OJSC “Bank “Saint Petersburg” Group Condensed Consolidated Interim Financial Information and Independent Auditors’ Report on Review

30 June 2012

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Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

To the Supervisory Board of OJSC "Bank "Saint Petersburg" Group

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of OJSC "Bank "Saint Petersburg" and its subsidiaries as at 30 June 2012, and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the condensed consolidated interim financial information (the "condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information as at 30 June 2012 and for the six-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

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30 August 2012

(In thousands of Russian Roubles)	Note	30 June 2012 (unaudited)	31 December 2011
ASSETS			
Cash and cash equivalents		26,663,624	32,775,307
Mandatory cash balances with the Central Bank of the Russian Federation		3,092,649	2,978,296
Trading securities	6	24,523,323	29,043,656
Trading securities pledged under sale and repurchase agreements	7	28,930,399	15,134,382
Financial instruments at fair value through profit or loss	8	657,432	-
Amounts receivable under reverse repurchase agreements	9	2,094,201	7,849,012
Due from banks		3,866,115	2,998,653
Loans and advances to customers	10	221,735,775	209,907,068
Investment securities available-for-sale		7,053,830	6,875,174
Investments securities held-to-maturity		31,361	31,361
Other financial assets		1,566,517	1,194,021
Prepaid income tax		623,733	491,193
Deferred tax asset		53,329	52,262
Investment property		4,724,492	4,524,333
Premises, equipment and intangible assets		13,673,254	14,134,509
Other assets		1,297,586	2,044,231
TOTAL ASSETS		**340,587,620**	**330,033,458**
LIABILITIES			
Due to banks		48,406,252	27,198,895
Customer accounts	11	217,865,764	226,702,890
Bonds issued	12	11,650,380	11,555,524
Other debt securities issued		8,995,649	9,356,444
Other borrowed funds	13	12,065,945	12,078,256
Other financial liabilities		881,970	1,157,902
Deferred tax liability		803,406	1,132,896
Other liabilities		406,454	827,848
TOTAL LIABILITIES		**301,075,820**	**290,010,655**
EQUITY			
Share capital	14	3,648,110	3,648,110
Share premium	14	18,448,915	18,448,915
Revaluation reserve for premises		3,295,573	3,346,303
Revaluation reserve for investment securities available-for-sale		2,351,926	2,282,460
Retained earnings		11,767,276	12,297,015
TOTAL EQUITY		**39,511,800**	**40,022,803**
TOTAL LIABILITIES AND EQUITY		**340,587,620**	**330,033,458**

Approved for issue and signed on behalf of the Supervisory Board on 30 August 2012.

A.V. Saveliev
Chairman of the Board

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО БАНК «САНКТ-ПЕТЕРБУРГ» • ОГРН 1027800000140 • (ОАО "Банк "Санкт-Петербург") • Санкт-Петербург • ИНН 7831000027

N.G. Tomilina
Chief Accountant

The notes set out on pages 5 to 39 form an integral part of this condensed consolidated interim financial information.

(In thousands of Russian Roubles)	Note	Six-month period ended 30 June 2012 (unaudited)	Six-month period ended 30 June 2011 (unaudited)
Interest income	16	13,419,940	12,612,403
Interest expense	16	(7,458,440)	(5,824,592)
Net interest income		**5,961,500**	**6,787,811**
Provision for loan impairment		(3,307,257)	(962,955)
Net interest income after provision for loan impairment		**2,654,243**	**5,824,856**
Net (losses) gains from trading securities		(200,532)	163,831
Net gains from investment securities available-for-sale		-	879,291
Net (losses) gains from trading in foreign currencies		(1,152,130)	856,245
Net gains (losses) from foreign exchange translations		1,468,622	(479,298)
Fee and commission income		1,225,680	1,098,493
Fee and commission expense		(189,926)	(159,662)
Impairment of credit related commitments		(15,385)	(143,054)
Other net operating (loss) income		(35,023)	176,373
Administrative and other operating expenses			
- staff costs		(1,467,567)	(1,401,033)
- costs related to premises and equipment		(653,441)	(353,879)
- other administrative and operating expenses		(1,288,127)	(928,973)
Profit before tax		**346,414**	**5,533,190**
Income tax expense		(109,061)	(1,037,730)
Profit for the period		**237,353**	**4,495,460**
Other comprehensive income			
Gain from revaluation of securities available-for-sale	15	86,833	3,392
Deferred income tax recognised in equity related to comprehensive income	15	(17,367)	(679)
Comprehensive income for the period		**306,819**	**4,498,173**
Basic (loss) earnings per ordinary share (in Russian Roubles per share)	17	**(1.82)**	**13.23**
Diluted (loss) earnings per ordinary share (in Russian Roubles per share)	17	**(1.82)**	**12.94**

(In thousands of Russian Roubles)	**Note**	**Share capital**	**Share premium**	**Revaluation reserve for premises**	**Revaluation reserve for investment securities available-for-sale**	**Retained earnings**	**Total equity**
Balance at 1 January 2011		**3,629,541**	**15,744,164**	**1,966,015**	**26,346**	**7,198,145**	**28,564,211**
Other comprehensive income, recognized directly in equity	15	-	-	-	2,713	-	2,713
Profit for the period		-	-	-	-	4,495,460	4,495,460
Total comprehensive income for 6 months ended 30 June 2011 (unaudited)		**-**	**-**	**-**	**2,713**	**4,495,460**	**4,498,173**
Dividends declared							
- ordinary shares	18	-	-	-	-	(31,037)	(31,037)
- preference shares	18	-	-	-	-	(762,571)	(762,571)
Balance as at 30 June 2011 (unaudited)		**3,629,541**	**15,744,164**	**1,966,015**	**29,059**	**10,899,997**	**32,268,776**
Balance at 1 January 2012		**3,648,110**	**18,448,915**	**3,346,303**	**2,282,460**	**12,297,015**	**40,022,803**
Other comprehensive income, recognized directly in equity	15	-	-	-	69,466	-	69,466
Profit for the period		-	-	-	-	237,353	237,353
Disposals of premises		-	-	(50,730)	-	50,730	-
Total comprehensive income for the 6 months ended 30 June 2012 (unaudited)		**-**	**-**	**(50,730)**	**69,466**	**288,083**	**306,819**
Dividends declared							
- ordinary shares	18	-	-	-	-	(33,079)	(33,079)
- preference shares	18	-	-	-	-	(784,743)	(784,743)
Balance as at 30 June 2012 (unaudited)		**3,648,110**	**18,448,915**	**3,295,573**	**2,351,926**	**11,767,276**	**39,511,800**

(In thousands of Russian Roubles)	**Six-month period ended 30 June 2012 (unaudited)**	**Six-month period ended 30 June 2011 (unaudited)**
Net cash (used in) received from operating activities	**(3,736,736)**	**5,937,622**
Net cash used in investing activities	**(117,476)**	**(2,796,348)**
Net cash used in financing activities	**(1,933,556)**	**(2,285,276)**
Effects of exchange rate changes on cash and cash equivalents	**(323,915)**	**(129,933)**
Net (decrease) increase in cash and cash equivalents	**(6,111,683)**	**726,065**
Cash and cash equivalents at the beginning of the period	32,775,307	13,180,184
Cash and cash equivalents at the end of the period	**26,663,624**	**13,906,249**

1 Background

This condensed consolidated interim financial information is prepared in accordance with International Financial Reporting Standard (IAS) 34 “Interim Financial Reporting” for the six-month period ended 30 June 2012 for OJSC “Bank “Saint Petersburg” (the “Bank”) and its subsidiary Limited Liability Company “BSPB-Trading Systems” and controlled special purpose entity BSPB Finance plc. (together referred to as the “Group” or OJSC “Bank “Saint Petersburg” Group).

The Bank was formed in 1990 as an open joint stock company under the Laws of the Russian Federation as a result of the privatization process of the former Leningrad regional office of Zhilsotsbank.

As at 30 June 2012 28.1% of the ordinary shares of the Bank are controlled by Mr. Saveliev A.V. (31 December 2011: 28.1%). The rest of the management of the Bank controls a further 6.7% of ordinary shares of the Bank (31 December 2011: 6.7%). As at 30 June 2012 18.2% of the ordinary shares of the Bank are controlled by the company “MALVENST INVESTMENTS LIMITED” (31 December 2011: 18.2% of the ordinary shares of the Bank are controlled by the company “MALVENST INVESTMENTS LIMITED”). Mr. Saveliev A.V. has an option maturing at the end of 2015 to purchase a 100.0% share in the company “WELLFAME PACIFIC LIMITED”, which owns 100% of shares in the share capital of “MALVENST INVESTMENTS LIMITED” (31 December 2011: Mr. Saveliev A.V. owned an option maturing at the end of 2015 to purchase a 100.0% share in the company “WELLFAME PACIFIC LIMITED”, which owns 100% of the share capital of “MALVENST INVESTMENTS LIMITED”). There is no contractual agreement between any members of the Bank’s management team and Mr. Saveliev on joint control of the Bank.

The remaining ordinary shares of the Bank are owned as follows: 6.2% of the shares are owned by the EUROPEAN BANK OF RECONSTRUCTION AND DEVELOPMENT (“EBRD”) (31 December 2011: 7.5% of the shares are owned by the company RUSSIAN DEALERSHIPS HOLDING (RDH) LIMITED controlled by Mr. Pilipenko Y.I. and 6.2% of the shares are owned by the EBRD). The remaining 40.8% (31 December 2011: 33.3%) of ordinary shares are widely held.

Principal activity. The Bank’s principal business activity is commercial banking operations within the Russian Federation. The Bank has operated under a general banking license issued by the Central Bank of the Russian Federation (the “CBRF”) since 1997. The Bank takes part in the state deposit insurance system introduced by Federal Law No.177-FZ “On Retail Deposit Insurance in the Russian Federation” dated 23 December 2003. Indemnity of the deposits placed in respect of which an insured event happens, is paid to a depositor in the amount of 100% of total deposits, but limited to RR 700 thousand.

As at 30 June 2012 the Bank has five branches within the Russian Federation: three branches are located in the North-West region of Russia, one branch is in Moscow and one branch is in Nizhniy Novgorod and thirty four outlets (31 December 2011: five branches within the Russian Federation: three branches are located in North-West region of Russia, one branch is in Moscow and one branch is in Nizhniy Novgorod and thirty three outlets).

The principal activity of the Limited Liability Company “BSPB-Trading Systems” is trading activity in the financial markets. BSPB Finance plc., a special purpose entity, is used by the Bank for its Eurobond issue (see note 12). Close-ended stock mutual investment fund “Nevskiy - Second Stock Fund” and close-ended real estate mutual investment fund “Nevskiy - Fourth Real Estate Fund” are used by the Bank for activities with non-core assets.

Registered address and place of business. The Bank’s registered address and place of business is: Russian Federation, Saint Petersburg, Malookhtinskiy Prospect, 64, A.

