

CB “LOCKO-BANK” (CJSC)

Consolidated Interim Condensed
Financial Statements

for the six-month period ended
30 June 2012

Contents

Shareholders, Officers and Auditors as at 30 June 2012.....	3
Independent Auditors' Report	4
Consolidated interim condensed statement of comprehensive income	5
Consolidated interim condensed statement of financial position.....	6
Consolidated interim condensed statement of cash flows	7
Consolidated interim condensed statement of changes in equity	8
Notes to the consolidated interim condensed financial statements.....	9
1 Background	9
2 Basis of preparation.....	9
3 Significant accounting policies	10
4 Net interest income	11
5 Fee and commission income	11
6 Fee and commission expense	11
7 Net gain on financial instruments at fair value through profit or loss	12
8 Net foreign exchange income.....	12
9 Impairment losses	12
10 General administrative expenses	13
11 Due from the Central Bank of the Russian Federation.....	13
12 Placements with banks and other financial institutions.....	14
13 Financial instruments at fair value through profit or loss.....	15
14 Loans to customers.....	17
15 Other assets	23
16 Deposits and balances from banks and other financial institutions	24
17 Current accounts and deposits from customers	25
18 Own securities issued.....	26
19 Share capital	26
20 Analysis by segment	27
21 Risk management	29
22 Capital management.....	34
23 Commitments	36
24 Contingencies.....	36
25 Related party transactions	37
26 Cash and cash equivalents.....	39
27 Maturity analysis.....	40
28 Currency analysis.....	42

Shareholders, Officers and Auditors as at 30 June 2012

Shareholders	% Ownership	% Votes
Samsoniawood Holdings Limited	19.990	19.990
International Finance Corporation	15.000	15.000
Caplane Investments Limited	13.454	13.454
Vios Holdings Limited	13.300	13.300
Bulley Investments Limited	13.190	13.190
East Capital Financials Fund AB	11.062	11.062
Vladimir Yu. Davydik	6.536	6.536
Yoralin Limited	6.460	6.460
Alexey I. Bogachev	1.008	1.008
	100.00	100.00

Board of Directors

Stanislav I. Boguslavsky
 Victor Yu. Davydik
 Dmitry V. Kryukov
 Eric J. Rajendra
 Hanna-Leena Loikkanen

Executive Board

Dmitry V. Kryukov	Chairman
Leonid B. Vakeev	Deputy Chairman
Natalia V. Isaeva	Deputy Chairman
Andrey M. Lyushin	Deputy Chairman
Konstantin E. Bogomazov	Deputy Chairman
Pavel A. Voznesenskiy	Deputy Chairman

Auditors

ZAO KPMG, Moscow



ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report on Review of Consolidated Interim Financial Information

To the Board of Directors of CB "Locko-Bank" (CJSC)

Introduction

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

ZAO KPMG

ZAO KPMG
24 August 2012

CB "Locko-bank" (CJSC)

Consolidated interim condensed statement of comprehensive income for the six-month period ended 30 June 2012

	Notes	Six-Month Period Ended 30 June 2012 RUB'000 Unaudited	Six-Month Period Ended 30 June 2011 RUB'000 Unaudited
Interest income	4	2,414,252	2,300,776
Interest expense	4	(1,416,765)	(1,188,004)
Net interest income		997,487	1,112,772
Fee and commission income	5	428,141	334,185
Fee and commission expense	6	(92,603)	(72,890)
Net fee and commission income		335,538	261,295
Net gain on financial instruments at fair value through profit or loss	7	522,471	376,299
Net foreign exchange income	8	113,817	107,356
Other income		44,108	59,954
		2,013,421	1,917,676
Impairment losses	9	(259,549)	(204,149)
General administrative expenses	10	(1,040,512)	(981,680)
Operating expenses		(1,300,061)	(1,185,829)
Profit before taxes		713,360	731,847
Income tax expense		(162,684)	(157,700)
Profit and total comprehensive income		550,676	574,147

The consolidated interim condensed financial statements were approved by the Executive Board of the Group on 24 August 2012.

Chairman of the Board

Dmitry V. Kryukov



Deputy Chief Financial Officer -
Head of Reporting Division

Olga A. Kovalchuk

CB "Locko-bank" (CJSC)
Consolidated interim condensed statement of financial position as at 30 June 2012

		30 June 2012	31 December 2011
		RUB'000	RUB'000
	Notes	Unaudited	
ASSETS			
Cash		1,348,391	1,055,255
Due from the Central Bank of the Russian Federation	11	1,685,840	4,899,607
Placements with banks and other financial institutions	12	4,448,508	6,655,761
Financial instruments at fair value through profit or loss	13	11,700,642	10,228,454
Amounts receivable under reverse repurchase agreements		-	1,420,027
Loans to customers	14	38,546,616	35,100,249
Property and equipment		433,403	446,322
Current income tax prepayment		165,683	139,125
Other assets	15	355,400	227,674
Total Assets		58,684,483	60,172,474
LIABILITIES AND EQUITY			
Financial instruments at fair value through profit or loss	13	9,564	17,814
Deposits and balances from banks and other financial institutions	16	10,605,449	12,867,186
Amounts payable under repurchase agreements		4,568,356	3,274,640
Current accounts and deposits from customers	17	28,569,780	28,552,096
Own securities issued	18	7,063,347	8,237,544
Current income tax payable		481	335
Deferred tax liability		32,233	38,371
Other liabilities		213,588	113,479
Total Liabilities		51,062,798	53,101,465
Equity			
Share capital	19	3,381,047	3,381,047
Additional paid-in-capital		67,476	67,476
Revaluation reserve for buildings		220,366	220,366
Retained earnings		3,952,796	3,402,120
Total Equity		7,621,685	7,071,009
Total Liabilities and Equity		58,684,483	60,172,474
Commitments and Contingencies	23-24		

The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements.

CB "Locko-bank" (CJSC)

Consolidated interim condensed statement of cash flows for the six-month period ended 30 June 2012

	Notes	Six-Month Period Ended 30 June 2012 RUB'000 Unaudited	Six-Month Period Ended 30 June 2011 RUB'000 Unaudited
Cash flows used in operating activities		<u>(2,883,443)</u>	<u>(6,272,380)</u>
Cash flows used in investing activities		<u>(20,173)</u>	<u>(45,125)</u>
Cash flows (used in)/from financing activities		<u>(349,108)</u>	<u>2,500,000</u>
Net decrease in cash and cash equivalents		(3,252,724)	(3,817,505)
Effect of changes in exchange rates on cash and cash equivalents		125,129	(64,162)
Cash and cash equivalents at the beginning of the period	26	<u>9,287,436</u>	<u>7,347,779</u>
Cash and cash equivalents at the end of the period	26	<u>6,159,841</u>	<u>3,466,112</u>

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements.

	Share capital RUB'000	Additional paid-in-capital RUB'000	Revaluation reserve for buildings RUB'000	Retained earnings RUB'000	Total RUB'000
Balance at 1 January 2011	3,381,047	67,476	190,306	2,396,874	6,035,703
Total comprehensive income (Unaudited)					
Profit (Unaudited)	-	-	-	574,147	574,147
Total comprehensive income (Unaudited)	-	-	-	574,147	574,147
Balance at 30 June 2011 (Unaudited)	3,381,047	67,476	190,306	2,971,021	6,609,850
Balance at 1 January 2012	3,381,047	67,476	220,366	3,402,120	7,071,009
Total comprehensive income (Unaudited)					
Profit (Unaudited)	-	-	-	550,676	550,676
Total comprehensive income (Unaudited)	-	-	-	550,676	550,676
Balance at 30 June 2012 (Unaudited)	3,381,047	67,476	220,366	3,952,796	7,621,685

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements.

