RUSSIAN AGRICULTURAL BANK GROUP

International Financial Reporting Standards Condensed Consolidated Interim Financial Statements and Review Report

30 June 2011

CONTENTS

Report on Review of Condensed Consolidated Interim Financial Information

To the Shareholder and the Supervisory Board of Russian Agricultural Bank:

Introduction

1 We have reviewed the accompanying condensed consolidated interim statement of financial position of Open Joint Stock Company Russian Agricultural Bank and its subsidiaries (hereinafter - the "Group") as of 30 June 2011, and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six months then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 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

2 We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim 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

3 Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

21 October 2011
Moscow, Russian Federation

In millions of Russian Roubles	Note	30 June 2011 (unaudited)	31 December 2010
ASSETS			
Cash and cash equivalents		84 028	81 010
Mandatory cash balances with the Central Bank of the Russian Federation		7 243	3 468
Trading securities		-	3 563
Repurchase receivables		727	15 240
Financial instruments designated at fair value through profit or loss	6	14 236	9 686
Derivative financial instruments	14	12 271	20 621
Due from other banks		31 347	34 477
Loans and advances to customers	7	799 009	688 556
Investment securities available for sale		60 346	15 687
Investment securities held to maturity		14 414	14 922
Deferred income tax asset		3 932	1 930
Intangible assets		1 555	1 563
Premises and equipment		24 986	25 985
Current income tax prepayment		70	191
Other assets		13 813	11 052
Assets of disposal groups held for sale	16	4 748	2 849
TOTAL ASSETS		**1 072 725**	**930 800**
LIABILITIES			
Derivative financial instruments	14	3 833	541
Due to other banks	8	83 481	105 578
Customer accounts		503 659	386 279
Promissory notes issued		15 337	9 874
Other borrowed funds	9	273 092	257 559
Deferred income tax liability		1 357	1 405
Current income tax liability		188	17
Other liabilities		5 214	4 389
Subordinated debts	9	67 304	46 545
Liabilities directly associated with disposal groups held for sale	16	1 498	1 015
TOTAL LIABILITIES		**954 963**	**813 202**
EQUITY			
Share capital		108 798	108 798
Revaluation reserve for premises		894	933
Revaluation reserve for investment securities available for sale		305	(101)
Retained earnings		6 862	6 851
Equity attributable to the Bank's shareholder		**116 859**	**116 481**
Non-controlling interest		**903**	**1 117**
TOTAL EQUITY		**117 762**	**117 598**
TOTAL LIABILITIES AND EQUITY		**1 072 725**	**930 800**

Approved for issue and signed on behalf of the Management Board on 21 October 2011.

D.N. Patrushev
Chairman of the Management Board

E.A. Romankova
Chief Accountant

In millions of Russian Roubles	Note	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited)
Interest income		52 923	50 307
Interest expense		(26 649)	(26 756)
Net interest income		**26 274**	**23 551**
Provision for loan impairment		(12 686)	(12 909)
Net interest income after provision for loan impairment		**13 588**	**10 642**
Fee and commission income		1 986	1 426
Fee and commission expense		(231)	(164)
(Losses net of gains)/gains less losses arising from trading securities		(73)	813
Gains less losses/(losses net of gains) arising from financial instruments designated at fair value through profit or loss		824	(339)
Gains less losses arising from disposal of investment securities available for sale		101	106
Foreign exchange translation gains less losses/(losses net of gains)		10 081	(3 326)
(Losses net of gains)/gains less losses from foreign exchange swaps with settlement dates of more than 30 working days		(12 137)	1 767
Losses net of gains arising from other derivative financial instruments		(172)	(167)
Gains less losses arising from dealings in foreign currencies		305	92
(Provision for)/recovery of other assets impairment		(55)	207
(Losses)/gains from early redemption of other borrowed funds		(6)	21
(Losses net of gains)/gains less losses from non-banking activities	10	(675)	469
Gains on disposal of subsidiaries	16	21	-
Other operating income		185	122
Administrative and other operating expenses		(13 600)	(11 400)
Profit before tax		**142**	**269**
Income tax expense		(131)	(106)
Profit for the period		**11**	**163**
Other comprehensive income/(expense):			
Securities available for sale:			
- Revaluation of securities at fair value during the period		609	93
- Realised revaluation reserve (at disposal)		(101)	(106)
Income tax recorded directly in other comprehensive income		(102)	2
Other comprehensive income/(expense) for the period, net of tax		**406**	**(11)**
Total comprehensive income for the period		**417**	**152**
Profit/(loss) is attributable to:			
Shareholder of the Bank		225	107
Non-controlling interest		(214)	56
Profit for the period		**11**	**163**
Total comprehensive income/(expense) is attributable to:			
Shareholder of the Bank		631	96
Non-controlling interest		(214)	56
Total comprehensive income for the period		**417**	**152**