Presentation currency. This condensed consolidated interim financial information is presented in thousands of Russian Roubles (RR thousand).

2 Operating Environment of the Group

Russian Federation. The economy of the Russian Federation displays certain characteristics of developing markets including relatively high inflation and high interest rates.

This year the financial crisis in Europe affected the Russian economy rather significantly. The GDP real growth rate in the second quarter of 2012 comprised 4.0% compared to the corresponding period of 2011, according to the estimates of the Russian Federal State Statistics Service. In the six-month period 2012 the industrial production index increased by 3.1% compared to January-June 2011. The Ministry of Economic Development of the Russian Federation has decreased its forecast for the industrial production growth in 2012 to 3.1% compared to 3.6% in the previous forecast. Real disposable income in the first half of 2012 compared to the corresponding period of the previous year increased by 2.7%.

At the same time such negative factors as a decrease in liquidity, high levels of capital outflow from Russia, fluctuations of exchange rates of the major foreign currencies were observed.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and changes, which can occur frequently. In addition, the need for further developments in the bankruptcy laws, the lack of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments still contribute to the difficulties experienced by banks operating in the Russian Federation.

The future economic development of the Russian Federation is largely dependent upon the effectiveness of the economic, financial and monetary measures undertaken by the Government, together with the tax, legal, regulatory and political developments.

Management cannot foresee all factors that can affect the development of the banking sector and the economy as a whole as well as the impact (if any) they can have on the financial position of the Group in the future. Management believes that it takes all the necessary steps to sustain the stability and development of the Group’s business.

3 Basis of Preparation and Significant Accounting Policies

Basis of preparation. As permitted by IAS 34 “Interim Financial Reporting”, an entity may decide to provide less information at interim dates as compared to its annual financial statements. This condensed consolidated interim financial information is prepared in accordance with IAS 34. The accounting policies and methods of computations applied in the preparation of this condensed consolidated interim financial information are consistent with those disclosed in the annual consolidated financial statements for the year ended 31 December 2011. These policies are consistently applied to all the periods presented. The condensed consolidated interim financial information does not contain all the explanatory notes as required for a full set of financial statements.

The preparation of this condensed consolidated interim financial information in conformity with IAS 34 requires management to make estimates and exercise professional judgement. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to this condensed consolidated interim financial information are disclosed in note 4.

The operations are not of a seasonal or cyclical nature.

As at 30 June 2012 the official exchange rate used for translating foreign currency balances is USD 1 = RR 32.8169 and Euro 1 = RR 41.3230 (2011: 32.1961 RR/USD and 41.6714 RR/EUR).

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts of assets and liabilities recognised in the condensed consolidated interim financial information. 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 professional judgements and estimates in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the condensed consolidated interim financial information and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities include:

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Impairment losses on loans and advances. The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the period, the Group makes professional 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 loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers 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. 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. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the allowance would be approximately RR 95,855 thousand higher or lower (31 December 2011: RR 96,254 thousand higher or lower).

Revaluation of premises. The fair values of premises are determined by using valuation methods and are based on their market value. Market values of premises are obtained from the report of an independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of premises of similar location and category. The market value was assessed using sales comparison approach i.e., comparison with other premises that were sold or are offered for sale. To the extent that the assessed change in the fair value premises differs by 10%, the effect of the revaluation adjustment would be RR 1,272,545 thousand (before deferred tax) as at 30 June 2012 (31 December 2011: RUR 1,306,392 thousand).

5 New Accounting Pronouncements

New standards and interpretations have been published, a part of which is obligatory for annual reporting periods beginning on or after 1 January 2012, and another part of which is obligatory for the periods beginning on or after 1 January 2013 and which have not been adopted by the Group:

IFRS 9 “Financial Instruments” will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 “Financial Instruments: Recognition and Measurement”. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

IFRS 10 “Consolidated Financial Statements” will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 “Consolidated and Separate Financial Statements” and SIC-12 “Consolidation – Special Purpose Entities”. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided the entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

5 New Accounting Pronouncements (continued)

IAS 27 (2011) "Separate Financial Statements" will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).

IAS 28 (2011) "Investments in Associates and Joint Ventures" combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).

IFRS 11 "Joint Arrangements" will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 "Interests in Joint Ventures". The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results in a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

IFRS 12 "Disclosure of Interests in Other Entities" will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

IFRS 13 "Fair Value Measurement" will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

Amendment to ***IAS 1 "Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income".*** The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

5 New Accounting Pronouncements (continued)

Amendment to ***IAS 12 “Income Taxes – Deferred Tax: Recovery of Underlying Assets”***. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 “Investment Property”. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 “Business Combinations” provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively.

Except for the cases described above new standards and interpretations will not have significant impact on the financial statements of the Group.

6 Trading securities

(In thousands of Russian Roubles)	**30 June 2012 (unaudited)**	**31 December 2011**
Corporate bonds	15,373,330	17,910,871
Federal loan bonds (OFZ bonds)	5,181,725	4,058,912
Corporate Eurobonds	3,884,386	3,956,403
Municipal bonds	83,882	2,489,408
Total debt securities	**24,523,323**	**28,415,594**
Corporate shares	-	628,062
Total trading securities	**24,523,323**	**29,043,656**

Corporate bonds are interest bearing Russian Rouble denominated securities issued by Russian companies and are traded in the Russian market. These bonds have maturity dates from 19 July 2012 to 17 February 2032 (31 December 2011: from 21 February 2012 to 16 January 2025); coupon rates of 6.5% - 19.0% p.a. (31 December 2011: 6.5% - 19.0% p.a.); and yields to maturity of 4.6% - 14.8% p.a. as at 30 June 2012 (31 December 2011: 1.5% - 13.7% p.a.), depending on the type of bond issue.

Federal loan bonds (OFZ bonds) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates from 1 August 2012 to 15 March 2018 (31 December 2011: from 18 January 2012 to 15 July 2015); coupon rates of 6.7% - 11.3% p.a. (31 December 2011: 6.7% - 11.9% p.a.); and yields to maturity of 6.0% - 8.2% p.a. as at 30 June 2012 (31 December 2011: 4.2% - 7.8% p.a.), depending on the type of bond issue.

Corporate Eurobonds are interest bearing USD denominated securities issued by Russian companies and are traded in the international and Russian over-the-counter markets. These Corporate Eurobonds have maturity dates from 22 October 2012 to 28 June 2019 (31 December 2011: from 28 January 2012 to 25 October 2017); coupon rates of 5.1% - 10.3% p.a. (31 December 2011: 5.1% - 10.3% p.a.); and yields to maturity of 3.0% - 8.1% p.a. as at 30 June 2012 (31 December 2011: 1.4% - 8.0% p.a.).

Municipal bonds are Russian Rouble denominated securities issued by the municipal administrations of Moscow, Saint Petersburg, Moscow region, Samara region and Krasnoyarsk region (31 December 2011: municipal administrations of Moscow, Saint Petersburg, Samara region and Krasnoyarsk region). These bonds are sold at a discount to nominal value, have maturity dates from 5 September 2012 to 19 November 2015 (31 December 2011: from 27 June 2012 to 19 November 2015); coupon rates of 7.0% - 15.0% p.a. (31 December 2011: 7.8% - 15.0% p.a.); and yields to maturity of 6.5% - 9.1% p.a. as at 30 June 2012 (31 December 2011: 6.2% - 7.9% p.a.), depending on the type of bond issue.

6 Trading securities (continued)

As at 30 June 2012 the Group has no corporate shares (31 December 2011: corporate shares are shares of Russian companies and global depositary receipts on shares of Russian companies).

Trading securities are carried at fair value, which also reflects the credit risk of these securities.

Analysis of debt trading securities outstanding at 30 June 2012 by their credit quality is as follows:

(In thousands of Russian Roubles)	**Corporate bonds**	**Russian Government Federal bonds**	**Corporate Eurobonds**	**Municipal bonds**	**Total**
Not overdue or impaired (at fair value)					
Group A	9,129,380	5,181,725	466,847	79,332	14,857,284
Group B	2,918,394	-	2,795,177	4,550	5,718,121
Group C	871,577	-	622,362	-	1,493,939
Group D	2,453,979	-	-	-	2,453,979
Total debt trading securities (unaudited)	**15,373,330**	**5,181,725**	**3,884,386**	**83,882**	**24,523,323**

Debt trading securities of the Group are divided by the issuer's credit rating defined by rating agencies Moody's, S&P and Fitch:

Group A - debt financial securities of the issuers rated at least "BBB-", according to S&P rating agency or equivalent rating of other agencies.

Group B - debt financial securities of the issuers rated between "BB-" and "BB+", according to S&P rating agency or equivalent rating of other agencies.

Group C - debt financial securities of the issuers rated between "B-" and "B+", according to S&P rating agency or equivalent rating of other agencies.

Group D - debt securities of the issuers rated below "B-", according to S&P rating agency or equivalent rating of other agencies.

Analysis of debt trading securities outstanding at 31 December 2011 by their credit quality is as follows:

(In thousands of Russian Roubles)	**Corporate bonds**	**Russian Government Federal bonds**	**Corporate Eurobonds**	**Municipal bonds**	**Total**
Not overdue or impaired (at fair value)					
Group A	9,538,203	4,058,912	1,235,583	2,489,402	17,322,100
Group B	4,081,819	-	2,719,184	6	6,801,009
Group C	1,389,079	-	1,636	-	1,390,715
Group D	2,901,770	-	-	-	2,901,770
Total debt trading securities	**17,910,871**	**4,058,912**	**3,956,403**	**2,489,408**	**28,415,594**

The Bank is licensed by the Federal Agency for Financial Markets of the Russian Federation for trading in securities.

Currency and maturity analyses of trading securities are disclosed in note 20.

7 Trading securities pledged under sale and repurchase agreement

(In thousands of Russian Roubles)	**30 June 2012 (unaudited)**	**31 December 2011**
Corporate bonds	22,388,643	11,670,446
Municipal bonds	4,523,078	2,930,415
Corporate Eurobonds	2,018,678	-
Federal loan bonds (OFZ bonds)	-	533,521
Total trading securities pledged under sale and repurchase agreements	**28,930,399**	**15,134,382**

Corporate bonds are interest bearing Russian Rouble denominated securities issued by Russian companies and are traded in the Russian market. These bonds have maturity dates from 22 August 2012 to 16 January 2025 (31 December 2011: from 6 August 2012 to 18 March 2021); coupon rates of 6.8% - 15.0% p.a. (31 December 2011: 6.6% - 15.0% p.a.); and yields to maturity of 4.6% - 11.0% p.a. as at 30 June 2012 (31 December 2011: 6.5% - 9.7% p.a.). The term of the corresponding repurchase agreements is between 3 and 7 calendar days (31 December 2011: 12 calendar days), with effective rates of 5.0% - 5.3% p.a. (31 December 2011: 5.0% - 5.3% p.a.).

