant part of reinsurance risks falls on European reinsurers with high international ratings, therefore the Group believes that the existing structure of reinsurance ensures an adequate protection from significant losses that could materially impact its financial positon.

The Group calculates loss provision for property insurance primarily using the method based on independence of standard increments of losses from occurrence period. Subsidiaries of the Group apply other methods, however, the share of provisions of subsidiaries in the total amount of insurance provisions of the Group in this line of business is immaterial and amounts to 11 % (31 December 2013: 15 %).

The claims settlement trend indicates that property insurance is not a “long tail” business. However, the claims settlement is not as intense as under VMI, especially regarding significant property claims. Thus the insurance liability amount is relatively sensitive to reasonable changes in assumptions about duration of claims settlement process. A 10 % or 20 % shift of all claims from the original period of settlement (quarter) to the following quarter will give an immaterial change in liabilities.

The Group’s property claims settlement procedures are subject to claims inflation since the total claims payment amount is not finalised before the settlement process. The Group estimates the effect of inflation on some types of property insurance when such effect may be material. In particular, the effect of inflation on provisions of subsidiaries operating in developed countries with a stable low inflation is not estimated. An introduction of additional nominal claim inflation of 3 % per quarter will give rise to additional liabilities of RR 330 196 thousand (31 December 2013: RR 299 234 thousand). An inflation of 5 % will give rise to additional liabilities of RR 672 441 thousand (31 December 2013: RR 619 101 thousand), an inflation of 10 % – to additional liabilities of RR 2 074 171 thousand (31 December 2013: RR 1 955 863 thousand).

Motor own damage insurance. Motor own damage insurance represents 7 % (six months ended 30 June 2013: 7 %) of the non-life portfolio. During the six months ended 30 June 2014 76 % (six months ended 30 June 2013: 100 %) of gross premiums were underwritten by the Company.

The Group calculates loss provision for motor own damage insurance using primarily the Chain-Ladder method based on claims paid and incurred. The most adequate method is used to determine the final value of IBNR.

Provisions for subsidiaries and for assumed insurance are calculated based on other methods. The share of provisions for the above segments amounts to 17 % of total provisions of the Group under this line of business (31 December 2013: 33 %).

The claims settlement trend indicate that motor own damage insurance is not a “long tail” business. However, the claims settlement process is not as intense as under VMI. The insurance liability amount is relatively sensitive to reasonable changes in the assumptions about duration of claims settlement process. A 10 % shift of all claims paid and reported from the original period of settlement (quarter) to the following quarter will give a rise to additional liabilities of RR 32 023 thousand (31 December 2013: RR 54 280 thousand). A 20 % shift will give a rise to additional liabilities of RR 80 518 thousand (31 December 2013: RR 74 994 thousand).

The Group does not anticipate any material effect of inflation of claims on its liability for paid claims.

19 Evaluation of Insurance Liabilities (Continued)

Long-term insurance contracts. The Group uses the prospective method to evaluate insurance liabilities which is based on the recognition of the present value of the expected payments under the endowment and pension contracts, such as maturity payments, death claims, pension payments reduced by the present value of the expected insurance premium income.

The Group conducts a liability adequacy test to assess whether its recognized insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. The test considers current estimates of all contractual cash flows, and of related cash flows.

The Group makes several estimations and assumptions to project the amounts of assets and liabilities for future periods. Such assumptions include mortality rates, cancellation rates, investment income returns and expenses. Estimations and assumptions are based on the Group's expectations about future events which are believed to be reasonable under the circumstances.

If a test shows that liabilities are insufficient, the total amount of deficit is charged to profit or loss.

20 Payables

RR thousands	**30 June 2014**	**31 December 2013**
Payables arising out of reinsurance operations	5 303 064	5 490 862
Payables to agents	3 561 230	2 524 834
Insurance premiums received in advance	3 160 116	3 111 412
Total insurance payables	**12 024 410**	**11 127 108**
Payables arising out of transactions with securities	3 358 225	6 051 772
Other payables	1 679 011	1 473 649
Total financial payables	**5 037 236**	**7 525 421**
Payables to employees and social funds	2 024 120	1 315 579
Pension obligations	430 773	393 612
Taxes payable (other than income taxes)	115 229	116 516
Other payables	117 848	-
Total non-financial payables	**2 687 970**	**1 825 707**
Total payables	**19 749 616**	**20 478 236**

The information on related party balances is disclosed in Note 30. The information on fair value is disclosed in Note 29.