In millions of Russian Roubles	Attributable to shareholder of the Bank					Non-controlling interest	Total equity
	Share capital	**Revaluation reserve for premises**	**Revaluation reserve for securities available for sale**	**Retained earnings**	**Total**		
Balance at 1 January 2010	**106 973**	**842**	**14**	**6 572**	**114 401**	**1 135**	**115 536**
Total comprehensive income/(expense) for the period, net of tax	-	-	(11)	107	96	56	152
Realised revaluation reserve for premises, net of tax	-	(12)	-	12	-	-	-
Share issue	825	-	-	-	825	-	825
Dividends declared	-	-	-	(232)	(232)	-	(232)
Balance at 30 June 2010 (unaudited)	**107 798**	**830**	**3**	**6 459**	**115 090**	**1 191**	**116 281**
Balance at 1 January 2011	**108 798**	**933**	**(101)**	**6 851**	**116 481**	**1 117**	**117 598**
Total comprehensive income/(expense) for the period, net of tax	-	-	406	225	631	(214)	417
Realised revaluation reserve for premises, net of tax	-	(39)	-	39	-	-	-
Dividends declared	-	-	-	(253)	(253)	-	(253)
Balance at 30 June 2011 (unaudited)	**108 798**	**894**	**305**	**6 862**	**116 859**	**903**	**117 762**

In millions of Russian Roubles	Note	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited)
Cash flows from operating activities			
Interest received		47 411	48 458
Interest paid		(25 463)	(25 832)
Income received from trading in securities and financial instruments designated at fair value through profit or loss		208	608
(Losses incurred)/income received from foreign exchange swaps with settlement dates of more than 30 working days		(544)	8 488
Losses incurred from other derivative financial instruments		(123)	(176)
Income received from dealings in foreign currencies		305	92
Fees and commissions received		1 986	1 426
Fees and commissions paid		(231)	(164)
Other operating income received		432	365
Staff costs paid		(7 786)	(6 579)
Administrative and other operating expenses paid		(3 714)	(3 228)
Income tax paid		(2 044)	(847)
Cash flows from operating activities before changes in operating assets and liabilities		**10 437**	**22 611**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(3 775)	(261)
Net decrease in trading securities and repurchase receivables		3 967	13 656
Net increase in financial instruments designated at fair value through profit or loss		(4 406)	(4 027)
Net decrease/(increase) in due from other banks		494	(1 197)
Net increase in loans and advances to customers		(119 727)	(77 531)
Net (increase)/decrease in other assets		(3 696)	109
Net decrease in due to other banks		(17 619)	(84 967)
Net increase in customer accounts		118 611	86 924
Net increase in promissory notes issued		5 194	3 832
Net decrease in other liabilities		(667)	(1 750)
Net cash used in operating activities		**(11 187)**	**(42 601)**
Cash flows from investing activities			
Acquisition of premises and equipment		(780)	(1 327)
Proceeds from disposal of premises and equipment		77	272
Acquisition of intangible assets		(215)	(563)
Acquisition of investment securities available for sale		(46 267)	(13 367)
Proceeds from disposal of investment securities available for sale		15 565	5 619
Acquisition of investment securities held to maturity		(1 132)	(1 194)
Proceeds from redemption of investment securities held to maturity		985	475
Cash outflow on disposal of subsidiaries, net of cash disposed of	16	(24)	-
Net cash used in investing activities		**(31 791)**	**(10 085)**
Cash flows from financing activities			
Proceeds from subordinated debts		22 434	-
Proceeds from sale of previously bought back other borrowed funds		320	-
Proceeds from other borrowed funds		32 143	40 658
Repayment of other borrowed funds		(7 000)	(11 707)
Issue of ordinary shares		-	825
Repayment of syndicated loans		-	(7 374)
Net cash from financing activities		**47 897**	**22 402**
Effect of exchange rate changes on cash and cash equivalents		**(1 901)**	**(1 819)**
Net increase/(decrease) in cash and cash equivalents		**3 018**	**(32 103)**
Cash and cash equivalents at the beginning of the period		81 010	94 958
Cash and cash equivalents at the end of the period		**84 028**	**62 855**