Municipal bonds are Russian Rouble denominated securities issued by the municipal administrations of Moscow, Saint Petersburg and Krasnoyarsk region (31 December 2011: Moscow, Moscow region and Krasnoyarsk region). These bonds are sold at a discount to nominal value, have maturity dates from 5 September 2012 to 19 November 2015 (31 December 2011: from 5 September 2012 to 21 July 2014); coupon rates of 7.0% - 15.0% p.a. (31 December 2011: 8.0% - 14.0% p.a.); and yields to maturity of 6.5% - 9.1% p.a. as at 30 June 2012 (31 December 2011: 6.2% - 8.9% p.a.), depending on the type of bond issue. The term of the corresponding repurchase agreements is 7 calendar days (31 December 2011: 12 calendar days), with an effective rate of 5.3% p.a. (31 December 2011: 5.3% p.a.).

Corporate Eurobonds are interest bearing USD denominated securities issued by Russian companies and are tradable in the international and Russian over-the-counter markets. These Corporate Eurobonds have maturity date of 20 February 2015; coupon rate of 3.3%; and yield to maturity of 2.4% as at 30 June 2012. The term of the corresponding repurchase agreements is 7 calendar days, with an effective rate of 5.3% p.a. (31 December 2011: no Corporate Eurobonds).

As at 31 December 2011 Federal loan bonds (OFZ bonds) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These bonds have a maturity date of 17 October 2012, a coupon rate of 11.3% p.a. and yield to maturity of 6.1% p.a. The term of the corresponding repurchase agreements is 12 calendar days with and effective rate of 5.3% p.a.

Analysis of debt trading securities pledged under sale and repurchase agreements outstanding at 30 June 2012 by their credit quality is as follows:

(In thousands of Russian Roubles)	**Corporate bonds**	**Municipal bonds**	**Corporate Eurobonds**	**Total**
Group A	14,157,299	4,465,565	2,018,678	20,641,542
Group B	6,621,497	57,513	-	6,679,010
Group C	1,060,520	-	-	1,060,520
Group D	549,327	-	-	549,327
Total debt trading securities pledged under sale and repurchase agreements (unaudited)	**22,388,643**	**4,523,078**	**2,018,678**	**28,930,399**

7 Trading securities pledged under sale and repurchase agreements (continued)

Analysis of debt trading securities pledged under sale and repurchase agreements outstanding at 31 December 2011 by their credit quality is as follows:

(In thousands of Russian Roubles)	**Corporate bonds**	**Municipal bonds**	**Federal loan bonds (OFZ bonds)**	**Total**
Group A	9,385,679	2,867,212	533,521	**12,786,412**
Group B	2,011,819	63,203	-	**2,075,022**
Group C	142,314	-	-	**142,314**
Group D	130,634	-	-	**130,634**
Total debt trading securities pledged under sale and repurchase agreements	**11,670,446**	**2,930,415**	**533,521**	**15,134,382**

For definition of Groups see note 6.

As at 30 June 2012 included in due to banks are sale and repurchase agreements with credit institutions in the amount of RR 25,272,308 thousand (31 December 2011: RR 13,490,520 thousand).

As at 30 June 2012 included in customer accounts are sale and repurchase agreements with legal entities in the amount of RR 51,704 thousand (31 December 2011: RR 8,499 thousand). Refer to note 11.

Currency and maturity analyses of trading securities pledged under sale and repurchase agreements are disclosed in note 20.

8 Financial instruments at fair value through profit or loss

(In thousands of Russian Roubles)	**30 June 2012 (unaudited)**	**31 December 2011**
Credit linked notes	657,432	-
Total financial instruments at fair value through profit or loss	**657,432**	**-**

In May 2012 the Group purchased credit linked notes with the nominal value of USD 20,000 thousand from a large foreign bank at the 100% price maturing before 20 June 2013, with coupon rate of 6.0%, and yield to maturity of 6.0% p.a. as at 30 June 2012. The note incorporates a credit default swap ("CDS") connected to the credit risk of a large Russian bank (basic borrower).

Management classifies financial instruments with embedded derivatives as financial instruments at fair value through profit or loss.

As at 30 June 2012 international ratings of the issuers of the notes described above and the basic borrower are A+ (Fitch and S&P) and BBB (Fitch and S&P), respectively (31 December 2011: no financial instruments at fair value through profit or loss).

The analysis by currency structure and terms of placement of financial instruments at fair value through profit or loss is presented in note 20.

9 Amounts receivable under reverse repurchase agreements

(In thousands of Russian Roubles)	30 June 2012 (unaudited)	31 December 2011
Amounts receivable under reverse repurchase agreements with banks	1,414,232	4,959,655
Amounts receivable under reverse repurchase agreements with customers	679,969	2,889,357
Total amounts receivable under reverse repurchase agreements	**2,094,201**	**7,849,012**

As at 30 June 2012 amounts receivable under reverse repurchase agreements represent agreements with customers and banks that are secured by eurobonds of the Russian Federation, corporate shares and global depositary receipts on corporate shares (31 December 2011: federal loan bonds (OFZ bonds), municipal bonds, corporate bonds and corporate shares). As at 30 June 2012 the fair value of securities pledged as collateral under reverse repurchase agreements is RR 2,734,561 thousand (31 December 2011: RR 9,234,418 thousand).

Currency and maturity analyses of amounts receivable under reverse repurchase agreements is disclosed in note 20.

10 Loans and advances to customers

(In thousands of Russian Roubles)	30 June 2012 (unaudited)	31 December 2011
Corporate loans		
- loans to finance working capital	154,518,606	149,259,268
- investment loans	55,826,112	56,124,976
- loans to entities financed by the government	16,221,066	9,838,219
Loans to individuals		
- mortgage loans	8,809,901	7,836,465
- car loans	1,908,002	1,248,144
- consumer loans to VIP clients	3,720,431	4,713,446
- other loans to individuals	3,053,212	2,236,824
Allowance for impairment	(22,321,555)	(21,350,274)
Total loans and advances to customers	**221,735,775**	**209,907,068**

As at 30 June 2012 the carrying value of securities reclassified to loans and advances to customers in 2008 amounts to RR 426,599 thousand before the allowance for impairment (31 December 2011: RR 832,433 thousand).

Reclassified securities with carrying value of RR 368,909 thousand are securities pledged under repurchase agreements within amounts due to banks. As at 30 June 2012 the fair value of these securities amounts to RR 390,844 thousand (31 December 2011: securities with carrying value of RR 570,882 thousand are presented by securities pledged under repurchase agreements within amounts due to banks, the fair value of these securities amounts to RR 606,856 thousand).

10 Loans and advances to customers (continued)

Movements in the allowance for loan impairment during the six-month period ended 30 June 2012 are as follows:

(In thousands of Russian Roubles)	Corporate loans	Loans to individuals	Total
Allowance for impairment at 31 December 2011	**20,436,424**	**913,850**	**21,350,274**
Provision for impairment during the period	3,388,904	(75,347)	**3,313,557**
Amounts written-off as non-recoverable	(2,292,090)	(50,186)	**(2,342,276)**
Allowance for impairment at 30 June 2012 (unaudited)	**21,533,238**	**788,317**	**22,321,555**

Movements in the allowance for loan impairment during the six-month period ended 30 June 2011 are as follows:

(In thousands of Russian Roubles)	Corporate loans	Loans to individuals	Total
Allowance for impairment at 31 December 2010	**18,202,964**	**1,232,978**	**19,435,942**
Provision for impairment during the period	1,122,410	(168,454)	**953,956**
Loans sold during the period	(770,464)	-	**(770,464)**
Amounts written-off as non-recoverable	(4,656)	(987)	**(5,643)**
Allowance for loan impairment at 30 June 2011 (unaudited)	**18,550,254**	**1,063,537**	**19,613,791**

Economic sector risk concentrations within the customer loan portfolio as at 30 June 2012 and 31 December 2011 are as follows:

	30 June 2012 (unaudited)		**31 December 2011**	
(In thousands of Russian Roubles)	**Amount**	**%**	**Amount**	**%**
Construction	31,792,819	13.0	30,114,469	13.0
Trade	30,662,534	12.6	26,612,935	11.5
Heavy machinery and ship-building	29,569,400	12.1	30,574,200	13.2
Leasing and financial services	27,194,914	11.1	27,383,215	11.8
Real estate	23,068,472	9.5	21,568,270	9.3
Extraction and transportation of oil and gas	17,642,099	7.2	17,179,939	7.4
Individuals	17,491,546	7.2	16,034,879	6.9
Entities financed by the government	16,221,066	6.6	9,838,219	4.3
Production and food industry	14,674,117	6.0	14,426,340	6.2
Transport	7,851,068	3.2	9,417,183	4.1
Sports and health and entertainment organizations	7,685,090	3.1	7,278,856	3.1
Energy	5,379,754	2.2	5,007,088	2.2
Chemical industry	2,470,562	1.0	2,101,012	0,9
Telecommunications	2,421,464	1.0	3,673,659	1.6
Other	9,932,425	4.2	10,047,078	4.5
Total loans and advances to customers (before allowance for loan impairment)	**244,057,330**	**100.0**	**231,257,342**	**100.0**

As at 30 June 2012 the 20 largest borrowers have aggregated loan amounts of RR 81,773,799 thousand (31 December 2011: RR 74,573,078 thousand), or 33.5% (31 December 2011: 32.2%) of total loans and advances to customers (before allowance for loan impairment).