21 Other Liabilities

RR thousands	30 June 2014	31 December 2013
Liabilities under non-insurance related services	1 270 340	1 943 348
Finance lease liabilities	229 230	581 309
Total other financial liabilities	**1 499 570**	**2 524 657**
OMI liabilities	3 524 736	2 603 051
Other	574 305	287 423
Total other liabilities	**4 099 041**	**2 890 474**

The information on related party balances is disclosed in Note 30.

22 Share Capital and Reserves

	30 June 2014			31 December 2013		
RR thousands	Number of shares	Nominal amount	Inflation adjusted amount	Number of shares	Nominal amount	Inflation adjusted amount
Ordinary shares	9 351 165	15 111 483	15 328 487	9 351 165	15 111 483	15 328 487
Total share capital	**9 351 165**	**15 111 483**	**15 328 487**	**9 351 165**	**15 111 483**	**15 328 487**

On 25 April 2014, the Company declared dividends for the year ended 31 December 2013 in the total amount of RR 6 848 429 thousand, or RR 732 per ordinary share, and paid them out in the first half of the year ended 31 December 2014 (Note 26).

On 31 May 2013, the Company declared dividends for the year ended 31 December 2012 in the total amount of RR 5 517 187 thousand, or RR 590 per ordinary share, and paid them out in the first half of the year ended 31 December 2013 (Note 26).

In March 2014, LLC SOGAZ Realty acquired 2.5 % of the Company's shares from LLC IK ABROS. Consequently, at 30 June 2014, the Group recognised treasury shares of RR 770 001 thousand within its equity.

23 Interest Income

RR thousands	Six months ended 30 June 2014	Six months ended 30 June 2013
Deposits with banks	2 920 913	2 268 727
Debt securities at fair value	619 717	452 435
Debt securities available for sale	607 109	400 690
Promissory notes	24 773	1 454
Interest income on reverse REPO transactions	-	10 948
Other	24 035	4 849
Total interest income	**4 196 547**	**3 139 103**

The information on related party transactions is disclosed in Note 30.

24 Acquisition Costs Net of Related Commission Income from Reinsurance Ceded

RR thousands	Six months ended 30 June 2014	Six months ended 30 June 2013
Brokerage and agent commissions	4 064 138	2 865 245
Commissions paid for acquisition of reinsurance assumed	339 709	346 631
Surveyor expenses	33 384	65 831
Other	157 641	182 582
Total acquisition costs	**4 594 872**	**3 460 289**
Less commission income on outward reinsurance	(426 567)	(561 174)
Change in deferred commission income on outward reinsurance	(260 084)	(202 652)
Change in deferred acquisition costs	(1 247 947)	(40 014)
Netting with unexpired risk provision	(70 155)	71 222
Total acquisition costs net of related commission income from premiums ceded to reinsurers	**2 590 119**	**2 727 671**

24 Acquisition Costs Net of Related Commission Income from Reinsurance Ceded (Continued)

RR thousands	**Six months ended 30 June 2014**	**Six months ended 30 June 2013**
Deferred acquisition costs at 1 January	**4 059 861**	**3 557 205**
Change in deferred acquisition costs	1 247 947	40 014
Netting with unexpired risk provision	70 155	(71 222)
Deferred acquisition costs at 30 June	**5 377 963**	**3 525 997**
Deferred fee and commission income at 1 January	**858 243**	**543 059**
Change in deferred commission income on outward reinsurance	(260 084)	(202 652)
Deferred fee and commission income at 30 June	**598 159**	**340 407**

The information on related party transactions is disclosed in Note 30.