1 Introduction

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") for the six months ended 30 June 2011 for Open Joint Stock Company Russian Agricultural Bank (the "Bank") and its subsidiaries (together referred to as the "Group").

Principal activity. The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations.

The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property. The Bank's principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- to participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- to develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- to maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 13 June 2000. The Bank participates in the State deposit insurance scheme, which was introduced by Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has 78 (31 December 2010: 78) branches in the Russian Federation. The Bank's registered address is 119034 Russia, Moscow, Gagarinsky Pereulok, 3. The Bank's principal place of business is 119019 Russia, Moscow, Arbat, 1.

The number of the Group's employees at 30 June 2011 was 35 915 (31 December 2010: 36 120).

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

2 Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010 and first half of 2011, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased money market liquidity levels.

In summer 2010, the Government declared a drought emergency in several Russian regions. This event had significant negative consequences, including an increase in consumer prices for certain food products. The Russian Government announced state support for drought-affected regions. In 2011 the harvest in Russia is significantly higher compared to the previous year harvest due to favourable weather conditions in major agricultural regions.

Borrowers of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

The market in Russia for many types of collateral, especially real estate, has been severely affected by the volatile global financial markets, resulting in a low level of liquidity for certain types of assets. As a result, the actual realisable value on future foreclosures may differ from the value ascribed in estimating allowances for impairment at the end of the reporting period.

2 Operating Environment of the Group (Continued)

Under International Financial Reporting Standards ("IFRS"), impairment losses on financial assets expected as a result of future events, no matter how likely, cannot be recognised until such events arise.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management is unable to reliably determine the effects on the Group's future financial position of any potential further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

3 Summary of Significant Accounting Policies

Basis of preparation. These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting,* and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2010, which have been prepared in accordance with IFRS.

The Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

At 30 June 2011 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 28.0758 (31 December 2010: USD 1 = RR 30.4769).

Changes in accounting policies. The accounting policies and methods of computation applied in the preparation of these condensed consolidated interim financial statements are consistent with the accounting policies applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2010. Certain new standards, interpretations and amendments to the existing standards, as disclosed in the consolidated financial statements for the year ended 31 December 2010, became effective for the Group from 1 January 2011. These have not significantly affected the condensed consolidated interim financial statements of the Group.

Interim period tax measurement. The Group applied for the purposes of these condensed consolidated interim financial statements the income tax rate that is expected to be applied during the whole fiscal period, while the effects of individual transactions resulting in tax non-deductible expenditures or non-taxable income are taken into account in the period, in which they occur.

These condensed consolidated interim financial statements don't contain all the explanatory notes as required for a full set of financial statements, including certain disclosures introduced by IFRS 7, «Financial Instruments: Disclosures».

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The accounting estimates and judgments applied in the preparation of these condensed consolidated interim financial statements are consistent with those applied in the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2010.

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

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. The fair value of held-to-maturity securities is RR 14 446 million (31 December 2010: RR 14 753 million).

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgements as to whether there is any objective 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 borrowers' financial situation (assessed on the basis of internal rating system) or 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.

A 5% increase or decrease in actual loss given default compared to estimated loss given default used would result in an increase or decrease in loan impairment losses of RR 1 885 million (31 December 2010: RR 1 480 million).

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect fair values reported in the condensed consolidated interim financial statements.