10 Loans and advances to customers (continued)

Loans and advances to customers, their credit quality and the related allowance for impairment as at 30 June 2012 are as follows:

(In thousands of Russian Roubles)	**Gross loans and advances to customers (unaudited)**	**Allowance for impairment (unaudited)**	**Net loans and advances to customers (unaudited)**	**Allowance for impairment, % (unaudited)**
Loans and advances to legal entities:				
Loans collectively assessed for impairment, but not individually impaired				
Standard loans not past due	186,077,292	(6,956,317)	179,120,975	3.74
Watch list loans not past due	9,166,662	(525,440)	8,641,222	5.73
Individually assessed loans, for which specific indications of impairment have been identified				
Not past due	19,294,177	(6,447,074)	12,847,103	33.41
Overdue:				
- less than 5 calendar days	3,273	(327)	2,946	9.99
- 6 to 30 calendar days	807,919	(646,335)	161,584	80.00
- 31 to 60 calendar days	1,151,688	(345,042)	806,646	29.96
- 91 to 180 calendar days	716,969	(231,940)	485,029	32.35
- 181 to 365 calendar days	4,134,823	(2,856,114)	1,278,709	69.07
- over 365 calendar days	5,098,817	(3,410,485)	1,688,332	64.51
Uncollectible loans	114,164	(114,164)	-	100.00%
Total loans and advances to legal entities	**226,565,784**	**(21,533,238)**	**205,032,546**	**9.50**
Loans and advances to individuals				
- mortgage loans	8,809,901	(272,254)	8,537,647	3.09
- car loans	1,908,002	(68,461)	1,839,541	3.59
- consumer loans to VIP clients	3,720,431	(350,916)	3,369,515	9.43
- other loans to individuals	3,053,212	(96,686)	2,956,526	3.17
Total loans and advances to individuals	**17,491,546**	**(788,317)**	**16,703,229**	**4.51**
Total loans and advances to customers	**244,057,330**	**(22,321,555)**	**221,735,775**	**9.15**

10 Loans and advances to customers (continued)

(In thousands of Russian Roubles)	**Mortgage loans (unaudited)**	**Car loans (unaudited)**	**Consumer loans to VIP clients (unaudited)**	**Other loans to individuals (unaudited)**	**Total loans to individuals (unaudited)**
Loans to individuals					
Standard loans not past due	8,477,797	1,835,154	3,265,287	2,955,158	16,533,396
Overdue:					
- less than 5 calendar days	4,660	492	-	12,031	17,183
- 6 to 30 calendar days	42,848	5,893	-	5,063	53,804
- 31 to 60 calendar days	18,769	3,277	8	4,774	26,828
- 61 to 90 calendar days	19,104	2,511	-	1,369	22,984
- 91 to 180 calendar days	16,739	2,585	238,816	11,470	269,610
- 181 to 365 calendar days	17,725	1,957	-	33,099	52,781
- over 365 calendar days	212,259	56,133	216,320	30,248	514,960
Total gross loans to individuals	**8,809,901**	**1,908,002**	**3,720,431**	**3,053,212**	**17,491,546**
Allowance for impairment	**(272,254)**	**(68,461)**	**(350,916)**	**(96,686)**	**(788,317)**
Total net loans to individuals	**8,537,647**	**1,839,541**	**3,369,515**	**2,956,526**	**16,703,229**

10 Loans and advances to customers (continued)

Loans and advances to customers, their credit quality and the related allowance for impairment as at 31 December 2011 are as follows:

(In thousands of Russian Roubles)	**Gross loans and advances to customers**	**Allowance for impairment**	**Net loans and advances to customers**	**Allowance for impairment, %**
Loans and advances to legal entities:				
Loans collectively assessed for impairment, but not individually impaired				
Standard loans not past due	178,301,417	(7,305,185)	170,996,232	4.10
Watch list loans not past due	9,406,468	(1,056,513)	8,349,955	11.23
Individually assessed loans, for which specific indications of impairment have been identified				
Not past due	15,299,756	(4,203,059)	11,096,697	27.47
Overdue:				
- less than 5 calendar days	18,631	(1,845)	16,786	9.90
- 6 to 30 calendar days	8,184	(1,637)	6,547	20.00
- 31 to 60 calendar days	3,326,030	(1,791,113)	1,534,917	53.85
- 61 to 90 calendar days	668,326	(129,964)	538,362	19.45
- 91 to 180 calendar days	440,525	(88,105)	352,420	20.00
- 181 to 365 calendar days	1,202,741	(883,845)	318,896	73.49
- over 365 calendar days	4,200,203	(2,624,976)	1,575,227	62.50
Uncollectible loans	2,350,182	(2,350,182)	-	100.00
Total loans and advances to legal entities	**215,222,463**	**(20,436,424)**	**194,786,039**	**9.50**
Loans and advances to individuals				
- mortgage loans	7,836,465	(367,702)	7,468,763	4.69
- car loans	1,248,144	(83,618)	1,164,526	6.70
- consumer loans to VIP clients	4,713,446	(375,449)	4,337,997	7.97
- other loans to individuals	2,236,824	(87,081)	2,149,743	3.89
Total loans and advances to individuals	**16,034,879**	**(913,850)**	**15,121,029**	**5.70**
Total loans and advances to customers	**231,257,342**	**(21,350,274)**	**209,907,068**	**9.23**

10 Loans and advances to customers (continued)

(In thousands of Russian Roubles)	Mortgage loans	Car loans	Consumer loans to VIP clients	Other loans to individuals	Total to individuals
Loans to individuals					
Standard loans not past due	7,306,872	1,153,007	4,435,170	2,152,130	15,047,179
Overdue:					
- less than 5 calendar days	2,725	5,099	-	5,968	13,792
- 6 to 30 calendar days	125,765	10,124	-	5,119	141,008
- 31 to 60 calendar days	35,588	3,799	-	597	39,984
- 61 to 90 calendar days	18,470	531	-	16,417	35,418
- 91 to 180 calendar days	53,612	3,284	-	18,964	75,860
- 181 to 365 calendar days	39,720	8,229	-	5,327	53,276
- over 365 calendar days	253,713	64,071	278,276	32,302	628,362
Total gross loans to individuals	**7,836,465**	**1,248,144**	**4,713,446**	**2,236,824**	**16,034,879**
Allowance for impairment	**(367,702)**	**(83,618)**	**(375,449)**	**(87,081)**	**(913,850)**
Total net loans to individuals	**7,468,763**	**1,164,526**	**4,337,997**	**2,149,743**	**15,121,029**

Management estimates loan impairment for individually assessed loans to legal entities, for which specific indications of impairment have been identified, based on an analysis of the expected future cash flows for impaired loans based primarily on collateral. The principal collateral taken into account in the estimation of future cash flows is real estate. Valuations for real estate are discounted by 30 - 50 percent to reflect current market conditions.

For portfolios of loans for which no indications of impairment are identified, in determining the impairment allowance, the Group adjusts historic loss rates to factor in the deterioration/improvement of the loan portfolio, as evidenced by the rate of increase/decrease in the level of impaired and overdue loans arising from current market conditions. The impairment allowance reflects management’s estimate of the losses in the portfolio as at 30 June 2012 and 31 December 2011. The value of collateral is considered only when a loan becomes individually impaired.

Management estimates loan impairment for loans to individuals based on an analysis of the future cash flows for impaired loans and based on its past loss experience for loans for which no indications of impairment has been identified. In determining the impairment allowance for loans to individuals, for which no signs of impairment are identified, management adjusts historic loss rates to factor in the current deteriorating/improvement of the loan portfolio. The principal collateral taken into account in the estimation of future cash-flows comprises mainly real estate and cars. Valuations for real estate and cars are discounted by 10 - 20 percent to reflect current market conditions.

Loans and advances to customers are classified as “Standard loans not past due” when they do not have any overdue payments as at reporting date and management does not have any information indicating that the borrower is not able to repay the loan in full and in time.

Loans and advances to customers are classified as “Watch list loans not past due” when they have moderate credit risk. The comprehensive analysis of operating and financial position of the borrower and other information, including external environment, indicates the stable position of the borrower, however there are some negative factors that may have an impact on the ability of the borrower to repay its loan in the future on a timely basis.

10 Loans and advances to customers (continued)

The primary factors that the Group considers when deciding whether a loan is individually impaired are its overdue/restructured status and/or occurrence of any factors that may make it doubtful whether the borrowers are able to repay the full amounts owed to the Group on a timely basis.

Interest income accrued on overdue and impaired loans during the six-month period ended 30 June 2012 amounts to RR 366,520 thousand (Six-month period ended 30 June 2011: RR 296,003 thousand).

Currency and maturity analyses of loans and advances to customers are disclosed in note 20. The information on related party balances is disclosed in note 22.

11 Customer accounts

(In thousands of Russian Roubles)	**30 June 2012 (unaudited)**	**31 December 2011**
State and public organisations		
- Current/settlement accounts	843,599	674,615
- Term deposits	5,308,617	5,092,584
Other legal entities		
- Current/settlement accounts	49,325,173	52,355,916
- Term deposits	65,510,860	81,179,317
- Sale and repurchase agreements	51,704	8,499
Individuals		
- Current accounts/demand deposits	19,899,300	17,918,256
- Term deposits	76,926,511	69,473,703
Total customer accounts	**217,865,764**	**226,702,890**

State and public organisations exclude government owned profit oriented businesses.

Economic sector concentrations within customer accounts are as follows:

	30 June 2012 (unaudited)		**31 December 2011**	
(In thousands of Russian Roubles)	**Amount**	**%**	**Amount**	**%**
Individuals	96,825,811	44.4	87,391,959	38.5
Financial services	32,722,812	15.0	37,218,067	16.4
Construction	27,695,079	12.7	28,197,337	12.4
Production	14,582,808	6.7	19,070,446	8.4
Trade	12,227,040	5.6	13,323,867	5.9
Real estate	8,306,449	3.8	7,002,598	3.1
Cities and municipalities	6,702,446	3.1	6,354,329	2.8
Art, science and education	6,309,406	2.9	6,639,815	2.9
Transport	4,789,422	2.2	8,253,627	3.6
Public utilities	1,756,886	0.8	3,628,116	1.6
Communications	1,192,749	0.5	3,590,688	1.6
Energy	652,321	0.3	1,586,784	0.7
Medical institutions	566,247	0.3	494,135	0.2
Other	3,536,288	1.7	3,951,122	1.9
Total customer accounts	**217,865,764**	**100.0**	**226,702,890**	**100.0**

As at 30 June 2012, included in customer accounts are sale and repurchase agreements with legal entities in the amount of RR 51,704 thousand (31 December 2011: included in customer accounts are sale and repurchase agreements with legal entities in the amount of RR 8,499 thousand). Sale and repurchase agreements are secured by corporate bonds with the fair value of RR 54,587 thousand (31 December 2011: sale and repurchase agreements are secured by corporate bonds with the fair value of RR 10,011 thousand). Refer to note 7.

11 Customer accounts (continued)

As at 30 June 2012, included in customer accounts are deposits in the amount of RR 433,943 thousand held as collateral for irrevocable commitments under import letters of credit (31 December 2011: RR 2,575,619 thousand).

Currency and maturity analyses of customer accounts are disclosed in note 20. Information on related party balances is disclosed in note 22.

12 Bonds issued

(In thousands of Russian Roubles)	**30 June 2012 (unaudited)**	**31 December 2011**
Bonds	8,261,972	8,232,277
Subordinated Eurobonds	3,388,408	3,323,247
Total bonds issued	**11,650,380**	**11,555,524**

On 27 September 2010 the Group issued Russian Rouble denominated interest-bearing bonds (one bond – RR 1 000, the bonds were placed at nominal value), in the amount of 5 000 000 items. These bonds have a maturity of 1 092 days, coupon period of 182 days, and the interest rate is set for three coupon periods. As at 30 June 2012 the carrying value of these bonds is RR 5,107,030 thousand with a coupon rate of 9.0% p.a. (31 December 2011: the carrying value of these bonds is RR 5,085,336 thousand with a coupon rate of 7.5% p.a.).

On 16 December 2010 the Group issued Russian Rouble denominated interest-bearing bonds (one bond – RR 1 000, the bonds were placed at nominal value), in the amount of 3 000 000 items. These bonds have a maturity of 1 092 days, coupon period of 182 days, and the interest rate is set for four coupon periods. As at 30 June 2012 the carrying value of these bonds is RR 3,006,394 thousand with a coupon rate of 8.5% p.a. (31 December 2011: the carrying value of these bonds was RR 3,004,909 thousand with a coupon rate of 8.5% p.a.).