25 Other Operating Income and Administrative and Other Operating Expenses

RR thousands	**Six months ended 30 June 2014**	**Six months ended 30 June 2013**
Commission income from OMI program	905 013	650 808
Income from provision of medical services	209 710	274 373
Income from penalties related to OMI	194 597	137 457
Rental income	55 048	51 082
Income from disposal of associates	16 002	-
Other income	218 661	213 427
Total other operating income	**1 599 031**	**1 327 147**

25 Other Operating Income and Administrative and Other Operating Expenses (Continued)

Administrative and other operating expenses comprise the following:

RR thousands	**Six months ended 30 June 2014**	**Six months ended 30 June 2013**
Staff costs	5 009 456	2 765 560
Depreciation and amortisation on premises and equipment, intangible assets and investment property (Notes 14, 15)	908 262	644 184
Advertising and marketing services	598 180	629 737
Operating lease expenses	484 326	403 545
Information and consulting services	427 513	371 848
Provision for legal cases	326 998	3 310
Other expenses related to premises and equipment	200 906	115 775
Impairment of goodwill	185 112	-
Provision for impairment of receivables and prepayments (Notes 12, 13)	172 048	48 585
Charity	164 006	138 016
Materials	154 074	126 720
Taxes other than on income	82 661	93 662
Communication expenses	72 840	39 040
Business trip expenses	67 515	30 017
Bank services	66 143	27 836
Transport expenses	36 784	24 736
Repairs and maintenance expenses	35 614	25 620
Security services	30 743	24 817
Other expenses	697 439	498 021
Total administrative and other operating expenses	**9 720 620**	**6 011 029**

The information on related party transactions is disclosed in Note 30.

26 Dividends

RR thousands	**Six months ended 30 June 2014**	**Six months ended 30 June 2013**
Dividends payable at 1 January	-	-
Dividends declared during the year	6 848 429	5 517 187
Dividends paid less dividends returned during the year	(6 848 429)	(5 517 187)
Dividends payable at 30 June	**-**	**-**
Dividends per share declared during the year (RR per share)	**732**	**590**

The dividends were declared and paid in Russian Roubles.

27 Premiums and Claims Analysis

Premiums and claims information for the main lines of business of the Group for the six months ended 30 June 2014 and 30 June 2013 is set out below. The information on related party transactions is disclosed in Note 30.

27 Analysis of Premiums and Claims (Continued)

RR thousands	VMI	Property Insurance	Motor Own Damage Insurance	Personal Accident Insurance	OMTPL*	Voluntary Third Party Liability Insurance	OIHF**	Cargo Insurance	Aircraft Insurance	Life Insurance	Hull and Marine Insurance	Other Non-Life Insurance	Total
	Six months ended 30 June 2014												
Gross premiums written	27 015 439	26 594 224	5 217 755	3 158 327	2 544 935	2 363 889	1 381 839	1 164 046	1 065 671	473 109	444 948	119 632	71 543 814
Gross claims paid	(12 053 608)	(4 345 307)	(3 149 669)	(776 829)	(1 106 459)	(153 915)	(30 011)	(209 300)	(139 851)	(360 526)	(144 725)	(94 191)	(22 564 391)

RR thousands	VMI	Property Insurance	Motor Own Damage Insurance	Personal Accident Insurance	OMTPL*	Voluntary Third Party Liability Insurance	OIHF**	Cargo Insurance	Aircraft Insurance	Life Insurance	Hull and Marine Insurance	Other Non-Life Insurance	Total
	Six months ended 30 June 2013												
Gross premiums written	19 736 102	22 358 827	4 156 176	2 056 968	1 630 105	2 052 713	1 608 460	1 092 675	980 059	779 197	244 962	515 519	57 211 763
Gross claims paid	(9 256 091)	(5 270 040)	(1 844 680)	(1 358 629)	(780 825)	(112 163)	(30 120)	(189 685)	(922 949)	(46 214)	(137 946)	(211 611)	(20 160 953)

* hereinafter, OMTPL - obligatory motor third party liability of motor vehicle owners
** hereinafter, OIHF – obligatory insurance for owners of hazardous facilities

28 Management of Capital

The Group's objectives when managing capital are: (i) to comply with capital requirements set by Russian law and the insurance regulator, and (ii) to safeguard the Group's ability to continue as a going concern.