1 Background

Principal activities

The major operating companies of the "Locko-Bank" Group (the "Group") are the parent company CB "Locko-bank" (CJSC) (the "Bank"), its 100% subsidiaries LLC "OFLK" and LLC "Locko-Invest" and its special purpose entity ("SPE") Locko Finance Plc.

- The Bank was established in the Russian Federation as a limited liability company, converting in November 2005 to a closed joint-stock company. The Bank was granted its general banking license in 2003. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the "CBR"). The majority of the Bank's assets and liabilities are located in the Russian Federation. The Bank is a member of the state deposit insurance system in the Russian Federation. The registered address of the head office is Gospitalnaya str., 14, Moscow, Russian Federation. The average number of persons employed by the Bank during the six-month period ended 30 June 2012 was 1,489 (2011: 1,229).
- LLC "OFLK" was established in the Russian Federation as a limited liability company in March 2002 and started performing active business operations in 2003. Its principal activity is the provision of finance leasing. The average number of persons employed during the six-month period ended 30 June 2012 was 7 (2011: 8).
- LLC "Locko-Invest" was established in the Russian Federation as a limited liability company in August 2009. Its principal activities are trust management and operations with securities. The average number of persons employed during the six-month period ended 30 June 2012 was 15 (2011: 15).
- Locko Finance Plc. is special purpose entity established in the Republic of Ireland in December 2006 to facilitate the Group's issue of loan participation notes. The entity is not owned by the Group and the control arises through the predetermination of the entity's activities.

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. The consolidated interim condensed financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

The accompanying consolidated interim condensed financial statements are prepared in accordance with IAS 34 *Interim Financial Reporting* and all applicable International Financial Reporting Standards ("IFRS"). They do not include all of the information required for full financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2011, as these consolidated interim condensed financial statements provide an update of previously reported financial information.

Basis of measurement

The consolidated interim condensed financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss are stated at fair value and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The RUB is also the Group's presentation currency for the purposes of these consolidated interim condensed financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

Use of estimates and judgments

The preparation of consolidated interim condensed financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

3 Significant accounting policies

The accounting policies applied in these consolidated interim condensed financial statements are consistent with those applied in the consolidated financial statements for the year ended 31 December 2011. Certain improvements to IFRS became effective from 1 January 2012 and are adopted by the Group since that date. These changes do not have a significant effect on the consolidated interim condensed financial statements.

4 Net interest income

	Six-Month Period Ended 30 June 2012 RUB'000 Unaudited	Six-Month Period Ended 30 June 2011 RUB'000 Unaudited
Interest income		
Loans to customers	2,299,221	2,186,669
Net investment in leases	60,878	62,456
Placements with banks and other financial institutions	34,549	13,365
Amounts receivable under reverse repurchase agreements	19,604	38,286
	2,414,252	2,300,776
Interest expense		
Current accounts and deposits from customers	630,292	479,272
Deposits and balances from banks and other financial institutions	350,671	297,236
Own securities issued	319,755	353,012
Amounts payable under repurchase agreements	116,047	58,484
	1,416,765	1,188,004

5 Fee and commission income

	Six-Month Period Ended 30 June 2012 RUB'000 Unaudited	Six-Month Period Ended 30 June 2011 RUB'000 Unaudited
Settlements	197,522	154,703
Commission from insurance company	87,984	27,093
Cash transactions	54,267	54,991
Trade finance and guarantees	53,197	66,620
Currency exchange fees	28,091	24,349
Other	7,080	6,429
	428,141	334,185

6 Fee and commission expense

	Six-Month Period Ended 30 June 2012 RUB'000 Unaudited	Six-Month Period Ended 30 June 2011 RUB'000 Unaudited
Trade finance and guarantees	27,597	16,317
Brokerage	27,039	22,108
Settlements	26,264	25,928
Cash transactions	7,408	5,812
Other	4,295	2,725
	92,603	72,890

7 Net gain on financial instruments at fair value through profit or loss

	Six-Month Period Ended 30 June 2012 RUB'000 Unaudited	Six-Month Period Ended 30 June 2011 RUB'000 Unaudited
Debt instruments	504,560	418,462
Equity instruments	17,911	(42,163)
	522,471	376,299

As at 30 June 2012 the category debt instruments in the table above includes interest income (either coupon or discount or interest) on debt securities amounts to RUB 503,320 thousand (30 June 2011: RUB 419,689 thousand).

8 Net foreign exchange income

	Six-Month Period Ended 30 June 2012 RUB'000 Unaudited	Six-Month Period Ended 30 June 2011 RUB'000 Unaudited
Income on spot transactions and derivatives	67,500	111,398
Gain/(loss) from revaluation of financial assets and liabilities	46,317	(4,042)
	113,817	107,356

9 Impairment losses

	Six-Month Period Ended 30 June 2012 RUB'000 Unaudited	Six-Month Period Ended 30 June 2011 RUB'000 Unaudited
Loans to customers	255,553	200,952
Other assets	3,996	3,197
	259,549	204,149

10 General administrative expenses

	Six-Month Period Ended 30 June 2012 RUB'000 Unaudited	Six-Month Period Ended 30 June 2011 RUB'000 Unaudited
Employee compensation	741,845	687,182
Occupancy	84,057	89,655
Communication and information services	38,997	40,911
Depreciation	32,880	35,040
Taxes other than on income	30,971	31,646
Advertising and marketing	28,061	22,745
Insurance	17,549	11,429
Professional services	17,224	11,470
Security	17,134	19,952
Office supplies	10,831	11,131
Repairs and maintenance	9,362	11,540
Travel	3,495	4,209
Other	8,106	4,770
	1,040,512	981,680

11 Due from the Central Bank of the Russian Federation

	30 June 2012 RUB'000 Unaudited	31 December 2011 RUB'000
Minimum reserve deposit	476,818	487,238
Nostro accounts	1,209,022	2,412,150
Term deposits	-	2,000,219
	1,685,840	4,899,607

The mandatory reserve deposit is a non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawability is restricted. The nostro accounts represent balances with the CBR related to settlement activity and are available for withdrawal at year end.

12 Placements with banks and other financial institutions

	30 June 2012 RUB'000 Unaudited	31 December 2011 RUB'000
<i>Not impaired or overdue</i>		
Nostro accounts		
OECD banks	2,527,104	3,671,722
Russian subsidiaries of OECD banks	140	137
Largest 30 Russian banks	575,538	614,943
Other Russian banks and stock exchanges	499,512	1,523,072
Other foreign banks	134	10,157
Total nostro accounts	3,602,428	5,820,031
Loans and deposits		
Largest 30 Russian banks	245,698	125,750
Other Russian banks	600,382	709,980
Total loans and deposits	846,080	835,730
	4,448,508	6,655,761

Concentration of placements with banks and other financial institutions

As at 30 June 2012 and 31 December 2011 the Group has placements with banks and other financial institutions, which individually comprised more than 10% of placements with banks and other financial institutions. The gross value of these balances as at 30 June 2012 and 31 December 2011 are as follows:

	30 June 2012 RUB'000 Unaudited	31 December 2011 RUB'000
Commerzbank AG, Frankfurt am Main, Germany	836,401	973,807
JPMorgan Chase Bank National Association	814,915	793,061
Deutsche Bank Trust Company Americas, New York, USA	547,622	1,246,648
(CJSC JSCB) National Clearing Center	-	1,132,204
	2,198,938	4,145,720

Nil balances in the table above denote that placements with the specified banks and other financial institutions do not individually comprise more than 10% of placements with banks and other financial institutions.