On 13 April 2010 the Group issued Russian Rouble denominated interest-bearing bonds (one bond – RR 1 000, the bonds were placed at nominal value), in the amount of 5 000 000 items. These bonds have a maturity of 1 092 days, coupon period of 182 days, and the placement rate is set for three coupon periods. On 13 October 2011 the Bank purchased 4,842,898 securities from a holder of outstanding bonds. As at 30 June 2012 the carrying value of these bonds is RR 148,548 thousand with a coupon rate of 8.3% p.a. set for two coupon periods (31 December 2011: the carrying value of these bonds is RR 142,032 thousand with a coupon rate of 8.3% p.a.).

In July 2007 the Group placed 1 000 interest-bearing US Dollar-denominated subordinated Eurobonds (one bond – USD 100 000). The issue was arranged by J.P. Morgan and UBS. The issue was registered on the Irish Stock Exchange. As at 30 June 2012 the carrying value of these bonds is USD 103,252 thousand, the equivalent of RR 3,388,408 thousand (31 December 2011: USD 103,219 thousand, the equivalent of RR 3,323,247 thousand). These subordinated Eurobonds have a maturity of 25 July 2017 with an early redemption option at nominal value on 25 July 2012, nominal coupon rate of 10.5% p.a. and effective interest rate of 11.2% p.a.

In the event of liquidation of the Bank, the claims of repayment of subordinated Eurobonds are subordinated to the claims of other creditors and depositors.

Currency and maturity and interest rate analyses of bonds issued are disclosed in note 20.

13 Other borrowed funds

(In thousands of Russian Roubles)	**30 June 2012 (unaudited)**	**31 December 2011**
Subordinated loans	5,562,487	5,527,834
VTB Bank	3,312,885	3,254,344
EBRD	2,213,159	2,118,734
KFW IPEX-Bank GmbH	328,678	483,771
Nordic Investment Bank	385,424	435,275
Eurasian Development Bank	263,312	258,298
Total other borrowed funds	**12,065,945**	**12,078,256**

In June 2009 the Group attracted a subordinated loan from the EBRD in the amount of USD 75,000 thousand. The loan is granted for the period of 10 years and 6 months, with the option of bullet repayment in 2020. As at 30 June 2012 the carrying value of this loan is USD 78,631 thousand, the equivalent of RR 2,580,415 thousand (31 December 2011: USD 78,685 thousand, the equivalent of RR 2,533,349 thousand). Interest rate during the first five years is 13.398% p.a.

In December 2008, the Group attracted a subordinated loan in the amount of EUR 36,690 thousand with maturity in December 2014. As at 30 June 2012, the carrying value of this subordinated loan is EUR 36,690 thousand, the equivalent of RR 1,516,141 thousand (31 December 2011: EUR 36,690 thousand, the equivalent of RR 1,528,924 thousand). The subordinated loan has a fixed interest rate of 14.50% p.a.

In August 2009 the Group attracted a subordinated loan from Vnesheconombank (“VEB”) in the amount of RR 1,466,000 thousand with maturity in December 2014. As at 30 June 2012, the carrying value of this loan is RUB 1,465,931 thousand (31 December 2011: RUB 1,465,561 thousand). The subordinated loan had an initial interest rate of 8.00% p.a. In August 2010 the interest rate was decreased to 6.50% p.a.

In the event of liquidation of the Bank, the claims of repayment of subordinated loans are subordinated to the claims of other creditors and depositors.

On 22 February 2011 the Group attracted a loan from VTB Bank (France) to finance trade contracts of clients in the amount of USD 20,000 thousand and interest rate of LIBOR + 4.25% p.a. maturing on 20 February 2013. As at 30 June 2012 the carrying value of this loan is USD 20,215 thousand, the equivalent of RR 663,405 thousand (31 December 2011: USD 20,349 thousand, the equivalent of RR 655,172 thousand). As at 30 June 2012 the interest rate is 5.002% p.a.

On 17 August 2011 the Group attracted a loan from VTB Bank (France) to finance trade contracts of clients in the amount of USD 20,000 thousand and interest rate of LIBOR + 3.95% p.a. maturing on 16 August 2013. As at 30 June 2012 the carrying value of this loan is USD 20,346 thousand, the equivalent of RR 667,705 thousand (31 December 2011: USD 20,332 thousand, the equivalent of RR 654,618 thousand). As at 30 June 2012 the interest rate is 4.702% p.a.

On 15 December 2010 the Group attracted a loan from VTB Bank (Deutschland) AG to finance trade contracts of clients in the amount of USD 20,000 thousand and interest rate of LIBOR + 4.25% p.a. maturing on 16 January 2013. As at 30 June 2012 the carrying value of this loan is USD 20,186 thousand, the equivalent of RR 662,455 thousand (31 December 2011: USD 20,188 thousand, the equivalent of RR 649,990 thousand). As at 30 June 2012 the interest rate is 4.717% p.a.

On 27 July 2011 the Group attracted a loan from VTB Bank (Deutschland) to finance trade contracts of clients in the amount of USD 20,000 thousand and interest rate of LIBOR + 3.5% p.a. maturing on 25 January 2013. As at 30 June 2012 the carrying value of this loan is USD 20,137 thousand, the equivalent of RR 660,827 thousand (31 December 2011: USD 20,140 thousand, the equivalent of RR 648,416 thousand). As at 30 June 2012 the interest rate is 3.966% p.a.

13 Other borrowed funds (continued)

On 29 August 2011 the Group attracted a loan from VTB Bank (Deutschland) to finance trade contracts of clients in the amount of USD 20,000 thousand and interest rate of LIBOR + 3.5% p.a. maturing on 27 February 2013. As at 30 June 2012 the carrying value of this loan is USD 20,066 thousand, the equivalent of RR 658,493 thousand (31 December 2011: USD 20,069 thousand, the equivalent of RR 646,148 thousand). As at 30 June 2012 the interest rate is 3.967% p.a.

On 14 December 2010 the Group attracted a loan from the EBRD in the amount of USD 65,000 thousand, which according to schedule shall be repaid before March 2014. This loan was issued for the purposes of financing small and medium enterprises. As at 30 June 2012 the carrying value of these loan is USD 65,904 thousand, the equivalent of RR 2,162,766 thousand (31 December 2011: USD 65,807 thousand, the equivalent of RR 2,118,734 thousand). The interest rate on the loan is fixed and equals to 5.55% p.a.

On 21 May 2012 the Group attracted funds under the revolving loan agreement with the EBRD to finance trade contracts of clients in the amount of USD 1,528 thousand. This loan has maturity on 21 May 2015. As at 30 June 2012, the carrying value of this loan is USD 1,536 thousand, the equivalent of RR 50,393 thousand. This loan is attracted at the interest rate LIBOR + 4.0% p.a., as at 30 June 2012 the interest rate is 4.735% p.a.

On 16 July 2008 the Group attracted a loan from KFW IPEX-Bank GmbH in the amount of USD 35,000 thousand with maturity in June 2013. The Group started the scheduled redemption and as at 30 June 2012 USD 25,000 thousand of the principal debt was redeemed. As at 30 June 2012 the carrying value of these loan is USD 10,016 thousand, the equivalent of RR 328,678 thousand (31 December 2011: USD 15,026 thousand, the equivalent of RR 483,771 thousand). The initial interest rate on this loan was LIBOR + 6.12%, but later it was fixed at 9.987% p.a. for remaining loan period.

On 6 September 2007 and 20 November 2007 the Group attracted four tranches of a credit facility provided by Nordic Investment Bank. The Group used the amount to fund certain projects. The Group started the scheduled redemption of the loan, the maturity of which is 3 October 2015. As at 30 June 2012 USD 16,904 thousand of the principal debt was redeemed. As at 30 June 2012 the carrying value of these loan is USD 11,745 thousand, the equivalent of RR 385,424 thousand (31 December 2011: USD 13,519 thousand, the equivalent of RR 435,275 thousand). The interest rate on the loan ranges from LIBOR + 2.85% p.a. to LIBOR + 2.95% p.a., depending on maturity dates of the tranches. As at 30 June 2012 the interest rates on the loan ranged from 3.583% to 3.683% p.a.

On 9 December 2011 the Group attracted a loan from the Eurasian Development Bank ("EDB") in the amount of USD 8,000 thousand to finance trade contracts of clients. This loan has maturity on 7 December 2012. As at 30 June 2012 the carrying value of this loan is USD 8,024 thousand, the equivalent of RR 263,312 thousand (31 December 2011: USD 8,023 thousand, the equivalent of RR 258,298 thousand). This loan is has an interest rate of LIBOR + 4.0% p.a., as at 30 June 2012 the interest rate is 4.736% p.a.

The Group shall observe certain covenants attached to syndicated loans, subordinated loans and funds from EBRD, KFW IPEX-Bank GmbH, Nordic Investment Bank, EDB, VTB Bank (Deutschland) AG, VTB Bank (France). Non-compliance with such covenants may result in negative consequences for the Group including increase in the cost of borrowings and declaration of default (except for subordinated loans). As at 30 June 2012 and 31 December 2011, the Group fully meets all covenants of the loan agreements.

Currency and maturity analyses of other borrowed funds are disclosed in note 20. Information on related party balances is disclosed in note 22.

14 Share capital

As at 30 June 2012 the nominal registered amount of issued share capital prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002, is RR 386,030 thousand (31 December 2011: RR 386,030 thousand). As at 30 June 2012, all of the outstanding shares are authorised, issued and fully paid in.

14 Share capital (continued)

All ordinary shares have a nominal value of RR 1 per share (31 December 2011: RR 1 per share). Each share carries one vote.

As at 30 June 2012, the Group has two types of preference shares:

- preference shares with a nominal value of RR 1 (one) in the amount of 20,100,000 (twenty million one hundred thousand)

- type A preference shares with a nominal value of RR 1 (one) in the amount of 65,211,000 (sixty five million two hundred eleven thousand).

All preference shares carry no voting rights and are non-redeemable.

Preference share dividends are set at 11.0% p.a. and rank above type A preference and ordinary shares.

Dividend per one type A preference share is Rouble denominated and is set at 13.5% of the placement price of one type A preference share fixed in US dollars. The Rouble equivalent is calculated using the exchange rate set by the CBRF as at the date the Supervisory Board accepts recommendations in respect of the amount of dividends on type A preference shares.

One type A preference share with a nominal value of RR 1 (one) is convertible into one ordinary share with a nominal value of RR 1 (one) on 15 May 2013.

If shareholders do not declare dividends on preference shares, the holders of preference shares are entitled to voting rights similar to ordinary shareholders until the dividends are paid. Preference shares of all types are not cumulative.

Share premium represents the excess of contributions received over the nominal value of shares issued.