Insurance companies of the Group are subject to the following capital regulatory requirements (that are calculated on the basis of accounting reports prepared in accordance with the Russian Accounting Rules):

- excess of actual solvency margin by at least 30 % over the amount of regulatory solvency margin (set by Order of the Ministry of Finance of RF No. 90n dated 2 November 2001 "On Approving Regulations on the Procedures for Calculation of Regulatory Ratio of Assets to Accepted Insurance Liabilities by Insurers");
- excess of net assets over share capital (set by Federal Law No. 208-FZ dated 26 December 1995, "On Joint Stock Companies", and Federal Law No. 14-FZ dated 8 February 1998 "On Limited Liability Companies", and Order of the Ministry of Finance of RF No.7n dated 1 February 2007 "On Approving the Method of Net Assets Valuation of Insurance Joint Stock Companies");
- compliance with the requirements to the composition and structure of assets accepted as coverage of insurer's equity (set by the Order of the Ministry of Finance of RF No. 101n dated 2 July 2012 "On Approving the Requirements to the Composition and Structure of the Assets Accepted as Coverage of Insurer's Equity");
- compliance with the requirements to the minimal share capital (set by the Law No. 4015-1 dated 27 November 1992 "On Organisation of Insurance Business in RF").

Compliance with capital adequacy ratios set by the Ministry of Finance of RF and the Federal Service for Financial Markets (starting from September 2013, this function has been allocated to the Service of the Bank of Russia for Financial Markets) is monitored quarterly or semiannually (OJSC IC SOGAZ-Med) with reports outlining their calculation reviewed and signed by the Group companies executives. The Group maintains its capital to assets ratio at a level higher than the obligatory minimal value.

28 Management of Capital (Continued)

The calculation of the Company's solvency margin on the basis of reports prepared in accordance with the Russian legislation is provided in the table below:

RR thousands	30 June 2014	31 December 2013
Share capital formed by ordinary shares in accordance with Russian statutory requirements	15 111 483	15 111 483
Additional paid-in capital	343 351	343 351
Reserve capital in accordance with Russian statutory requirements	872 804	872 804
Retained earnings of the reporting year and previous years in accordance with Russian statutory requirements	22 224 455	20 718 767
Less intangible assets	(1 683)	(2 213)
Less impaired receivables	(35 342)	(15 663)
Total actual solvency margin	**38 515 068**	**37 028 529**
Regulatory solvency margin	**9 029 056**	**11 190 650**
Excess of the actual solvency margin over the regulatory solvency margin, %	326,57	230,89

The companies of the Group complied with all externally imposed capital/solvency margin requirements during 6 months ended 30 June 2014 and 30 June 2013.

The minimal level of share capital of entities engaged exclusively in obligatory medical insurance is set at RR 60 000 thousand, for non-life insurance companies it is set at RR 120 000 thousand, at RR 240 000 thousand for life insurance companies and at RR 480 000 thousand for companies holding a license for assumed reinsurance. At 30 June 2014 and 31 December 2013, all Group entities meet the above requirements.

29 Fair Value of Financial Instruments

Fair value measurements are analysed by levels of the fair value hierarchy as follows: (i) level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level 3 measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

29 Fair Value of Financial Instruments (Continued)

(a) Recurring fair value measurements

Recurring fair value measurements are those that other IFRS require or permit in the consolidated statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	30 June 2014			31 December 2013		
RR thousands	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique of discounted cash flows (Level 3)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique of discounted cash flows (Level 3)**
FINANCIAL ASSETS						
Securities at fair value through profit or loss						
- corporate bonds	11 760 419	297 525	207 441	11 783 695	302 248	-
- municipal bonds	3 142 692	-	-	2 092 214	-	-
- corporate eurobonds	713 643	-	-	517 474	-	-
- federal loan bonds (OFZ)	664 160	-	-	453 355	-	-
- state eurobonds	181 189	-	-	165 448	-	-
- foreign government bonds	128 489	-	-	549 597	-	-
- promissory notes	10 257	-	-	9 878	-	-
- corporate shares	1 136 389	-	-	1 917 380	-	-
- units in mutual investment funds	-	865 409	-	-	1 188 131	-
Investment securities available for sale						
- corporate bonds	10 210 778	36 413	222 490	9 136 723	798 920	496 991
- corporate eurobonds	7 805 921	-	-	-	-	-
- promissory notes	-	1 183 093	-	-	1 116 864	-
- municipal bonds	-	108 260	-	101 940	-	-
- corporate shares	61 457	13 893	151 000	57 605	-	164 634
- units in mutual investment funds	-	47 085	-	-	43 687	-