13 Financial instruments at fair value through profit or loss

	30 June 2012 RUB'000 Unaudited	31 December 2011 RUB'000
Assets		
<i>Held by the Group</i>		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Russian Government Federal bonds (OFZ)	-	1,529,369
Total government and municipal bonds	-	1,529,369
- Corporate bonds		
Rated BBB- to BBB+	1,515,486	1,078,895
Rated BB- to BB+	2,192,712	1,520,052
Rated B- to B+	267,886	1,186,996
Not rated	70,740	49,906
Total corporate bonds	4,046,824	3,835,849
- Promissory notes		
Rated BBB- to BBB+	-	205,597
Rated BB- to BB+	312,713	-
Rated B- to B+	48,926	-
Not rated	48,718	-
Total promissory notes	410,357	205,597
Equity investments		
Corporate shares	300,789	98,072
Derivative financial instruments		
Foreign currency contracts	26,430	1,260
	4,784,400	5,670,147
<i>Blocked for undrawn facilities from the Central Bank of the Russian Federation</i>		
Debt and other fixed-income instruments		
- Corporate bonds		
Rated BBB- to BBB+	745,934	-
Rated BB- to BB+	961,853	594,898
Rated B- to B+	45,942	202,827
	1,753,729	797,725
<i>Pledged under sale and repurchase agreements</i>		
Debt and other fixed-income instruments		
- Corporate bonds		
Rated BBB- to BBB+	1,332,251	1,665,978
Rated BB- to BB+	2,753,456	1,481,691
Rated B- to B+	217,889	78,024
Not rated	858,917	534,889
Total corporate bonds	5,162,513	3,760,582
Total financial assets at fair value through profit or loss	11,700,642	10,228,454

All financial instruments at fair value through profit or loss are classified as held for trading.

As of 30 June 2012 financial instruments at fair value through profit or loss that were listed in the Lombard list of the CBR amount to RUB 10,190,569 thousand (31 December 2011: RUB 8,910,323 thousand).

	30 June 2012	31 December 2011
	RUB'000	RUB'000
	Unaudited	
Liabilities		
Derivative financial instruments		
Foreign currency contracts	9,564	17,814

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 30 June 2012 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	30 June 2012	31 December 2011	30 June 2012	31 December 2011
	RUB'000 Unaudited	RUB'000	Unaudited	
Buy USD sell RUB				
Less than three months	362,125	251,208	32.92	32.21
Between three months and one year	314,857	-	31.49	-
Sell USD buy RUB				
Less than three months	76,044	1,087,955	33.06	31.81
Buy EUR sell RUB				
Less than three months	-	14,606	-	41.73
Sell EUR buy RUB				
Less than three months	33,026	-	41.28	-
Buy EUR sell USD				
Less than three months	344,033	83,369	1.25	1.29
Buy USD sell EUR				
Less than three months	365,301	83,369	0.80	0.77

14 Loans to customers

	30 June 2012	31 December 2011
	RUB'000	RUB'000
	Unaudited	
Loans to legal entities		
Large sized enterprises	10,586,817	11,793,507
Upper stratum of medium sized enterprises	12,287,616	10,117,895
Lower stratum of medium sized enterprises	3,170,602	3,470,787
Small enterprises	3,646,287	3,419,493
Total loans to legal entities	29,691,322	28,801,682
Individuals	10,226,507	7,686,148
Gross loans to customers	39,917,829	36,487,830
Impairment allowance	(1,371,213)	(1,387,581)
Net loans to customers	38,546,616	35,100,249

Movements in loan impairment allowance for the six-month periods ended 30 June 2012 and 2011 are as follows:

	Six-Month Period Ended 30 June 2012	Six-Month Period Ended 30 June 2011
	RUB'000	RUB'000
	Unaudited	Unaudited
Balance at the beginning of the period	1,387,581	1,362,489
Net charge for the period	255,553	200,952
Write-offs	(271,921)	(41,263)
Balance at the end of the period	1,371,213	1,522,178

As at 30 June 2012, interest accrued on impaired loans net of impairment allowance amounts to RUB 12,159 thousand (31 December 2011: RUB 24,205 thousand).

Net investment in leases

Included within loans to legal entities are net investments in leases. As at 30 June 2012 and 31 December 2011 the gross investment in leases and the related unearned finance income and impairment allowance are as follows:

	30 June 2012	31 December 2011
	RUB'000	RUB'000
	Unaudited	
Net investment in leases		
Gross investment in leases	690,905	709,947
Unearned finance income	(253,029)	(159,551)
Net investment in leases	437,876	550,396
Impairment allowance	(42,036)	(44,211)
Net investment in leases less allowance	395,840	506,185

The contractual maturity of the net investment in leases as at 30 June 2012 is as follows:

	Gross lease receivable	Unearned income	Impairment allowance	Net investment in leases
	RUB'000 Unaudited	RUB'000 Unaudited	RUB'000 Unaudited	RUB'000 Unaudited
Overdue	214,556	(99,720)	(40,582)	74,254
Less than one year	243,373	(81,330)	(730)	161,313
One year to five years	216,991	(68,721)	(667)	147,603
More than five years	15,985	(3,258)	(57)	12,670
	690,905	(253,029)	(42,036)	395,840

The contractual maturity of the net investment in leases as at 31 December 2011 is as follows:

	Gross lease receivable	Unearned income	Impairment allowance	Net investment in leases
	RUB'000	RUB'000	RUB'000	RUB'000
Overdue	156,403	(9,056)	(42,397)	104,950
Less than one year	316,447	(90,933)	(1,015)	224,499
One year to five years	230,112	(58,951)	(770)	170,391
More than five years	6,985	(611)	(29)	6,345
	709,947	(159,551)	(44,211)	506,185

Credit quality of loan portfolio

The following table provides information on the credit quality of loans to customers as at 30 June 2012:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans %
	RUB'000 Unaudited	RUB'000 Unaudited	RUB'000 Unaudited	Unaudited
Loans to large sized enterprises				
Loans for which no impairment has been identified	10,586,817	(238,619)	10,348,198	2.25
Total loans to large sized enterprises	10,586,817	(238,619)	10,348,198	2.25
Loans to upper stratum of medium sized enterprises				
Loans for which no impairment has been identified	12,106,873	(376,798)	11,730,075	3.11
Impaired loans:				
- overdue less than 90 days	58,571	(58,571)	-	100.0
- overdue more than 90 days and less than 1 year	114,837	(40,582)	74,255	35.34
- overdue more than 1 year	7,335	(7,335)	-	100.0
Total impaired loans	180,743	(106,488)	74,255	58.92
Total loans to upper stratum of medium sized enterprises	12,287,616	(483,286)	11,804,330	3.93
Loans to lower stratum of medium sized enterprises				
- not past due	3,060,777	(60,222)	3,000,555	1.97
- overdue less than 30 days	21,834	(4,866)	16,968	22.29
- overdue more than 90 and less than 180 days	3,805	(1,960)	1,845	51.51
- overdue more than 180 days and less than 1 year	81,665	(76,403)	5,262	93.56
- overdue more than 1 year	2,521	(2,521)	-	100.00
Total loans to lower stratum of medium sized enterprises	3,170,602	(145,972)	3,024,630	4.60
Loans to small enterprises				
- not past due	3,522,803	(105,181)	3,417,622	2.99
- overdue less than 30 days	51,217	(7,395)	43,822	14.44
- overdue more than 30 and less than 90 days	13,745	(5,577)	8,168	40.57
- overdue more than 90 and less than 180 days	8,582	(5,025)	3,557	58.55
- overdue more than 180 days and less than 1 year	18,557	(15,657)	2,900	84.37
- overdue more than 1 year	31,383	(31,383)	-	100.0
Total loans to small enterprises	3,646,287	(170,218)	3,476,069	4.67
Loans to individuals				
- not past due	9,663,470	(139,794)	9,523,676	1.45
- overdue less than 30 days	317,003	(25,654)	291,349	8.09
- overdue more than 30 and less than 90 days	96,209	(36,867)	59,342	38.32
- overdue more than 90 and less than 180 days	42,825	(27,285)	15,540	63.71
- overdue more than 180 days and less than 1 year	32,317	(28,835)	3,482	89.23
- overdue more than 1 year	74,683	(74,683)	-	100.00
Total loans to individuals	10,226,507	(333,118)	9,893,389	3.26
Total loans to customers	39,917,829	(1,371,213)	38,546,616	3.44