Accounting for subordinated debt from Vnesheconombank. The Russian Government provided assistance to the Russian financial system by instructing the Russian State Corporation Bank Razvitiya i Vneshneekonomicheskoy Deyatelnosti ("Vnesheconombank") to grant subordinated debts to selected banks. This subordinated debt was attracted in accordance with the Federal Law #173-FZ "About supplementary measures to support financial system of the Russian Federation".

In October 2008 the Group attracted a subordinated debt from Vnesheconombank in the amount of RR 25 000 million with maturity in December 2019 and interest rate of 8.0% p.a.

Due to its unique terms and conditions, subordinated nature and absence of observable current market transactions providing evidence of a market rate for such instruments, the debt was originally recognized and subsequently carried on the consolidated statement of financial position at amortised cost.

Had there been evidence that the market interest rate for such loans was higher than the contractual interest rates, the amortised contractual value of the debt would has been replaced by (i) the amortised value of the loans determined based on the fair value of the debt at the date of origination and (ii) the unamortised value of the government grant embedded in such low interest debt; there would have been no impact on the profit or loss for the period since the increased effective interest rates would have been offset by amortisation of the government grant.

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

Accounting for change of interest rate on the subordinated debt from Vnesheconombank. In July 2010, Federal Law #173-FZ was amended to reduce the interest rate on subordinated debt attracted by the Group from Vnesheconombank from 8.0% p.a. to 6.5% p.a. All other terms of the debt remain unchanged.

The Group accounted for such reduction in accordance with IAS 39 “Financial Instruments: Recognition and Measurement” and tested whether the modification was substantial. As the modification was not substantial, the Group accounted for the change in the interest rate as a prospective adjustment of the effective interest rate.

The alternative possible accounting treatment could have been to account for the above reduction of interest rate in accordance with IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance” and the difference between the previous and revised carrying value of the debt in the amount of RR 2 375 million would be recorded as government grant deferred income within other liabilities and is to be amortised through interest expense until the debts’ maturity date.

5 New Accounting Pronouncements

Since the Group published its last annual consolidated financial statements, certain new standards and interpretations have been issued which are effective for the annual accounting periods starting on or after 1 January 2012 and which the Group has not early adopted:

IFRS 10, Consolidated financial statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 “Consolidated and separate financial statements” and SIC-12 “Consolidation - special purpose entities”. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 11, Joint arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities - Non-Monetary Contributions by Ventures”. Changes in the definitions have reduced the number of “types” of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 12, Disclosure of interest in other entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 28 “Investments in associates”. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements.

5 New Accounting Pronouncements (Continued)

Amendment to IAS 1, Presentation of financial statements (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012). The amendment requires the entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendment also changes the title for the statement of comprehensive income to 'statement of profit or loss and other comprehensive income'. The Group is currently assessing the impact of the standard on its financial statements.

Amendment to IAS 19, Employee benefits (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits. The amendment also changes disclosures for all employee benefits. The Group is currently assessing the impact of the standard on its financial statements.

Certain new standards and interpretations became effective for the Group from 1 January 2011:

Classification of Rights Issues – Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The amendment did not have an impact on these condensed consolidated interim financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. IFRIC 19 did not have an impact on these condensed consolidated interim financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. IFRIC 14 did not have an impact on these condensed consolidated interim financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

- IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements;

- IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interest that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3;

- IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period;

5 New Accounting Pronouncements (Continued)

- IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity;
- IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008);
- IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and
- IFRIC 13 was amended to clarify measurement of fair value of award credits.

The improvements did not have an impact on these condensed consolidated interim financial statements.

Unless otherwise described above, the new standards and interpretations did not significantly affect the Group's financial reporting.

6 Financial Instruments Designated at Fair Value through Profit or Loss

In millions of Russian Roubles	**30 June 2011 (unaudited)**	**31 December 2010**
Credit Linked Notes	909	825
Due from other banks with embedded derivatives	13 327	8 861
Total financial instruments designated at fair value through profit or loss	**14 236**	**9 686**

International credit ratings of issuers of the notes and of counterparty banks were not less than BB- (S&P) as at 30 June 2011 (31 December 2010: not less than BB- (S&P)).