29 Fair Value of Financial Instruments (Continued)

The description of valuation techniques and description of inputs used in the fair value measurement for level 2 measurements at 30 June 2014 are set out in the table below:

RR thousands	**Fair value**	**Valuation technique**	**Inputs used**
Assets at fair value			
FINANCIAL ASSETS			
Securities at fair value through profit or loss			
- corporate bonds	297 525	Market data of comparable companies	"Average weighted price" quote at Moscow Stock Exchange
- units in mutual investment funds	541 302	Multiplier of net assets	Fair value of net assets
- units in mutual investment funds	324 107	Discounted cash flows method	Estimated future cash flows on observable yield curve
Investment securities available for sale			
- corporate bonds	36 413	Market data of comparable companies	"Average weighted price" quote at Moscow Stock Exchange
- promissory notes	1 183 093	Discounted cash flows method	Estimated future cash flows on observable yield curve
- municipal bonds	108 260	Market data of comparable companies	Comparable prices from less active markets
- corporate shares	13 893	Value of net assets	Statement of financial position
- units in mutual investment funds	47 085	Multiplier of net assets	Fair value of net assets
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**2 551 678**		

There were no changes in valuation techniques for level 2 recurring fair value measurements during the six months ended 30 June 2014 and 30 June 2013.

29 Fair Value of Financial Instruments (Continued)

The valuation technique inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 30 June 2014:

RR thousands	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reaso-nable change	Sensitivity of fair value measurements
Assets at fair value						
FINANCIAL ASSETS						
Securities at fair value through profit or loss						
- corporate bonds	207 441	Discounted cash flows model	Effective yield to purchase	8.6 %	+2.5 % - 2.5 %	(24 073) 29 101
Investment securities available for sale						
- corporate bonds	222 490	Discounted cash flows model	Effective yield to purchase	7.7 % - 13.4 %	+2.5 % - 2.5 %	(31 225) 40 047
- corporate shares	151 000	Value of net assets	Statement of financial position	-	-	-
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**580 931**					

The above table discloses sensitivity to valuation inputs for financial assets, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly. For this purpose, significance was judged with respect to profit or loss and total assets or, when changes in fair value are recognised in other comprehensive income, total equity.

There were no changes in valuation techniques for level 3 recurring fair value measurements during the six months ended 30 June 2014 and 30 June 2013.

29 Fair Value of Financial Instruments (Continued)

Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. A reconciliation of movements in level 3 of the fair value hierarchy by class of instruments for the six months ended 30 June 2014 and 30 June 2013 is as follows:

	Securities at fair value through profit or loss		Investment securities available for sale			
	Corporate bonds		Corporate bonds		Corporate shares	
RR thousands	**Six months ended 30 June 2014**	**Six months ended 30 June 2013**	**Six months ended 30 June 2014**	**Six months ended 30 June 2013**	**Six months ended 30 June 2014**	**Six months ended 30 June 2013**
Fair value at 1 January	**-**	**-**	**496 991**	**-**	**164 634**	**-**
Purchases	-	-	40 011	180 480	-	-
Interest income accrual	9 729	-	7 312	-	-	-
Revaluation	(3 671)	-	(12)	-	-	-
Transfers out of level 3	-	-	(321 812)	-	(13 634)	-
Transfers into level 3	201 383	-	-	250 012	-	-
Fair value at 30 June	**207 441**	**-**	**222 490**	**430 492**	**151 000**	**-**

Corporate shares were transferred from level 2 into level 3 due to lack of similar quoted instruments at 31 December 2013.