The following table provides information on the credit quality of loans to customers as at 31 December 2011:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment allowance to gross loans %
Loans to large sized enterprises				
Loans for which no impairment has been identified	11,793,507	(253,480)	11,540,027	2.15
Total loans to large sized enterprises	11,793,507	(253,480)	11,540,027	2.15
Loans to upper stratum of medium sized enterprises				
Loans for which no impairment has been identified	9,751,384	(348,662)	9,402,722	3.58
Impaired loans:				
- overdue less than 90 days	204,361	(14,286)	190,075	6.99
- overdue more than 90 days and less than 1 year	154,814	(42,646)	112,168	27.55
- overdue more than 1 year	7,336	(7,336)	-	100.00
Total impaired loans	366,511	(64,268)	302,243	17.54
Total loans to upper stratum of medium sized enterprises	10,117,895	(412,930)	9,704,965	4.08
Loans to lower stratum of medium sized enterprises				
- not past due	3,330,491	(66,348)	3,264,143	1.99
- overdue less than 30 days	4,658	(887)	3,771	19.04
- overdue more than 30 and less than 90 days	11,355	(4,346)	7,009	38.27
- overdue more than 90 and less than 180 days	63,633	(47,052)	16,581	73.94
- overdue more than 180 days and less than 1 year	53,653	(45,110)	8,543	84.08
- overdue more than 1 year	6,997	(6,997)	-	100.00
Total loans to lower stratum of medium sized enterprises	3,470,787	(170,740)	3,300,047	4.92
Loans to small enterprises				
- not past due	3,200,435	(94,926)	3,105,509	2.97
- overdue less than 30 days	22,738	(3,521)	19,217	15.49
- overdue more than 30 and less than 90 days	22,839	(9,645)	13,194	42.23
- overdue more than 90 and less than 180 days	13,629	(7,946)	5,683	58.30
- overdue more than 180 days and less than 1 year	55,361	(46,092)	9,269	83.26
- overdue more than 1 year	104,491	(104,491)	-	100.00
Total loans to small enterprises	3,419,493	(266,621)	3,152,872	7.80
Loans to individuals				
- not past due	7,393,348	(163,169)	7,230,179	2.21
- overdue less than 30 days	150,624	(10,842)	139,782	7.20
- overdue more than 30 and less than 90 days	35,743	(13,595)	22,148	38.04
- overdue more than 90 and less than 180 days	21,830	(14,078)	7,752	64.49
- overdue more than 180 days and less than 1 year	43,398	(40,921)	2,477	94.29
- overdue more than 1 year	41,205	(41,205)	-	100.00
Total loans to individuals	7,686,148	(283,810)	7,402,338	3.69
Total loans to customers	36,487,830	(1,387,581)	35,100,249	3.80

Analysis of movements in the impairment allowance

Movements in the impairment allowance for loans to customers for the six-month period ended 30 June 2012 are as follows:

	Loans to large sized enterprises	Loans to upper stratum of medium sized enterprises	Loans to lower stratum of medium sized enterprises	Loans to small enterprises	Loans to individuals	Total
	RUB '000	RUB '000	RUB '000	RUB '000	RUB '000	RUB '000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Balance at the beginning of the period	253,480	412,930	170,740	266,621	283,810	1,387,581
Net (recovery)/charge	(14,861)	135,364	83,245	1,147	50,658	255,553
Write-offs	-	(65,008)	(108,013)	(97,550)	(1,350)	(271,921)
Balance at the end of the period	238,619	483,286	145,972	170,218	333,118	1,371,213

Movements in the impairment allowance for loans to customers for the six-month period ended 30 June 2011 are as follows:

	Loans to large sized enterprises	Loans to upper stratum of medium sized enterprises	Loans to lower stratum of medium sized enterprises	Loans to small enterprises	Loans to individuals	Total
	RUB '000	RUB '000	RUB '000	RUB '000	RUB '000	RUB '000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Balance at the beginning of the period	299,309	442,016	87,805	281,246	252,113	1,362,489
Net charge/(recovery)	28,893	(58,710)	32,103	32,632	166,034	200,952
Write-offs	-	-	-	(31,516)	(9,747)	(41,263)
Balance at the end of the period	328,202	383,306	119,908	282,362	408,400	1,522,178

Industry analysis of the loan portfolio

Loans are issued to customers who operate in the following economic sectors:

	30 June 2012		31 December 2011	
	RUB'000	%	RUB'000	%
	Unaudited			
Loans to individuals	10,226,507	25.6	7,686,148	21.1
Loans to legal entities				
Construction	4,404,185	11.0	4,058,957	11.1
Food and beverages trading	4,050,545	10.1	4,570,444	12.5
Cars, tyres and spare parts trading	2,848,924	7.1	2,892,812	7.9
Electric and consumer goods trading	2,624,619	6.6	2,540,098	7.0
Rent of real estate	1,605,369	4.0	1,752,013	4.8
Food processing	1,354,537	3.4	553,525	1.5
Instruments and equipment production and trading	1,348,880	3.4	1,002,975	2.7
Transport	1,312,204	3.3	1,571,275	4.3
Industrial engineering	1,261,000	3.2	1,026,556	2.8
Construction and decoration materials trading	1,159,724	2.9	861,205	2.4
Collection services	794,877	2.0	742,831	2.0
Paintwork materials production and trading	741,054	1.9	660,269	1.8
Chemicals production and trading	649,787	1.6	632,160	1.7
Household goods	585,753	1.5	536,395	1.5
Restaurants, hotels and entertainment	580,885	1.5	1,706,237	4.7
Textile production and trading	415,057	1.0	307,890	0.8
Rent of vehicles and equipment	365,186	0.9	170,568	0.5
Metal and metal-roll trading	362,343	0.9	177,755	0.5
Sanitary, cleaning maintenance and catering	354,193	0.9	499,212	1.4
Production of construction and decoration materials	343,976	0.9	349,806	1.0
Financial intermediation	273,657	0.7	299,304	0.8
Commercial education	166,976	0.4	66,657	0.2
Warehouse services	100,068	0.2	118,760	0.3
Medication trading	74,054	0.2	57,662	0.2
Agricultural products trading	35,004	0.1	445,640	1.2
Other	1,878,465	4.7	1,200,676	3.3
	39,917,829	100.0	36,487,830	100.0
Impairment allowance	(1,371,213)		(1,387,581)	
	38,546,616		35,100,249	

Geographical analysis of the loan portfolio

Loans are issued to customers, who operate in the following Federal regions:

	30 June 2012		31 December 2011	
	RUB'000	%	RUB'000	%
	Unaudited			
Central Federal region	28,236,200	70.7	26,586,492	72.9
Volga Federal region	4,574,059	11.5	4,110,862	11.3
Southern Federal region	2,152,895	5.4	1,841,992	5.0
North-Western Federal region	2,907,083	7.3	2,112,969	5.8
Ural Federal region	1,112,574	2.8	1,081,768	3.0
Siberian Federal region	935,018	2.3	753,747	2.0
	39,917,829	100.0	36,487,830	100.0
Impairment allowance	(1,371,213)		(1,387,581)	
	38,546,616		35,100,249	