15 Other comprehensive income recognised in equity

The analysis of other comprehensive income by separate items of each component of equity is as follows:

(In thousands of Russian Roubles)	**Revaluation reserve for investment securities available-for-sale (unaudited)**	**Total comprehensive income/(loss) (unaudited)**
Six-month period ended 30 June 2011		
Income from revaluation of investment securities available-for-sale	3,392	**3,392**
Deferred income tax recognised directly in other comprehensive income	(679)	**(679)**
Total other comprehensive income	**2,713**	**2,713**
Six-month period ended 30 June 2012		
Income from revaluation of investment securities available-for-sale	86,833	**86,833**
Deferred income tax recognised directly in other comprehensive income	(17,367)	**(17,367)**
Total other comprehensive income	**69,466**	**69,466**

16 Interest income and expense

(In thousands of Russian Roubles)	Six-month period ended 30 June 2012 (unaudited)	Six-month period ended 30 June 2011 (unaudited)
Interest income		
Loans and advances to customers	11,102,192	10,806,412
Trading securities	1,875,352	1,594,022
Sale and repurchase agreements	277,088	104,154
Due from banks	132,238	86,754
Correspondent accounts with other banks	30,951	10,939
Investments securities held-to-maturity	2,119	10,122
Total interest income	**13,419,940**	**12,612,403**
Interest expense		
Term deposits of legal entities	2,699,500	2,249,065
Term deposits of individuals	2,314,684	1,824,175
Due to banks	1,042,156	241,881
Bonds issued	518,736	672,024
Other borrowed funds	467,908	482,581
Other debt securities issued	211,322	287,644
Current/settlement accounts	204,134	67,222
Total interest expense	**7,458,440**	**5,824,592**
Net interest income	**5,961,500**	**6,787,811**

17 (Losses) earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the period less treasury shares.

The Group has potentially dilutive type A preference shares. Refer to note 14.

Basic earnings per share are calculated as follows:

(In thousands of Russian Roubles)	Six-month period ended 30 June 2012 (unaudited)	Six-month period ended 30 June 2011 (unaudited)
Profit attributable to shareholders	237,353	4,495,460
Less preference dividends	(784,743)	(762,571)
(Loss) profit attributable to ordinary shareholders of the Bank	**(547,390)**	**3,732,889**
Weighted average number of ordinary shares in issue (thousands)	300,719	282,150
Basic (loss) earnings per ordinary share (in RR per share)	**(1.82)**	**13.23**

17 (Losses) earnings per share (continued)

Diluted earnings per share are calculated as follows:

(In thousands of Russian Roubles)	**Six-month period ended 30 June 2012 (unaudited)**	**Six-month period ended 30 June 2011 (unaudited)**
Profit attributable to shareholders	237,353	4,495,460
Less preference dividends	(784,743)	(2,211)
(Loss) profit attributable to ordinary shareholders of the Bank	**(547,390)**	**4,493,249**
Average weighted diluted number of shares (thousands)	300,719	347,361
Diluted (loss) earnings per ordinary share (in RR per share)	**(1.82)**	**12.94**

Potential ordinary shares are treated as dilutive only when their conversion to ordinary shares would decrease earnings per share or increase loss per share.

18 Dividends

	Six-month period ended 30 June 2012 (unaudited)			**Six-month period ended 30 June 2011 (unaudited)**		
(In thousands of Russian Roubles)	**Ordinary shares**	**Type A preference shares**	**Preference shares**	**Ordinary shares**	**Type A preference shares**	**Preference shares**
Dividends payable as at 1 January	**3,367**	**-**	**-**	**4,149**	**-**	**-**
Dividends declared during the period	33,079	782,532	2,211	31,037	760,360	2,211
Dividends paid during the period	(30,210)	(782,532)	(2,211)	(30,459)	(760,360)	(2,211)
Dividends payable as at 30 June	**6,236**	**-**	**-**	**4,727**	**-**	**-**
Dividends per share declared during the period (in RR per share)	**0.11**	**12.0**	**0.11**	**0.11**	**11.66**	**0.11**

All dividends were declared and paid in Russian Roubles.

19 Segment Analysis

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Management Board performs the responsibilities of the chief operating decision maker.

Description of products and services that constitute sources of revenues of the reporting segments

The Group is organized on a basis of three main business segments:

- Corporate banking – settlement and current accounts, deposits, overdrafts, loans and other credit facilities, foreign currency transactions with commercial and state entities.
- Operations on financial markets – financial instruments trading, loans and deposits on the interbank market, dealing in foreign exchange and derivative financial instruments.
- Retail banking – private banking services, private customer current accounts, deposits, retail investment products, custody, credit and debit cards, consumer loans, mortgages and other loans to individuals VIP clients.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income/expense. Interest charged for these funds is based on market interest rates. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of assets and liabilities of the Group, but excluding some premises, equipment and intangible assets, long-term assets held-for-sale, investment property, other assets and liabilities and balances on taxation settlements. Internal charges and transfer pricing adjustments are reflected in the performance of each business segment.

Factors used by the management to define reporting segments

The Group's segments are strategic business units that offer different products and services for different clients. They are managed separately because they require different technology and marketing strategies and level of service.

Evaluation of profit or loss, assets and liabilities of operating segments

The Management Board analyses the financial information prepared in accordance with the requirements of Russian accounting standards. This financial information differs in some aspects from the information prepared in accordance with IFRS:

(i) resources are usually redistributed among segments using internal interest rates set by the Treasury department. These interest rates are calculated based on the basic market interest rates, contractual maturity dates and observable actual maturity dates of customer accounts balances

(ii) differences in the classification of securities to portfolios

(iii) income tax is not distributed to segments

(iv) provision for loan impairment is recognized based on Russian legislation, and not on the basis of the model of "incurred losses" specified in IAS 39

(v) fee and commission income on lending operations is recognized immediately and not in the future periods using the effective interest method

(vi) liabilities on unutilized leaves are not taken into account.

The Management Board evaluates the business segment results based on the amount of profit before income taxes paid.

19 Segment Analysis (continued)

Information on profit or loss, assets and liabilities of reporting segments

Segment information for the main reporting business segments for the six-month period ended 30 June 2012 and the six-month period ended 30 June 2011 is set out below (in accordance with the management information).

(In thousands of Russian Roubles)	Corporate banking	Operations on financial markets	Retail banking	Unallocated	Eliminations	Total
Six-month period ended 30 June 2012 (unaudited)						
External revenues	7,773,455	5,247,184	799,230	-	-	**13,819,869**
Revenues from other segments	4,460,204	10,030,709	2,724,088	-	(17,215,001)	**-**
Total revenues	**12,233,659**	**15,277,893**	**3,523,318**	**-**	**(17,215,001)**	**13,819,869**
Total revenues comprise:						
- Interest income	9,763,281	16,717,998	3,205,309	-	(17,215,001)	12,471,587
- Fee and commission income	922,004	11,836	314,887	-	-	1,248,727
- Other operating income (expenses)	1,548,374	(1,451,941)	3,122	-	-	99,555
Segment results	**(3,763,941)**	**5,153,826**	**1,183,445**	**-**	**-**	**2,573,330**
Unallocated costs	-	-	-	(1,679,791)	-	(1,679,791)
(Loss) profit before tax	(3,763,941)	5,153,826	1,183,445	(1,679,791)	-	**893,539**
Income tax expense	-	-	-	(772,554)	-	(772,554)
(Loss) profit	**(3,763,941)**	**5,153,826**	**1,183,445**	**(2,452,345)**	**-**	**120,985**
As at 30 June 2012 (unaudited)						
Segment assets	**230,184,211**	**90,192,197**	**22,402,770**	**20,534,061**	**-**	**363,313,239**
Other segment items for the six-month period ended 30 June 2012 (unaudited)						
Depreciation and amortization charge	(74,803)	(11,318)	(53,722)	(122,886)	-	(262,729)
(Provision) recovery of provision for loan impairment	(4,471,652)	4,155	(38,811)	-	-	(4,506,308)

19 Segment Analysis (continued)

(In thousands of Russian Roubles)	Corporate banking	Operation on financial markets	Retail banking	Unallocated	Eliminations	Total
Six-month period ended 30 June 2011 (unaudited)						
External revenues	10,086,890	1,811,254	1,254,257	-	-	**13,152,401**
Revenues from other segments	3,461,948	9,831,092	2,205,805	-	(15,498,845)	**-**
Total revenues	**13,548,838**	**11,642,346**	**3,460,062**	**-**	**(15,498,845)**	**13,152,401**
Total revenues comprise:						
- Interest income	12,707,814	11,622,581	3,078,008	-	(15,498,845)	**11,909,558**
- Fee and commission income	736,333	9,186	378,372	-	-	**1,123,891**
- Other operating income	104,691	10,579	3,682	-	-	**118,952**
Segment results	**1,361,810**	**5,035,588**	**292,826**	**-**	**-**	**6,690,224**
Unallocated costs	-	-	-	(2,209,820)	-	**(2,209,820)**
Profit before tax	1,361,810	5,035,588	292,826	(2,209,820)	-	**4,480,404**
Income tax expense	-	-	-	(708,619)	-	**(708,619)**
Profit (loss)	1,361,810	5,035,588	292,826	(2,918,439)	-	**3,771,785**
As at 31 December 2011						
Segment assets	**190,545,597**	**86,898,548**	**21,805,251**	**46,237,381**	-	**345,486,777**
Other segment items for the six-month period ended 30 June 2011 (unaudited)						
Depreciation and amortization charge	(36,953)	(8,657)	(27,417)	(81,705)	-	**(154,732)**
Recovery of provision (provision) for loan impairment	181,334	4,320	(33,016)	-	-	**152,638**

19 Segment Analysis (continued)

A reconciliation of segment information with assets in accordance with IFRS as at 30 June 2012 and 31 December 2011 is set out below:

(In thousands of Russian Roubles)	**30 June 2012 (unaudited)**	**31 December 2011**
Total segment assets	**363,313,239**	**345,486,777**
Adjustment of allowance for impairment	(24,733,470)	(21,591,570)
Adjustments of income/expense accruals	1,676,798	1,355,928
Premises, equipment and intangible assets depreciation and fair value adjustment	(724,890)	1,548,024
Fair value and amortized cost adjustments	(125,793)	3,194,254
Income tax adjustments	633,668	543,455
Elimination of assets additionally recognised in management accounting	-	(1,762,722)
Other adjustments	548,068	1,259,312
Total assets under IFRS	**340,587,620**	**330,033,458**

A reconciliation of segment information with profit before tax in accordance with IFRS for the six-month period ended 30 June 2012 and for the six-month period ended 30 June 2011:

(In thousands of Russian Roubles)	**Six-month period ended 30 June 2012 (unaudited)**	**Six-month period ended 30 June 2011 (unaudited)**
Total profit for the reporting segments (before tax)	**893,539**	**4,480,404**
Adjustment of allowance for impairment	2,733,050	804,634
Adjustments of income/expense accruals	(345,150)	(326,692)
Premises, equipment and intangible assets depreciation and fair value adjustment	36,537	(35,847)
Fair value and amortized cost adjustments	(2,769,581)	729,932
Other adjustments	(201,981)	(119,241)
Total profit before tax under IFRS	**346,414**	**5,533,190**

Geographical information. The major part of the Group's activity is concentrated in the North-West region of the Russian Federation. Activity is also carried out in the Moscow and Privolzhsky regions.