(b) Valuation processes for recurring level 3 fair value measurements

Level 3 fair value measurements are analysed on a monthly basis. The Group considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques generally recognised as standard within the financial services industry. In selecting the most appropriate valuation model the Group considers which model's results have aligned most closely to actual market transactions. In order to value level 3 equity investments, the Group utilises the net asset method. The level 3 debt instruments are valued at the net present value of estimated future cash flows. The Group also considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

29 Fair Value of Financial Instruments (Continued)

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by levels of the fair value hierarchy and carrying values of assets not measured at fair value are as follows:

	30 June 2014				**31 December 2013**			
RR thousands	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
INSURANCE AND FINANCIAL ASSETS								
Cash and cash equivalents	6 678 414	-	-	6 678 414	3 899 000	-	-	3 899 000
Deposits with banks	-	64 885 253	-	65 028 104	-	67 049 607	-	66 851 684
Loans	-	-	522 396	489 657	-	-	550 399	535 057
Insurance and financial receivables	-	-	33 116 878	34 525 693	-	-	19 717 325	20 530 186
Prepayments for tendering	-	-	124 765	128 124	-	-	198 781	204 213
NON-FINANCIAL ASSETS								
Premises and equipment (premises)	-	-	7 697 450	6 347 648	-	-	6 777 997	6 178 256
Investment property (premises)	-	-	277 144	145 055	-	-	277 144	145 710
Total	**6 678 414**	**64 885 253**	**41 738 633**	**113 342 695**	**3 899 000**	**67 049 607**	**27 521 646**	**98 344 106**
FINANCIAL LIABILITIES								
Insurance and financial payables	-	-	16 730 783	17 061 646	-	-	18 481 792	18 652 529
Other financial liabilities	-	-	1 484 573	1 499 570	-	-	2 468 091	2 524 657
Total	**-**	**-**	**18 215 356**	**18 561 216**	**-**	**-**	**20 949 883**	**21 177 186**

29 Fair Value of Financial Instruments (Continued)

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Fair value of investment property and premises and equipment in terms of premises was determined based on appraisers' reports or based on market information on similar premises.

For assets the Group used assumptions about counterparty's incremental borrowing rate and prepayment rates. Liabilities were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

30 Related Party Transactions

For the purposes of these consolidated interim condensed financial statements, parties are considered to be related if one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Refer to Note 1 for the Group's relationship with OJSC Gazprom and its subsidiaries and associates and OJSC AB Bank Rossiya Group.

The Group considers the Government of RF to have significant influence over the Group. The Group is under the significant influence of OJSC Gazprom, a company controlled by the Government of RF, and in the ordinary course of business operates with various Government-controlled companies. The Group has applied the exemption described in paragraph 25 of IAS 24 in relation to disclosure of operations with companies controlled by the Government and with companies which are under significant influence of the Government or which are under joint Government control.

During the six months ended 30 June 2014 and 30 June 2013, a significant volume of transactions with government-controlled companies relates to OJSC Gazprom and its subsidiaries and associates. Transactions with OJSC Gazprom and its subsidiaries and associates are disclosed in the table below. The Group had no other significant transactions with Government-controlled companies outside the ordinary course of business during the six months ended 30 June 2014 and 30 June 2013. Operations in the ordinary course of business are presented by insurance, investment activity and taxation. Insurance tariffs used for pricing of the insurance transactions were agreed with the insurance regulator as required by the legislation of RF. The Group does not use any other insurance tariffs for the purposes of such transactions. The level of commission expenses was also approved by the insurance regulator as part of the approval of the insurance tariffs. Bank deposits were placed at the market interest rates. Accrual and payment of taxes was made based on the tax legislation of RF.

30 Related Party Transactions (Continued)

In the normal course of business the Group enters into transactions with directors, shareholders of the Company and its main subsidiaries and legal entities related to shareholders. The outstanding balances at period-end, as well as income and expenses for the period with related parties are as follows:

	30 June 2014		31 December 2013	
RR thousands	**OJSC AB Rossiya and its subsidiaries**	**OJSC Gazprom and its subsidiaries and associates**	**OJSC AB Rossiya and its subsidiaries**	**OJSC Gazprom and its subsidiaries**
Cash and cash equivalents	1 894 974	1 738 823	579 520	-
Deposits with banks	11 321 314	4 734 042	16 508 503	-
Securities at fair value through profit or loss	-	1 483 109	-	891 028
Investment securities available for sale	-	5 732 619	-	585 289
Investment in associates	3 891 714	-	4 107 902	-
Receivables	466 254	7 657 522	19 548	2 696 645
Payables	391 331	555 509	1 407	281 959
Finance lease liabilities	225 859	-	577 437	-