Loan maturities

The maturity of the loan portfolio is presented in note 27, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short-term nature of the loans issued by the Group, it is likely that many of the loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

15 Other assets

	30 June 2012	31 December 2011
	RUB'000	RUB'000
	Unaudited	
Advances and accounts receivable	163,699	56,361
Assets for leasing	55,834	52,491
Settlement commission	37,892	30,092
Penalty fees and commissions on loan agreements	34,982	36,266
Receivables under agreement for sale of promissory notes	23,680	29,380
Settlements with suppliers, customers and sub-contractors	15,188	8,497
Taxes other than income tax	6,722	2,553
Commissions on letters of credit	4,266	3,541
Other	13,137	8,493
	355,400	227,674

Analysis of movements in the impairment allowance:

	Six-Month Period Ended 30 June 2012	Six-Month Period Ended 30 June 2011
	RUB'000	RUB'000
	Unaudited	Unaudited
Balance at the beginning of period	-	-
Net charge	3,996	3,197
Write-offs	(3,996)	(3,197)
Balance at the end of period	-	-

16 Deposits and balances from banks and other financial institutions

	30 June 2012	31 December 2011
	RUB'000	RUB'000
	Unaudited	
Due to International Finance Corporation (IFC) and development banks	4,046,129	4,382,417
Term deposits of banks	3,238,465	5,297,569
Term deposits of the Central Bank of the Russian Federation	1,502,869	1,002,110
Syndicated loans	505,544	603,278
Due to banks under post-finance agreements	644,792	933,563
Subordinated loan from European Bank for Reconstruction and Development (EBRD)	657,345	644,641
Vostro accounts	10,305	3,608
	10,605,449	12,867,186

As at 30 June 2012 amount due to IFC and development banks is represented by 7 loans with the following breakdown:

- 3 loans from EBRD: two of them denominated in RUB with a carrying amount of RUB 374,826 thousand and a current average interest rate of 11.9%, and one loan partially denominated in RUB with a carrying amount of RUB 2,567,100 thousand and a current average interest rate of 9.9% and partially denominated in USD with a carrying amount of RUB 127,688 thousand and a current average interest rate of 3.1% (31 December 2011: 3 loans: two of them denominated in RUB with a carrying amount of RUB 500,484 thousand and a current average interest rate of 11.8% and one loan partially denominated in RUB with a carrying amount of RUB 2,752,837 thousand and a current interest rate of 9.7% and partially denominated in USD with a carrying amount of RUB 25,761 thousand and a current interest rate of 3.0%);
- 1 loan denominated in RUB from Eurasian Development Bank with a carrying amount of RUB 480,119 thousand and a current interest rate of 9.0% (31 December 2011: 5 loans denominated in RUB with a carrying amount of RUB 437,084 thousand and a current average interest rate of 8.7%);
- 1 loan denominated in USD from National City Bank with a carrying amount of RUB 223,685 thousand and a current interest rate of 3.7% (31 December 2011: 1 loan denominated in USD with a carrying amount of RUB 263,421 thousand and a current interest rate of 3.6%);
- 1 loan denominated in USD from KfW Bankengruppe with a carrying amount of RUB 179,544 thousand and a current interest rate of 4.6% (31 December 2011: 1 loan denominated

in USD with a carrying amount of RUB 220,240 thousand and a current interest rate of 4.6%);

- 1 loan denominated in USD from IFC with a carrying amount of RUB 93,167 thousand and a current interest rate of 5.1% (31 December 2011: 1 loan denominated in USD with a carrying amount of RUB 182,590 thousand and a current interest rate of 4.7%).

Due to the Central Bank of the Russian Federation is represented by 2 loans denominated in RUB with a current interest rate of 7.0%.

On 23 February 2007 the Group received a USD denominated subordinated loan of USD 20,000 thousand from EBRD with a maturity in 2014 and a current interest rate of 6.0%.

As at 30 June 2012 the Group had 1 syndicated loan from IFC:

- one tranche denominated in RUB (RUB 372,137 thousand) with a current interest rate of 11.1% and another one denominated in USD (RUB 133,407 thousand) with a current interest rate of 4.8%.

Due to banks under post-finance agreements represent financing received from banks for documentary credit transactions.

Concentration of deposits and balances from banks and other financial institutions

As at 30 June 2012 and 31 December 2011 deposits and balances from banks and other financial institutions, which individually comprised more than 10% of deposits and balances from banks and other financial institutions, are as follows:

	30 June 2012 RUB'000 Unaudited	31 December 2011 RUB'000
EBRD	3,726,959	3,923,723
The Central Bank of the Russian Federation	1,502,869	-
	5,229,828	3,923,723

Nil balances in the above table denote that deposits and balances from this bank did not individually comprise more than 10% of deposits and balances from banks and other financial institutions as at 31 December 2011.

17 Current accounts and deposits from customers

	30 June 2012 RUB'000 Unaudited	31 December 2011 RUB'000
Current accounts and demand deposits		
Legal entities	10,002,541	12,307,381
Individuals	1,276,472	910,098
Total current accounts and demand deposits	11,279,013	13,217,479
Term deposits		
Legal entities	6,060,903	5,657,027
Individuals	11,229,864	9,677,590
Total term deposits	17,290,767	15,334,617
	28,569,780	28,552,096

Blocked accounts

As of 30 June 2012, the Group maintained customer deposit balances of RUB 2,094,460 thousand (31 December 2011: RUB 1,845,578 thousand) that serve as collateral for loans and off-balance sheet credit instruments granted by the Group.

18 Own securities issued

	30 June 2012 RUB'000 Unaudited	31 December 2011 RUB'000
RUB denominated bonds	4,798,972	5,124,163
Promissory notes	2,264,375	3,113,381
	7,063,347	8,237,544

In July 2010 and February 2011 the Group issued RUB denominated bonds. The table below provides a summary of RUB denominated bonds as at 30 June 2012:

Nominal amount of the initial issue	Current issued amount	Issue date	Maturity date	Interest rate	Interest payment
2,500,000,000 RUB	2,500,000,000 RUB	29.07.2010	23.07.2015	8.10%	Semi-annual
2,500,000,000 RUB	2,500,000,000 RUB	10.02.2011	06.02.2014	9.80%	Semi-annual

Interest rate of 8.10% is determined for the forthcoming coupon following 30 June 2012. The RUB denominated bonds bear an opportunity for early repayment in August 2012.

Interest rate of 9.80% is determined for the first coupon following 30 June 2012 and interest rate of 9.80% is determined for the forthcoming coupon following it. The RUB denominated bonds bear an opportunity for early repayment in February 2013.

During the six-month period ended 30 June 2012 the Group repurchased RUB denominated bonds with nominal amounts of RUB 430,073 thousand and reissued RUB 81,461 thousand at their market prices.

19 Share capital

Issued capital

The authorised, issued and outstanding share capital comprises 2.6 million ordinary shares (31 December 2011: 2.6 million). All shares have a par value of RUB 1,000.

As at 30 June 2012 and 31 December 2011 additional authorized share capital comprises 1.0 million ordinary shares. All shares have a par value of RUB 1,000. The additional share capital was not issued as at the date when the financial statements are authorised for issue. The right for issue of the addition share capital is valid up to 12 December 2012.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

20 Analysis by segment

The Group identified four operating segments that represent key business lines. Each segment reports directly to a responsible member of the Executive Board. Segments and the respective responsible members of the Executive Board are presented below:

- Corporate segment – includes deposit taking from and lending to large sized enterprises and upper stratum of medium sized enterprises, trade finance, issue of guarantees. This segment reports to the Deputy Chairman of the Executive Board, Natalia V. Isaeva.
- Small and medium sized enterprises (“SME”) segment – includes deposit taking from and lending to lower stratum of SME and individual entrepreneurs. This segment reports directly to the Vice-President Irina A. Loskutova.
- Retail segment – includes deposit taking from and lending to individual clients, including VIP clients. This segment reports directly to the Deputy Chairman of the Executive Board Konstantin E. Bogomazov.
- Financial segment – includes deposit taking from and lending to banks and other financial institutions, securities and currency trading, issue of guarantees, trade finance, issue of own debt securities. This segment reports to the Deputy Chairman of the Executive Board Pavel A. Voznesenskiy.