There are no customers (groups of related customers) with income from operations which exceed 10% of total income from operations with the external parties of the Group.

20 Financial Risk Management

The risk management function is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks.

The primary objectives of the financial risk management function are to establish and ensure compliance with risk limits and other risk restrictions. Geographical risk management includes making decisions about opening new branches and outlets and setting limits for operations with counterparties – residents of countries with different levels of economic development with due consideration of geographical risk factors. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

20 Financial Risk Management (continued)

Policy and methods of financial risk management accepted by the Bank comply with the policy and methods described and applied in the Group’s annual report for the year ended 31 December 2011.

Currency risk. Currency risk is the risk of changes in income or carrying value of financial instruments due to exchange rates fluctuations.

The table below summarises the exposure to foreign currency exchange rate risk as at 30 June 2012. The Group does not apply this currency risk analysis for management purposes.

(In thousands of Russian Roubles)	**RR**	**USD**	**EUR**	**Other**	**Total (unaudited)**
ASSETS					
Cash and cash equivalents	10,446,535	1,668,690	14,344,519	203,880	26,663,624
Mandatory cash balances with the Central Bank of the Russian Federation	3,092,649	-	-	-	3,092,649
Trading securities	20,638,937	3,884,386	-	-	24,523,323
Trading securities pledged under sale and repurchase agreements	26,911,721	2,018,678	-	-	28,930,399
Financial instruments at fair value through profit or loss	-	657,432	-	-	657,432
Amounts receivable under reverse repurchase agreements	1,751,501	342,700	-	-	2,094,201
Due from banks	819,784	3,046,331	-	-	3,866,115
Loans and advances to customers	182,801,614	28,997,671	9,936,490	-	221,735,775
Investment securities available-for-sale	3,975,549	3,078,281	-	-	7,053,830
Investments securities held-to-maturity	31,361	-	-	-	31,361
Other financial assets	1,522,508	40,372	3,637	-	1,566,517
Prepaid income tax	623,733	-	-	-	623,733
Deferred tax asset	53,329	-	-	-	53,329
Investment property	4,724,492	-	-	-	4,724,492
Premises, equipment and intangible assets	13,673,254	-	-	-	13,673,254
Other assets	1,282,762	4,068	8,779	1,977	1,297,586
TOTAL ASSETS	**272,349,729**	**43,738,609**	**24,293,425**	**205,857**	**340,587,620**
LIABILITIES					
Due to banks	46,639,828	1,630,609	135,815	-	48,406,252
Customer accounts	175,586,004	22,212,814	19,500,154	566,792	217,865,764
Bonds issued	8,261,972	3,388,408	-	-	11,650,380
Other debt securities issued	5,117,787	2,927,770	950,092	-	8,995,649
Other borrowed funds	1,465,931	9,083,873	1,516,141	-	12,065,945
Other financial liabilities	669,743	46,615	165,612	-	881,970
Deferred tax liability	803,406	-	-	-	803,406
Other liabilities	406,183	271	-	-	406,454
TOTAL LIABILITIES	**238,950,854**	**39,290,360**	**22,267,814**	**566,792**	**301,075,820**
Deduct fair value of currency derivative financial instruments	(664,812)	-	-	-	(664,812)
Net recognised position, excluding currency derivative financial instruments	**32,734,063**	**4,448,249**	**2,025,611**	**(360,935)**	**38,846,988**
Currency derivative financial instruments	**11,730,206**	**(8,035,465)**	**(3,439,531)**	**409,602**	**664,812**
Net recognised position, including currency derivative financial instruments	**44,464,269**	**(3,587,216)**	**(1,413,920)**	**48,667**	**39,511,800**

20 Financial Risk Management (continued)

The table below summarises the exposure to foreign currency exchange rate risk as at 31 December 2011. The Group does not apply this currency risk analysis for management purposes.

(In thousands of Russian Roubles)	RR	USD	EUR	Other	Total
ASSETS					
Cash and cash equivalents	11,117,464	6,747,603	14,891,677	18,563	32,775,307
Mandatory cash balances with the Central Bank of the Russian Federation	2,978,296	-	-	-	2,978,296
Trading securities	25,011,592	4,032,064	-	-	29,043,656
Trading securities pledged under sale and repurchase agreements	15,134,382	-	-	-	15,134,382
Amounts receivable under reverse repurchase agreements	6,492,546	1,356,466	-	-	7,849,012
Due from banks	1,261,349	1,320,238	417,066	-	2,998,653
Loans and advances to customers	170,255,214	29,645,398	10,006,456	-	209,907,068
Investment securities available-for-sale	3,927,333	2,947,841	-	-	6,875,174
Investments securities held-to-maturity	31,361	-	-	-	31,361
Other financial assets	966,979	99,220	127,822	-	1,194,021
Prepaid income tax	491,193	-	-	-	491,193
Deferred income tax asset	52,262	-	-	-	52,262
Investment property	4,524,333	-	-	-	4,524,333
Premises, equipment and intangible assets	14,134,509	-	-	-	14,134,509
Other assets	2,034,449	2,769	7,013	-	2,044,231
TOTAL ASSETS	**258,413,262**	**46,151,599**	**25,450,034**	**18,563**	**330,033,458**
LIABILTIES					
Due to banks	25,858,749	1,141,915	198,231	-	27,198,895
Customer accounts	182,454,062	25,724,847	18,428,777	95,204	226,702,890
Bonds issued	8,232,277	3,323,247	-	-	11,555,524
Other debt securities issued	5,691,902	2,607,133	1,057,409	-	9,356,444
Other borrowed funds	1,465,561	9,083,771	1,528,924	-	12,078,256
Other financial liabilities	975,701	1,993	180,208	-	1,157,902
Deferred tax liability	1,132,896	-	-	-	1,132,896
Other liabilities	822,025	5,728	95		827,848
TOTAL LIABILITIES	**226,633,173**	**41,888,634**	**21,393,644**	**95,204**	**290,010,655**
Deduct fair value of currency derivative financial instruments	105,860	-	-	-	105,860
Net recognised position, excluding currency derivative financial instruments	**31,885,949**	**4,262,965**	**4,056,390**	**(76,641)**	**40,128,663**
Currency derivative financial instruments	**11,091,944**	**(6,246,515)**	**(5,215,269)**	**263,980**	**(105,860)**
Net recognised position, including currency derivative financial instruments	**42,977,893**	**(1,983,550)**	**(1,158,879)**	**187,339**	**40,022,803**

20 Financial Risk Management (continued)

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

The following tables show distribution of assets and liabilities as at 30 June 2012 and 31 December 2011 by expected maturity periods. This table is prepared for management purposes on the basis of accounting data prepared under Russian Accounting Standards.

As at 30 June 2012:

(In thousands of Russian Roubles)	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 1 year**	**Total (unaudited)**
Assets	94,551,686	61,025,577	45,903,761	159,760,926	361,241,950
Liabilities and equity	98,245,172	97,188,544	52,700,973	113,107,261	361,241,950
Net liquidity gap	(3,693,486)	(36,162,967)	(6,797,212)	46,653,665	
Cumulative liquidity gap	(3,693,486)	(39,856,453)	(46,653,665)	-	

As at 31 December 2011:

(In thousands of Russian Roubles)	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over than 1 year**	**Total**
Assets	89,579,501	61,356,979	66,705,361	126,834,549	344,476,390
Liabilities and equity	101,732,462	92,807,290	44,301,970	105,634,668	344,476,390
Net liquidity gap	(12,152,961)	(31,450,311)	22,403,391	21,199,881	
Cumulative liquidity gap	(12,152,961)	(43,603,272)	(21,199,881)	-	

20 Financial Risk Management (continued)

Below is the liquidity position using figures from the financial statements prepared in accordance with IFRS at 30 June 2012. The Group does not use the presented analysis by contractual maturity for liquidity management purposes.

(In thousands of Russian Roubles)	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Over 5 years or not defined**	**Total (unaudited)**
ASSETS						
Cash and cash equivalents	26,663,624	-	-	-	-	26,663,624
Mandatory cash balances with the Central Bank of the Russian Federation	3,092,649	-	-	-	-	3,092,649
Trading securities	24,523,323	-	-	-	-	24,523,323
Trading securities pledged under sale and repurchase agreements	28,930,399	-	-	-	-	28,930,399
Financial instruments at fair value through profit or loss	-	-	657,432	-	-	657,432
Amounts receivable under reverse repurchase agreements	1,427,063	-	667,138	-	-	2,094,201
Due from banks	3,103,923	180,109	582,083	-	-	3,866,115
Loans and advances to customers	10,036,263	56,523,864	45,823,682	96,772,918	12,579,048	221,735,775
Investment securities available-for-sale	-	-	-	-	7,053,830	7,053,830
Investments securities held-to-maturity	31,361	-	-	-	-	31,361
Other financial assets	569,805	867,354	129,358	-	-	1,566,517
Prepaid income tax	-	623,733	-	-	-	623,733
Deferred tax asset	-	-	-	53,329	-	53,329
Investment property	-	-	-	-	4,724,492	4,724,492
Premises, equipment and intangible assets	-	-	-	-	13,673,254	13,673,254
Other assets	284,897	182,113	47,030	703,523	80,023	1,297,586
TOTAL ASSETS	**98,663,307**	**58,377,173**	**47,906,723**	**97,529,770**	**38,110,647**	**340,587,620**
LIABILITIES						
Due to banks	40,269,871	4,842,088	3,294,293	-	-	48,406,252
Customer accounts	89,195,035	78,071,933	39,884,837	10,658,881	55,078	217,865,764
Bonds issued	-	-	148,548	8,113,424	3,388,408	11,650,380
Other debt securities issued	3,697,247	4,699,054	288,321	311,027	-	8,995,649
Other borrowed funds	164,084	485,393	3,415,814	5,420,239	2,580,415	12,065,945
Other financial liabilities	471,313	183,180	50,791	176,686	-	881,970
Deferred tax liability	-	-	-	803,406	-	803,406
Other liabilities	165,276	198,342	42,836	-	-	406,454
TOTAL LIABILITIES	**133,962,826**	**88,479,990**	**47,125,440**	**25,483,663**	**6,023,901**	**301,075,820**
Net liquidity gap	**(35,299,519)**	**(30,102,817)**	**781,283**	**72,046,107**	**32,086,746**	**39,511,800**
Cumulative liquidity gap as at 30 June 2012	**(35,299,519)**	**(65,402,336)**	**(64,621,053)**	**7,425,054**	**39,511,800**	

20 Financial Risk Management (continued)

Below is the liquidity position using figures from the financial statements prepared in accordance with IFRS at 31 December 2011. The Group does not use the presented analysis by contractual maturity for liquidity management purposes.