	Six months ended 30 June 2014		Six months ended 30 June 2013	
RR thousands	**OJSC AB Rossiya and its subsidiaries**	**OJSC Gazprom and its subsidiaries and associates**	**OJSC AB Rossiya and its subsidiaries**	**OJSC Gazprom and its subsidiaries**
Gross premiums written	86 209	16 968 071	100 418	16 812 910
Gross claims paid	(239)	(1 745 857)	-	(7 346 794)
Movement in fair value reserve for investment securities available for sale	-	(23 966)	-	(12 011)
Realised and unrealised gains less losses arising from securities at fair value through profit or loss	-	186 323	-	92 319
Interest income	634 700	236 043	596 196	59 648
Interest expenses	(48 799)	-	(56 815)	-
Result from disposal of associate	-	16 002	-	-
Foreign exchange losses and other operating expenses	(39 387)	(38 804)	(22 491)	(97 688)
Other income	-	15 729	-	-

For the six months ended 30 June 2014, the Company's key management personnel total remuneration consisting of basic salary, bonuses and compensations, amounted to RR 509 334 thousand (six months ended 30 June 2013: RR 408 214 thousand).

30 Related Party Transactions (Continued)

For the six months ended 30 June 2014, total remuneration of the Group subsidiaries' management, consisting of basic salary and bonuses, amounted to RR 166 926 thousand (six months ended 30 June 2013: RR 51 220 thousand).

All remuneration to key management personnel is short-term. Short-term remuneration falls due within twelve months after the end of the period in which management rendered the related services.

31 Main Subsidiaries and Business Combinations

At 30 June 2014 the following subsidiaries of the Group have been included into these consolidated interim condensed financial statements for the six months ended 30 June 2014:

Name	Country of incorporation	Effective percentage of equity controlled	Principal activity
OJSC IC SOGAZ-Med	RF	100 %	Obligatory medical insurance
OJSC MSK Dalmedstrakh	RF	100 %	Obligatory medical insurance
LLC IC Medika-Tomsk	RF	100 %	Obligatory medical insurance
LLC IC SOGAZ-Agro	RF	100 %	Insurance
LLC SOGAZ-Medservice	RF	100 %	Intermediary services provider
LLC IC SOGAZ-Life	RF	100 %	Life insurance
LLC IMC SOGAZ	RF	100 %	Medical activity
LLC SOGAZ PROFMEDICINE	RF	100 %	Medical activity
LLC SOGAZ-Finance	RF	100 %	Finance, loans, support to business process in the area of insurance services
CJSC SOGAZ Tower	RF	100 %	Property management
LLC SOGAZ Realty	RF	100 %	Finance, loans, pensions, support to business process in the area of insurance services
CJSC Valdaiskoye Podvorje	RF	100 %	Specialized tourist services
LLC SOGAZ Broker	RF	100 %	Finance, loans, support to business process in the area of insurance services
Lenachan Trading Limited	Cyprus	100 %	Dormant
SOGAZ JSIC NOVI SAD	Serbia	51 %	Insurance
SOVAG	Germany	50,9 %	Insurance
Schwarzmeer und Ostsee Beteiligungsgesellschaft GmbH	Germany	50,9 %	Investing activities
OLH Ost Lagerhaus Bralitz GmbH & Co. KG (Kommanditeinlage)	Germany	50,9 %	Property management
OLH Ost Lagerhaus Geschaftsfuhrung Bralitz GmbH	Germany	50,9 %	Dormant
CJSC IC Transneft	RF	98,9 %	Insurance
LLC Pipeline Insurance Company	RF	98,9 %	Insurance

31 Main Subsidiaries and Business Combinations (Continued)

21 April 2014, OJSC Insurance Company SOGAZ-Med exited from LLC Vympel-Vostok. The actual value of the interest of OJSC Insurance Company SOGAZ-Med of 99.99 % was paid by 100 % of shares of OJSC MSK Dalmedstrakh. As a result of this transaction, 100 % of OJSC Dalmedstrakh is held by the Group.