Segment results are reviewed by the Executive Board at least quarterly. Management reporting is based on accounting records prepared in accordance with IFRS, adjusted as necessary for intersegment settlements in accordance with internal regulations of the Group. Management assesses segment performance using a number of key indicators, regularly monitored based on monthly, quarterly, and annual internal management reports.

Segment information for the main reportable segments for the six-month period ended 30 June 2012 is set below:

RUB'000	Corporate segment Unaudited	SME segment Unaudited	Retail segment Unaudited	Financial segment Unaudited	Unallocated Unaudited	Total Unaudited
Interest income	1,226,443	455,942	677,714	54,153	-	2,414,252
Net fee and commission income	180,482	61,596	99,639	22,250	(28,429)	335,538
Net gain on financial instruments at fair value through profit or loss	-	-	-	522,471	-	522,471
Net foreign exchange income	4,706	3,814	35,814	73,781	(4,298)	113,817
Other income	2,613	2,825	3,338	6,670	28,662	44,108
Revenue	1,414,244	524,177	816,505	679,325	(4,065)	3,430,186
Interest expense	(180,215)	(17,981)	(441,762)	(776,807)	-	(1,416,765)
Impairment losses	(120,503)	(84,392)	(50,658)	-	(3,996)	(259,549)
General administrative expenses	(175,222)	(195,682)	(327,796)	(90,418)	(251,394)	(1,040,512)
Operating expenses	(475,940)	(298,055)	(820,216)	(867,225)	(255,390)	(2,716,826)
Inter-segment (loss)/gain	(670,974)	(266,825)	51,940	414,975	470,884	-
Segment result	267,330	(40,703)	48,229	227,075	211,429	713,360
Income tax expense						(162,684)
Profit						550,676

Segment information for the main reportable business segments for the six-month period ended 30 June 2011 is set below:

RUB'000	Corporate segment Unaudited	SME segment Unaudited	Retail segment Unaudited	Financial segment Unaudited	Unallocated Unaudited	Total Unaudited
Interest income	1,371,637	524,687	336,470	67,982	-	2,300,776
Net fee and commission income	166,320	59,324	20,427	17,065	(1,841)	261,295
Net gain on financial instruments at fair value through profit or loss	-	-	-	376,299	-	376,299
Net foreign exchange income	4,996	1,875	23,032	48,454	28,999	107,356
Other income	3,799	6,276	10,998	3,973	34,908	59,954
Revenue	1,546,752	592,162	390,927	513,773	62,066	3,105,680
Interest expense	(159,152)	(9,661)	(321,792)	(697,399)	-	(1,188,004)
Impairment losses	29,817	(64,735)	(166,034)	-	(3,197)	(204,149)
General administrative expenses	(165,742)	(178,809)	(270,050)	(94,236)	(272,843)	(981,680)
Operating expenses	(295,077)	(253,205)	(757,876)	(791,635)	(276,040)	(2,373,833)
Inter-segment gain/(loss)	(570,345)	(206,870)	114,475	543,867	118,873	-
Segment result	681,330	132,087	(252,474)	266,005	(95,101)	731,847
Income tax expense						(157,700)
Profit						574,147

Segment breakdown of assets and liabilities as at 30 June 2012 and 31 December 2011 is set out below:

	30 June 2012	31 December 2011
	RUB'000	RUB'000
	Unaudited	
Assets		
Corporate segment	22,152,528	21,244,992
SME segment	6,500,699	6,452,919
Retail segment	9,893,389	7,402,338
Financial segment	17,834,990	23,203,849
Unallocated assets	2,302,877	1,868,376
Total Assets	58,684,483	60,172,474
Liabilities		
Corporate segment	14,937,244	17,417,822
SME segment	1,647,262	1,312,975
Retail segment	12,506,336	10,587,688
Financial segment	21,725,654	23,630,795
Unallocated liabilities	246,302	152,185
Total Liabilities	51,062,798	53,101,465

Information about major customers

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

21 Risk management

Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Executive Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Executive Board is also responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (“ALCO”). In order to facilitate efficient and effective decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisational structure. Apart from the standard credit and market risk analysis, the Risk Control Department and Treasury Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Audit and Risk Committee (“ARCO”)

ARCO is responsible for monitoring of and control over the accuracy of the financial statements, analysis of the internal financial control system, risk management system and efficiency of internal audit. This committee advises the Board of Directors on terms of appointment of external auditors and monitors external auditors’ performance. ARCO reports directly to the Board of Directors.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in ALCO, chaired by the Chairman of the Executive Board. Market risk limits are approved by ALCO based on recommendations of the Treasury Department.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the ALCO.

The management of the interest rate risk component of market risk is monitored by interest rate gap analysis and is supplemented by monitoring the sensitivity of the net interest margin to various standard and non-standard interest rate scenarios.

The Group also utilizes Value-at-Risk (“VaR”) methodology to monitor market risk of its trading positions.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise. Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS. For further information on the exposure to currency risk at 30 June 2012 refer to notes 13 and 28.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of Credit Committees at various levels, which actively monitor credit risk in accordance with authority delegated to them. The credit policy is reviewed and approved by the Board of Directors. Members of the Credit Committees are approved by the Executive Board.

The credit policy establishes:

- general approaches for issuing loans to various segments of legal entities and individuals;
- procedures for review and approval of loan/credit applications;
- methodology for the credit assessment of borrowers (corporate, SME and individuals);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures;
- requirements for concentration risk of loan portfolio in context of industries, credit exposure on one borrower (or group of related borrowers), credit exposure on largest 10 and 20 borrowers (or group of related borrowers).

The Group grants loans to large sized, medium sized and small enterprises as well as to individuals.

Loans to small enterprises and the lower stratum of medium sized enterprises are issued by specialized local subdivisions of the Group which operate in all regions in which the Group is present.

There are several levels of decision making limits regarding loans approval to small enterprises and lower stratum of medium sized enterprises.

Authorization powers for decision making regarding loans approval:

- For loans over RUB 1.5 million but not exceeding RUB 5 million – authorization powers for decision making regarding standardised loan products are vested with a range of regional branch directors;
- For loans not exceeding RUB 7 million – authorization powers for decision making regarding loan issue are vested with heads of the Risk Control Department;
- For loans not exceeding RUB 35 million – authorization powers for decision making regarding loan issue are vested with the Small Credit Committee;
- For loans exceeding RUB 35 million – authorization powers for decision making regarding loan issue are vested with the Credit Committee.

All the loan/credit applications exceeding RUB 7 million are subject for control (underwriting) of the Risk Control Department. All the decisions to grant loans exceeding RUB 7 million are taken considering motivated judgement by the Risk Control Department.

Loan monitoring is performed in compliance with internal regulations of the Group. The frequency of monitoring of financial position and collateral depends upon credit risk concentration and level of credit risk of the client.

A special unit within the SME Lending Department and the Bad Debt Collection Department are responsible for recovery of overdue and impaired loans.

Analysis of loan portfolio credit risk is regularly performed by the Risk Control Department.

Both the Central Office and local subdivisions grant loans to the upper stratum of medium sized enterprises and large sized enterprises. Credit analysis is performed by the Central Office specialists of the Corporate Lending Department irrespective of the location of the client.