Management classified financial instruments with embedded derivatives as financial instruments designated at fair value through profit or loss, although there was an option to separate the embedded derivative and value the host contract at amortised cost.

In May 2008, the Group purchased a Credit Linked Note from an OECD bank in the nominal amount of RR 2 500 million at the net price of 19.5% of the nominal amount with maturity in May 2023 and a zero coupon. The Note has an embedded Credit Default Swap linked to the Bank's own credit risk.

Due from other banks with embedded derivatives are as follows:

In March 2010, the Group placed funds with the OECD bank in the total amount of USD 200 million, with maturity in April 2014 and interest rates of 10.0% and 10.4% p.a. The contracts have embedded derivatives FTD ("first to default"), linked to credit events associated with quasi-sovereign issuers.

In April 2010 and August 2010, the Group placed funds with the OECD bank in the total amount of USD 107 million, with maturity in March 2013 and August 2015 and interest rates of 10.3% and 10.1% p.a. The contracts have embedded derivatives linked to a credit risk of a quasi-sovereign issuer.

In May 2011, the Group placed funds with the OECD bank in the total amount of USD 50 million, with maturity in May 2016, an interest rate of 0.6% p.a. The contract has an embedded option linked to the performance of commodity index.

In June 2011, the Group placed funds with the OECD bank in the total amount of RR 3 000 million, with maturity in December 2011 and an interest rate of 5.0% p.a. The contract has an embedded derivative linked to a credit risk of sovereign issuers.

7 Loans and Advances to Customers

In millions of Russian Roubles	**30 June 2011 (unaudited)**	**31 December 2010**
Loans to legal entities		
- Loans to corporates	724 768	615 385
- Lending for food interventions	33 413	44 514
- Deals with securities purchased under reverse-repo agreements	1 008	-
- Investments in agricultural cooperatives	620	655
Loans to individuals	108 913	85 031
Total loans and advances to customers (before impairment)	**868 722**	**745 585**
Less: Provision for loan impairment	(69 713)	(57 029)
Total loans and advances to customers	**799 009**	**688 556**

Lending for food interventions is represented by loans to a company, which is 100% owned by the Government of the Russian Federation.

Movements in provisions for loan impairment are as follows:

In millions of Russian Roubles	**For the six months ended 30 June 2011 (unaudited)**	**For the six months ended 30 June 2010 (unaudited)**
Provision for loan impairment at 1 January	**57 029**	**29 950**
Provision for loan impairment during the period	12 696	12 875
Reclassification to assets of disposal groups held for sale	(12)	-
Provision for loan impairment at 30 June	**69 713**	**42 825**

Information on related party balances is disclosed in Note 15.

8 Due to Other Banks

In millions of Russian Roubles	**30 June 2011 (unaudited)**	**31 December 2010**
Borrowings from other banks with term to maturity		
- sale and repurchase agreements less than 30 days	300	12 911
- less than 30 days	9 621	7 378
- from 31 to 180 days	5 112	4 793
- from 181 days to 1 year	2 400	4 652
- from 1 year to 3 years	49 864	53 558
- more than 3 years	16 054	18 192
Borrowings from the CBRF with term to maturity		
- less than 30 days	8	1 058
- from 31 to 180 days	-	2 795
Correspondent accounts and overnight placements of other banks	122	241
Total due to other banks	**83 481**	**105 578**

9 Other Borrowed Funds and Subordinated Debts

In millions of Russian Roubles	30 June 2011 (unaudited)	31 December 2010
Eurobonds issued	191 679	169 102
Bonds issued on domestic market	81 413	88 457
Total other borrowed funds	**273 092**	**257 559**
Subordinated debts	**67 304**	**46 545**

Other borrowed funds. As at 30 June 2011, other borrowed funds consist of US Dollars, Russian Roubles and Swiss Francs denominated Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. as well as Russian Roubles denominated bonds issued on domestic market.