On 13 and 14 January 2014 the Group acquired 4.72 % and 14.61 % interest in the share capital of LLC IC Medika-Tomsk respectively. The remaining 80.67 % interest in the share capital is held by the company LLC IC Medika-Tomsk itself, as all other participants exited the company. Therefore, the Group has full control over LLC IC Medika-Tomsk.

Information on acquired assets and liabilities is disclosed in the table below:

RR thousands	**Fair value at the date of acquisition**
Cash and cash equivalents	3 422
Prepayments	379 029
Premises and equipment	11 818
Intangible assets	37 133
Deferred income tax asset	1 616
Obligatory medical insurance liabilities	(378 914)
Current income tax liability	(223)
Deferred income tax liability	(6 189)
Other liabilities	(6 399)
Fair value of identifiable net assets of subsidiary	**41 293**
Goodwill arising from the acquisition	-
Total purchase consideration	**41 293**
Less: cash and cash equivalents of subsidiary acquired	(3 422)
Outflow of cash and cash equivalents on acquisition	**37 871**

31 Main Subsidiaries and Business Combinations (Continued)

Comparative information for the six months ended 30 June 2013

At 30 June 2013 the following subsidiaries of the Group have been included into consolidated interim financial statements for the six months ended 30 June 2013:

Name	Country of registration	Effective percentage of equity controlled	Principal activity
OJSC IC SOGAZ-Med	RF	100 %	Obligatory medical insurance
LLC IC SOGAZ-Agro	RF	100 %	Insurance
LLC SOGAZ-Medservice	RF	100 %	Intermediary services provider
LLC IC SOGAZ-Life	RF	100 %	Life insurance
LLC IMC SOGAZ	RF	100 %	Medical activity
LLC SOGAZ PROFMEDICINE	RF	99.9 %	Medical activity
LLC SOGAZ-Finance	RF	100 %	Construction services
CJSC SOGAZ Tower	RF	100 %	Asset management
LLC SOGAZ Realty	RF	100 %	Asset management
CJSC Valdaiskoye Podvorje	RF	100 %	Specialized tourist services
LLC SOGAZ Broker	RF	100 %	Trading and procurement activities
Lenachan Trading Limited	Cyprus	100 %	Dormant
SOGAZ JSIC NOVI SAD	Serbia	51 %	Insurance
SOVAG	Germany	50.9 %	Insurance
Schwarzmeer und Ostsee Beteiligungsgesellschaft GmbH	Germany	50.9 %	Investing activities
OLH Ost Lagerhaus Bralitz GmbH & Co. KG (Kommanditeinlage)	Germany	50.9 %	Property management
OLH Ost Lagerhaus Geschaftsfuhrung Bralitz GmbH	Germany	50.9 %	Asset management

32 Events After the Reporting Date

In August 2014, OJSC Gazprom Gazoraspredelenie, a subsidiary of OJSC Gazprom, bought 16.22 % of the Company's shares from LLC IK ABROS.

In September 2014 US, European Union and some other countries imposed additional sanctions on certain sectors of Russian economy, including banking and energy.

Under these sanctions any US individuals and legal entities incorporated under US legislation (including their foreign branches) or any persons in the United States may not finance or otherwise deal in debt with longer than 90 days maturity for a number of Russian banking and energy companies. These sanctions are also applicable to any entities with 50 % or more interest in equity held, directly or indirectly, jointly or separately, by sanctioned entities or individuals.

The European Union sanctions similarly prohibit export of goods and services to certain energy exploration and production companies included in the sanction list, as well as limit dealing in marketable securities and money market instruments with maturity exceeding (a) 90 days, if issued after 1 August 2014 to 12 September 2014, or (b) 30 days, if issued after 12 September 2014 by Russian companies.

Currently, neither the Company nor its subsidiaries are included in the list of sanctioned entities, and no sanctions directly affecting the insurance sector have been introduced. The Group has assessed the impact of sanctions introduced and does not believe they have a significant impact on the financial position and results of operations of the Group.

Gazprom Germania GmbH conducts an acquisition of 50.1 % of the insurance company SOVAG, the transaction is subject to approval by regulatory authorities. As a result of the transaction, the Company's share in the insurance company SOVAG will decrease from 50.9 % to 25.1 %.