The Risk Control Department underwrites the loan/credit applications and produces opinion over the level of credit risk based on opinions of the Corporate Lending Department and other subdivisions.

There are 2 levels of decision making limits regarding loans issuance to the upper stratum of medium sized enterprises and large sized enterprises:

- The Small Credit Committee has authority to approve loans not exceeding RUB 30 million;
- The Credit Committee has authority to approve loans exceeding RUB 30 million.

The Group regularly monitors loans in compliance with internal regulations on monitoring of financial performance and collateral. The monitoring is performed at least once a quarter or more frequently depending on the credit risk exposure and risk of collateral.

Only the Central Office may grant loans to VIP individuals. Major clients of the segment are top management and owners of the organizations serviced in the Group. The client risk is assessed with due regard to the risk assessment of the organization credited by the Group. Income and assets of the client are taken into consideration. Depending on limits either the Credit Committee or the Small Credit Committee decide on granting loans to VIP clients based on opinions of the Client Business Development Department and the Risk Control Department. Risk and lending structure assessment is made individually with the following factors accounted for:

- Confirmation of borrower’s income;
- Assets owned;
- Stable and sufficient sources to repay the loan.

There are 2 levels of decision making limits regarding loans issuance to VIP individuals:

- The Small Credit Committee has authority to approve loans not exceeding RUB 30 million;
- The Credit Committee has authority to approve loans exceeding RUB 30 million.

Decisions on granting loans to individuals (retail loans) are made at various levels of the Group’s structure depending on limits set in terms of amounts and types of loans (i.e. loans on vehicles, consumer loans, credit cards limits). Decisions are made based on client’s credit rating, motivated judgement of the Retail Business Department, the opinion of the Economic Security Service and the opinion of the Risk Control Department. Assessment criteria for individuals include the general assessment of the borrower, his or her personal quality, financial position and professional reputation, assessment of borrower’s creditworthiness, assessment of the collateral offered by the borrower and also assessment of the factors that may affect stability of the borrower’s income during the loan repayment period. All decisions are made by the Central Office.

The Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to note 14 “Loans to customers”.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Group. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Executive Board.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for a portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

Trading derivative liabilities forming part of the Group’s proprietary trading operations are expected to be closed out prior to contractual maturity. Hence, in respect of these derivative liabilities the maturity analysis in the previous tables reflects the fair values at the reporting date since contractual maturities are not reflective of the liquidity risk exposure arising from these positions. These fair values are disclosed in the less than one month column. In addition, trading derivative liabilities comprise also derivatives that are entered into by the Group with its customers. In respect of these liabilities, which are usually not closed out prior to contractual maturity, the maturity analysis in the previous tables reflects the contractual undiscounted cash flows as the Group believes that contractual maturities are essential for understanding the timing of cash flows associated with these derivative positions.

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the following financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows.

In accordance with Russian legislation, term deposits of individuals may be withdrawn before maturity. However management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customers accounts provide a long-term and stable source of funding for the Group.

The Group has undrawn lines of credit with the CBR and other financial institutions. Accordingly, the Group in its liquidity forecasts estimates that the liquidity gaps in the table below will be sufficiently covered by the continued retention of current accounts and deposits from customers, as well as the undrawn credit line facilities from the CBR and other financial institutions.

The key measure used by the Group for managing liquidity risk is the current liquidity ratio calculated in accordance with statutory regulations established by the CBR (N3 ratio). The Group was in compliance with these ratios during the six-month period ended 30 June 2012 and the year ended 31 December 2011.

22 Capital management

The Central Bank of Russia sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of capital to risk weighted assets (“statutory capital ratio”) above the prescribed minimum level. As at 30 June 2012, this minimum level is 10%. The Bank was in compliance with the statutory capital ratio during the six-month period ended 30 June 2012 and the year ended 31 December 2011.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 30 June 2012 and 31 December 2011:

	30 June 2012 RUB'000 Unaudited	31 December 2011 RUB'000
Tier 1 capital		
Share capital	3,381,047	3,381,047
Additional paid-in-capital	67,476	67,476
Retained earnings	3,952,796	3,402,120
Total tier 1 capital	7,401,319	6,850,643
Tier 2 capital		
Revaluation reserve for building	220,366	220,366
Subordinated debt excluding accrued interest	254,124	313,498
Total tier 2 capital	474,490	533,864
Investments in equity of other banks and financial institutions	-	(13,503)
Total capital	7,875,809	7,371,004
Risk-weighted assets		
Banking book	42,493,009	39,299,272
Trading book	10,333,423	7,735,308
Total risk weighted assets	52,826,432	47,034,580
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	14.0%	14.6%
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	14.9%	15.7%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. Tier 1 capital ratio under these covenants should be not less than 8% and total capital ratio should not be less than 12%. Further covenants require that the Group’s statutory capital ratio should not be less than 10% and the capital adequacy ratio calculated in accordance with methodology of IFC, the lender, should not be less than 12%. The Group has complied with all externally imposed capital requirements during the six-month period ended 30 June 2012 and the year ended 31 December 2011.

23 Commitments

At any time the Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to three years.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	30 June 2012	31 December 2011
	RUB'000	RUB'000
	Unaudited	
	<hr/>	<hr/>
Contracted amount		
Undrawn loan commitments	6,884,100	4,689,470
Guarantees and letters of credit	4,710,095	4,165,859
	<hr/> 11,594,195 <hr/>	<hr/> 8,855,329 <hr/>

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

24 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has full coverage for its premises and equipment and cash in transit. The Group does not have full coverage for business interruption, or third party liability in respect of property or environmental damage arising from accidents on property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position. Starting from April 2006 the Group has an insurance agreement with Ingosstrakh which gives insurance coverage through a public (or third party) liability policy, bankers blanket bond (BBB), electronic and computer crime insurance (ECC) policies, covering the following risks: public (civil) liability, dishonest or fraudulent acts of employees, loss of money (valuables) and losses resulting from forged or altered valuable documents, securities and counterfeit currency, electronic fraud.

Litigation

Management is unaware of any significant actual, pending or threatened claims against the Group.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe

finances, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position of the Group, if the authorities were successful in enforcing their interpretations, could be significant.

25 Related party transactions

Transactions with the members of the Board of Directors and the Executive Board

Total remuneration, included in personnel expenses, for the members of the Board of Directors and the Executive Board for the six-month periods ended 30 June 2012 and 2011 is shown below:

	Six-Month Period Ended 30 June 2012 RUB'000 Unaudited	Six-Month Period Ended 30 June 2011 RUB'000 Unaudited
Members of the Board of Directors	6,686	11,545
Members of the Executive Board	24,688	29,163
	31,374	40,708

The above amounts include non-cash benefits paid to members of the Board of Directors and the Executive Board.

The outstanding balances and average interest rates as at 30 June 2012 and 31 December 2011 for transactions with the members of the Board of Directors and the Executive Board are as follows:

	30 June 2012		31 December 2011	
	RUB'000 Unaudited	Average interest rate	RUB'000	Average interest rate
Consolidated interim condensed statement of financial position				
Assets				
Loans to customers	1,008	11.2%	109	20.0%
Liabilities				
Current accounts and deposits from customers	120,759	6.9%	128,127	6.3%

Other amounts included in profit or loss for the six-month period ended 30 June 2012 and 30 June 2011 in relation to transactions with the members of the Board of Directors and the Executive Board are as follows:

	Six-Month Period Ended 30 June 2012 RUB'000 Unaudited	Six-Month Period Ended 30 June 2011 RUB'000 Unaudited
Consolidated interim condensed statement of comprehensive income		
Interest income	261	1
Interest expense	(3,988)	(4,536)
Fee and commission income	23	22

Transactions with shareholders and other related parties

The outstanding balances and the related average interest rates as at 30 June 2012 and related profit or loss amounts of transactions for the six-month period ended 30 June 2012 with shareholders and other related parties are as follows. Other related parties include entities controlled by shareholders of the Group.