Currency of denomination	Nominal value, in millions of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issued							
US Dollars	630	16 May 2006	16 May 2013	-	7.175%	6 months	2.81%
US Dollars	1 137	14 May 2007	15 May 2017	-	6.299%	6 months	5.03%
Swiss Francs	150	30 April 2008	30 April 2012	-	6.263%	1 year	2.35%
US Dollars							
- tranche A	702	29 May 2008	14 January 2014	-	7.125%	6 months	3.71%
- tranche B	899	29 May 2008	29 May 2018	-	7.750%	6 months	5.29%
US Dollars	1 000	11 June 2009	11 June 2014	-	9.000%	6 months	3.75%
Russian Roubles	29 700	25 March 2010	25 March 2013	-	7.500%	6 months	6.31%
Russian Roubles	20 000	17 March 2011	17 March 2016	-	8.700%	6 months	7.81%
Russian Roubles	12 000	20 April 2011	17 March 2016	-	8.700%	6 months	7.81%
Bonds issued on domestic market							
Russian Roubles	10 000	22 February 2007	9 February 2017	17 February 2014	9.250%	6 months	7.54%
Russian Roubles	10 000	10 October 2007	27 September 2017	7 October 2011	11.500%	6 months	5.74%
Russian Roubles	264	22 February 2008	9 February 2018	19 August 2014	7.800%	6 months	7.21%
Russian Roubles	5 000	17 June 2008	5 June 2018	14 June 2013	6.850%	6 months	6.71%
Russian Roubles	10 000	9 December 2008	27 November 2018	8 December 2011	13.500%	6 months	13.90%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	6.31%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	6.26%
Russian Roubles	5 000	10 February 2010	29 January 2020	8 February 2013	9.000%	6 months	6.49%
Russian Roubles	5 000	11 February 2010	30 January 2020	11 February 2013	9.000%	6 months	6.58%
Russian Roubles	5 000	1 September 2010	28 August 2013	31 August 2012	7.200%	6 months	5.95%
Russian Roubles	10 000	1 September 2010	28 August 2013	31 August 2012	7.200%	6 months	6.02%
Russian Roubles	10 000	2 November 2010	29 October 2013	3 May 2012	6.600%	6 months	5.68%

9 Other Borrowed Funds and Subordinated Debts (Continued)

As at 31 December 2010 other borrowed funds comprise the following issues:

Currency of denomination	Nominal value, in millions of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issued							
US Dollars	630	16 May 2006	16 May 2013	-	7.175%	6 months	4.17%
US Dollars	1 127	14 May 2007	15 May 2017	-	6.299%	6 months	6.20%
Swiss Francs	150	30 April 2008	30 April 2012	-	6.263%	1 year	3.50%
US Dollars							
- tranche A	702	29 May 2008	14 January 2014	-	7.125%	6 months	4.76%
- tranche B	898	29 May 2008	29 May 2018	-	7.750%	6 months	6.42%
US Dollars	1 000	11 June 2009	11 June 2014	-	9.000%	6 months	5.02%
Russian Roubles	29 700	25 March 2010	25 March 2013	-	7.500%	6 months	7.56%
Bonds issued on domestic market							
Russian Roubles	7 000	22 February 2006	16 February 2011	-	7.850%	3 months	7.64%
Russian Roubles	10 000	22 February 2007	9 February 2017	17 February 2014	9.250%	6 months	7.98%
Russian Roubles	10 000	10 October 2007	27 September 2017	7 October 2011	11.500%	6 months	5.43%
Russian Roubles	264	22 February 2008	9 February 2018	19 August 2014	7.800%	6 months	8.08%
Russian Roubles	5 000	17 June 2008	5 June 2018	16 June 2011	6.900%	6 months	4.93%
Russian Roubles	10 000	9 December 2008	27 November 2018	8 December 2011	13.500%	6 months	13.93%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	6.84%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	6.79%
Russian Roubles	5 000	10 February 2010	29 January 2020	8 February 2013	9.000%	6 months	7.71%
Russian Roubles	5 000	11 February 2010	30 January 2020	11 February 2013	9.000%	6 months	7.62%
Russian Roubles	5 000	1 September 2010	28 August 2013	31 August 2012	7.200%	6 months	7.35%
Russian Roubles	10 000	1 September 2010	28 August 2013	31 August 2012	7.200%	6 months	7.35%
Russian Roubles	10 000	2 November 2010	29 October 2013	3 May 2012	6.600%	6 months	6.90%

Subordinated debts. As at 30 June 2011, the Group's subordinated debts totalled RR 67 304 million (31 December 2010: RR 46 545 million).