(In thousands of Russian Roubles)	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years or not defined	Total
ASSETS						
Cash and cash equivalents	32,775,307	-	-	-	-	32,775,307
Mandatory cash balances with the Central Bank of the Russian Federation	2,978,296	-	-	-	-	2,978,296
Trading securities	29,043,656	-	-	-	-	29,043,656
Trading securities pledged under sale and repurchase agreements	15,134,382	-	-	-	-	15,134,382
Amounts receivable under reverse repurchase agreements	7,847,742	1,270	-	-	-	7,849,012
Due from banks	1,737,383	702,092	57,584	501,594	-	2,998,653
Loans and advances to customers	3,519,293	51,449,060	59,086,453	86,315,692	9,536,570	209,907,068
Investment securities available-for-sale	-	-	-	-	6,875,174	6,875,174
Investments securities held-to-maturity	31,361	-	-	-	-	31,361
Other financial assets	455,654	201,811	536,556	-	-	1,194,021
Prepaid income tax	-	491,193	-	-	-	491,193
Deferred tax asset	-	-	-	52,262	-	52,262
Investment property	-	-	-	-	4,524,333	4,524,333
Premises, equipment and intangible assets	-	-	-	-	14,134,509	14,134,509
Other assets	1,067,907	149,481	64,379	675,579	86,885	2,044,231
TOTAL ASSETS	**94,590,981**	**52,994,907**	**59,744,972**	**87,545,127**	**35,157,471**	**330,033,458**
LIABILITIES						
Due to banks	20,757,359	5,029,764	1,411,772	-	-	27,198,895
Customer accounts	108,652,772	67,770,755	37,453,662	12,773,710	51,991	226,702,890
Bonds issued	-	-	-	8,232,277	3,323,247	11,555,524
Other debt securities issued	2,545,817	3,531,934	2,847,209	431,484	-	9,356,444
Other borrowed funds	-	217,880	637,158	8,689,869	2,533,349	12,078,256
Other financial liabilities	390,863	349,017	205,456	209,866	2,700	1,157,902
Deferred tax liability	-	-	-	1,132,896	-	1,132,896
Other liabilities	275,077	507,186	6,779	38,806	-	827,848
TOTAL LIABILITIES	**132,621,888**	**77,406,536**	**42,562,036**	**31,508,908**	**5,911,287**	**290,010,655**
Net liquidity gap	**(38,030,907)**	**(24,411,629)**	**17,182,936**	**56,036,219**	**29,246,184**	**40,022,803**
Cumulative liquidity gap as at 31 December 2011	**(38,030,907)**	**(62,442,536)**	**(45,259,600)**	**10,776,619**	**40,022,803**	

21 Management of Capital

The objectives when managing capital are (i) to comply with the capital requirements set by the CBRF, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 8% based on the April 1998 Basel Prudential Requirements for Banks (Basel I) and to maintain a sufficient capital base in accordance with capital requirements and capital adequacy ratio in accordance with financial covenants set in borrowing agreements.

(i) Under the current capital requirements set by the CBRF banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital adequacy ratio") of at least 10%. Regulatory capital and capital adequacy is based on reports prepared under Russian statutory accounting standards and comprises:

(In thousands of Russian Roubles)	**30 June 2012 (unaudited)**	**31 December 2011**
Total capital	39,900,750	40,009,078
Total regulatory capital adequacy ratio	11.67%	11.96%

Compliance with the capital adequacy ratio set by the CBRF is managed by the Treasury Department through monitoring and forecasting of its components.

Management believes that during the six-month period ended 30 June 2012 and during 2011 the capital adequacy ratio was not below the minimum requirement based on daily calculations made by Planning and Financial Control Department.

(ii) Arrangements to safeguard the Group's ability to continue as a going concern are performed under the Bank's Strategic Development Plan and divided into long-term and short-term capital management.

In the long-term the Bank plans its business scope under strategic and financial plans developed along with identification of the risks and corresponding capital requirements for three years and one year, respectively. When the required amount of capital is defined the Bank determines the sources of its increase: borrowings on capital markets, share issue and approximate scope thereof. The target scope of business and the amount of capital, as well as the sources of the capital increase are approved by the following collegial management bodies in order of the established priority: the Asset and Liability Management Committee, Management Board, Supervisory Board.

In the short-term, with due account of the necessity to comply with the CBRF requirements, the Bank determines the capital surplus/deficit within the period from one to three months and develops the respective plan of increasing of assets. In some cases management uses administrative measures to influence the statement of financial position structure through interest rate policy, and in exceptional cases through setting limits for certain active transactions. The limits are established when the economic instruments are insufficient in terms of timing and the extent of influence.

(iii) According to the loan agreements with the EBRD (refer to note 13) the Bank has a commitment to maintain the minimum total capital adequacy ratio of at least 11% depending on the contract, which is calculated under the requirements of Basel I.

21 Management of Capital (continued)

This ratio is calculated on a quarterly basis; the forecasted amount of capital and capital adequacy ratio are defined in the Strategic Development Plan which takes into account compliance with the capital adequacy requirements.

Below is the capital and capital adequacy ratio calculated in accordance with Basel I:

(In thousands of Russian Roubles)	**30 June 2012 (unaudited)**	**31 December 2011**
Capital	**46,673,452**	**47,077,193**
Tier1	**33,864,301**	**34,394,040**
Paid-in share capital	3,648,110	3,648,110
Reserves and profit	30,216,191	30,745,930
including:		
- Share premium	18,448,915	18,448,915
- Retained earnings	11,767,276	12,297,015
Tier 2	**12,809,151**	**12,683,153**
Revaluation reserve for property and equipment	3,295,573	3,346,303
Revaluation reserve for investment securities available-for-sale	2,351,926	2,282,460
Subordinated borrowings	7,161,652	7,054,390
Risk weighted assets	**362,952,704**	**338,124,747**
Risk weighted banking assets	252,725,501	246,469,028
Risk weighted trading assets	65,574,450	52,269,900
Risk weighted unrecognized commitments	44,652,753	39,385,819
Total capital adequacy ratio	**12.86%**	**13.92%**
Total tier 1 capital adequacy ratio	**9.33%**	**10.17%**

The Group was in compliance with the minimum capital adequacy ratio agreed with the creditors of the Bank during the six-month period ended 30 June 2012 and during 2011.

22 Related Party Transactions

For the purposes of this condensed consolidated interim financial information, parties are considered to be related if one party has the ability to control the other party, is under common control, 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.

Transactions are entered into in the normal course of business with shareholders, management and companies controlled by the Group's shareholders and management.

As at 30 June 2012, the outstanding balances with related parties are as follows:

(In thousands of Russian Roubles)	**Shareholders (unaudited)**	**Management of the Group (unaudited)**	**Other related parties (unaudited)**
Loans and advances to customers (contractual interest rates: 5.2% – 19.0% p.a)	41,835	104,375	369,988
Impairment allowance for loans and advances to customers	(859)	(2,143)	(45,240)
Customer accounts (contractual interest rates: 1.5% - 9.0% p.a.)	444,466	448,782	1,563,975
Other borrowed funds (contractual interest rate: 4.74% - 13.40% p.a.)	4,793,574	-	-

Other borrowed funds include loan from the EBRD. Refer to note 13.

The income and expense items with related parties, other than compensation to the members of the Supervisory and the Management Boards, for the six-month period ended 30 June 2012 are as follows:

(In thousands of Russian Roubles)	**Shareholders (unaudited)**	**Management of the Group (unaudited)**	**Other related parties (unaudited)**
Interest income	1,450	7,110	226
Interest expense	(239,275)	(26,010)	(67,271)
(Provision) recovery of provision for loan impairment	(514)	174	(17,995)
Fee and commission income	1,046	631	6,416

Aggregate amounts lent to and repaid by related parties during the six-month period ended 30 June 2012 are:

(In thousands of Russian Roubles)	**Shareholders (unaudited)**	**Management of the Group (unaudited)**	**Other related parties (unaudited)**
Amounts lent to related parties during the period	23,890	13,840	1,531
Amounts repaid by related parties during the period	55	30,309	1,439

22 Related Party Transactions (continued)

As at 31 December 2011, the outstanding balances with related parties are as follows:

(In thousands of Russian Roubles)	**Shareholders**	**Management of the Group**	**Other related parties**
Loans and advances to customers (contractual interest rates: 5.2% – 22.5% p.a)	18,000	120,844	369,896
Allowance for impairment of loans and advances to customers	(345)	(2,317)	(27,245)
Customer accounts (contractual interest rates: 2.0% - 9.0% p.a.)	354,427	503,624	2,792,353
Other borrowed funds (contractual interest rate: 14.5% p.a.)	-	-	1,590,102

Other borrowed funds include subordinated debt. Refer to note 13.

The income and expense items with related parties, other than compensation to the members of the Supervisory and the Management Boards, for the six-month period ended 30 June 2011 are as follows:

(In thousands of Russian Roubles)	**Shareholders (unaudited)**	**Management of the Group (unaudited)**	**Other related parties (unaudited)**
Interest income	2,263	5,249	22,930
Interest expense	(7,320)	(9,484)	(117,817)
Recovery of provision for impairment of loan portfolio	-	1,039	505
Fee and commission income	103	317	15,178

Aggregate amounts lent to and repaid by related parties during the six-month period ended 30 June 2011 are:

(In thousands of Russian Roubles)	**Shareholders (unaudited)**	**Management of the Group (unaudited)**	**Other related parties (unaudited)**
Amounts lent to related parties during the period	260,053	21,171	40,863
Amounts repaid by related parties during the period	260,053	13,685	107,827

During the six-month period ended 30 June 2012, total remuneration of members of the Supervisory Board and the Management Board, including pension contributions and discretionary bonuses, amounts to RR 55,430 thousand (6 months ended 30 June 2011: RR 54,178 thousand).

23 Consolidation of Special Purpose Entities

As at 30 June 2012 and 31 December 2011, the Group consolidated the special purpose entity BSPB Finance plc. This special purpose entity was established in 2006 to facilitate the Eurobonds issue.

As at 30 June 2012 and 31 December 2011, the Group exercised its control over the activity of the special purpose entity, as all financial and operational activities of this special purpose entity are conducted on behalf of the Group and according to Group's specific business needs. The Group has rights to obtain the majority of the benefits of the special purpose entity and therefore was exposed to risks incident to its activities.

23 Consolidation of Special Purpose Entities (continued)

As at 30 June 2012 and 31 December 2011, the Group consolidated the close-ended stock mutual investment fund “Nevskiy - Second Stock Fund” and close-ended real estate mutual investment fund “Nevskiy - Fourth Real Estate Fund”. These entities are meant for sale and management of investment property projects.

24 Subsequent events

The Bank did not use its right for early redemption of subordinated eurobond at nominal value on 25 July 2012. Beginning on 25 July 2012 the nominal coupon rate amounts to 7.63% p.a.