	Shareholders		Other related parties		Total
	RUB'000	Average interest rate	RUB'000	Average interest rate	RUB'000
Unaudited					
Consolidated interim condensed statement of financial position					
Assets					
Loans to customers	-	-	48,315	11.4%	48,315
Liabilities					
Current accounts and deposits from customers	994	5.0%	377,777	3.2%	378,771
Deposits and balances from banks and other financial institutions	598,712	8.8%	-	-	598,712
Unrecognized commitments					
Undrawn loan commitments	58,281		6,249		64,530
Consolidated interim condensed statement of comprehensive income					
Interest income	-		4,752		4,752
Interest expense	(28,238)		(10,136)		(38,374)
Fee and commission income	3		781		784
Fee and commission expense	(7,643)		(25)		(7,668)

The outstanding balances and the related average interest rates as at 31 December 2011 and related profit or loss amounts of transactions for the six-month period ended 30 June 2011 with shareholders and other related parties are as follows. Other related parties include entities controlled by shareholders of the Group.

	Shareholders		Other related parties		Total
	RUB'000	Average interest rate	RUB'000	Average interest rate	RUB'000
Consolidated statement of financial position					
Assets					
Loans to customers	-	-	91,107	12.3%	91,107
Liabilities					
Current accounts and deposits from customers	-	-	371,047	5.1%	371,047
Deposits and balances from banks and other financial institutions	785,868	8.2%	-	-	785,868
Unaudited Consolidated interim condensed statement of comprehensive income					
Interest income	73		23,194		23,267
Interest expense	(54,792)		(3,850)		(58,642)
Fee and commission income	227		5,746		5,973
Fee and commission expense	(6,055)		(23)		(6,078)

26 Cash and cash equivalents

Cash and cash equivalents as at 30 June 2012 and 31 December 2011 as shown in the consolidated interim condensed statement of cash flows are composed of the following items:

	30 June 2012 RUB'000 Unaudited	31 December 2011 RUB'000
Cash	1,348,391	1,055,255
Due from the Central Bank of the Russian Federation – nostro accounts	1,209,022	2,412,150
Placements with banks and other financial institutions – nostro accounts	3,602,428	5,820,031
	6,159,841	9,287,436

27 Maturity analysis

In accordance with Russian legislation, term deposits of individuals may be withdrawn before maturity. However management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customers accounts provide a long-term and stable source of funding for the Group.

The following table shows assets and liabilities by their remaining contractual maturity as at 30 June 2012. The amounts in this table represent the carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

The table below show all assets and liabilities as at 30 June 2012 by their remaining contractual maturities with the exception of securities included in financial assets at fair value through profit or loss that are approved by the Central Bank of the Russian Federation as collateral for its loans. Such securities are shown in the category "Less than 1 month".

	Less than 1 month RUB'000 Unaudited	1 to 3 months RUB'000 Unaudited	3 months to 1 year RUB'000 Unaudited	1 to 5 years RUB'000 Unaudited	More than 5 years RUB'000 Unaudited	No maturity RUB'000 Unaudited	Overdue RUB'000 Unaudited	Total RUB'000 Unaudited
Assets								
Cash	1,348,391	-	-	-	-	-	-	1,348,391
Due from the Central Bank of the Russian Federation	1,209,022	-	-	-	-	476,818	-	1,685,840
Placements with banks and other financial institutions	4,438,455	-	10,053	-	-	-	-	4,448,508
Financial instruments at fair value through profit or loss	10,197,855	49,044	539,831	100,474	512,649	300,789	-	11,700,642
Loans to customers	4,989,170	7,109,632	11,980,928	13,211,408	796,920	-	458,558	38,546,616
Property and equipment	-	-	-	-	-	433,403	-	433,403
Current income tax prepayment	-	165,683	-	-	-	-	-	165,683
Other assets	49,655	184,788	114,830	6,127	-	-	-	355,400
Total assets	22,232,548	7,509,147	12,645,642	13,318,009	1,309,569	1,211,010	458,558	58,684,483
Liabilities								
Financial instruments at fair value through profit or loss	9,564	-	-	-	-	-	-	9,564
Deposits and balances from banks and other financial institutions	1,905,331	3,061,370	3,372,865	2,265,883	-	-	-	10,605,449
Amounts payable under repurchase agreements	4,568,356	-	-	-	-	-	-	4,568,356
Current accounts and deposits from customers	13,087,623	3,155,780	11,855,359	471,018	-	-	-	28,569,780
Own securities issued	195,316	3,724,538	3,143,493	-	-	-	-	7,063,347
Current income tax payable	-	481	-	-	-	-	-	481
Deferred tax liability	-	-	-	-	-	32,233	-	32,233
Other liabilities	129,529	44,123	36,844	3,092	-	-	-	213,588
Total liabilities	19,895,719	9,986,292	18,408,561	2,739,993	-	32,233	-	51,062,798
Net position as at 30 June 2012	2,336,829	(2,477,145)	(5,762,919)	10,578,016	1,309,569	1,178,777	458,558	7,621,685
Cumulative liquidity position as at 30 June 2012	2,336,829	(140,316)	(5,903,235)	4,674,781	5,984,350	7,163,127	7,621,685	
Net position as at 31 December 2011	3,831,782	(439,025)	(6,968,591)	8,734,557	365,113	989,504	557,669	7,071,009
Cumulative liquidity position as at 31 December 2011	3,831,782	3,392,757	(3,575,834)	5,158,723	5,523,836	6,513,340	7,071,009	

28 Currency analysis

The following table shows the currency structure of assets and liabilities as at 30 June 2012:

	RUB RUB'000 Unaudited	USD RUB'000 Unaudited	Other currencies RUB'000 Unaudited	Total RUB'000 Unaudited
Assets				
Cash	1,043,362	203,815	101,214	1,348,391
Due from the Central Bank of the Russian Federation	1,685,840	-	-	1,685,840
Placements with banks and other financial institutions	1,075,417	2,173,012	1,200,079	4,448,508
Financial instruments at fair value through profit or loss	10,985,298	708,952	6,392	11,700,642
Loans to customers	32,573,581	5,113,931	859,104	38,546,616
Property and equipment	433,403	-	-	433,403
Current income tax prepayment	165,683	-	-	165,683
Other assets	351,903	1,556	1,941	355,400
Total assets	48,314,487	8,201,266	2,168,730	58,684,483
Liabilities				
Financial instruments at fair value through profit or loss	396	9,168	-	9,564
Deposits and balances from banks and other financial institutions	7,234,997	2,939,227	431,225	10,605,449
Amounts payable under repurchase agreements	4,568,356	-	-	4,568,356
Current accounts and deposits from customers	20,988,636	5,869,755	1,711,389	28,569,780
Own securities issued	6,594,556	468,791	-	7,063,347
Current income tax payable	481	-	-	481
Deferred tax liability	32,233	-	-	32,233
Other liabilities	205,032	4,618	3,938	213,588
Total liabilities	39,624,687	9,291,559	2,146,552	51,062,798
Net on balance sheet position as at 30 June 2012	8,689,800	(1,090,293)	22,178	7,621,685
Net off balance sheet position as at 30 June 2012	(567,912)	622,206	(54,294)	-
Net on and off balance sheet position as at 30 June 2012	8,121,888	(468,087)	(32,116)	7,621,685
Net on and off balance sheet position as of 31 December 2011	7,409,160	(248,340)	(89,811)	7,071,009