In September 2006, the Group attracted a subordinated debt totalling USD 500 million in Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. The Eurobonds mature in September 2016, have contractual interest rate of 6.97% p.a. (31 December 2010: 6.97% p.a.), and yield to the next repricing date, i.e. in September 2011 at 4.13% p.a. (31 December 2010: 6.7% p.a.). The Group has an option to terminate this subordinated debt at the nominal value in the last five years before its maturity date. Refer to Note 17.

In June 2007, the Group attracted a subordinated debt totalling USD 200 million maturing in June 2017 and bearing an interest rate of Libor +1.875%. The Group has an option to terminate this subordinated debt at the nominal value in the last five years before its maturity date.

In October 2008, the Group attracted from Vnesheconombank a subordinated debt totalling RR 25 000 million with maturity in December 2019 and an interest rate of 8.0% p.a. This subordinated debt was attracted in accordance with the Federal Law #173-FZ "About supplementary measures to support financial system of the Russian Federation". In July 2010, Federal Law #173-FZ was amended to reduce the interest rate on subordinated debt attracted by the Group from Vnesheconombank from 8.0% p.a. to 6.5% p.a. Refer to Note 4.

In June 2011, the Group attracted a subordinated debt totalling USD 800 million in Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. The Eurobonds mature in June 2021, have contractual interest rate of 6.0% p.a., and yield to the next repricing date, i.e. in June 2016 at 6.19% p.a. The Group has an option to terminate this subordinated debt at the nominal value in June 2016.

Information on related party balances is disclosed in Note 15.

10 (Losses net of Gains)/Gains less Losses from Non-banking Activities

In millions of Russian Roubles	**For the six months ended 30 June 2011 (unaudited)**	**For the six months ended 30 June 2010 (unaudited)**
Sales of goods	2 286	1 593
Cost of goods sold	(2 304)	(1 821)
Financial result from netting receivables and payables before impairment charge	-	304
Impairment (charge)/recovery of trade receivables and prepayments	(406)	310
Other	(251)	83
Total (losses net of gains)/gains less losses from non-banking activities	**(675)**	**469**

Sales of goods mainly represent sales of grain, sugar, meat and milk products and animal feedstuff.

11 Significant Risk Concentrations

As at 30 June 2011, cash and cash equivalents and placements with other banks included the balances with one Russian banking group and one foreign bank rated not less than BBB (S&P) in the total amount of RR 66 593 million, or 58% of total cash and cash equivalents and due from other banks (31 December 2010: balances with the same banks totalled RR 47 396 million, or 41% of total cash and cash equivalents and due from other banks).

As at 30 June 2011, cash and cash equivalents included the balances with the Bank of Russia in the total amount of RR 16 934 million, or 20% of total cash and cash equivalents (31 December 2010: RR 37 361 million, or 46% of total cash and cash equivalents).

As at 30 June 2011, the Group had financial instruments designated at fair value through profit or loss included the balances with one foreign bank rated not less than BB- (S&P) in the total amount of RR 11 450 million, or 80% of total financial instruments designated at fair value through profit or loss (31 December 2010: balances with the same bank totalled RR 6 683 million, or 69% of total financial instruments designated at fair value through profit or loss).

As at 30 June 2011, the Group’s loan portfolio included loans issued to a state-controlled borrower in the total amount of RR 33 413 million, or 4% of the gross loan portfolio (31 December 2010: loans issued to the same borrower in the total amount of RR 44 514 million, or 6% of the gross loan portfolio).

As at 30 June 2011, the Group had the balances due to three foreign banks with the balance above 10% of the Group’s equity each and the aggregate amount of RR 55 516 million, or 67% of total due to other banks (31 December 2010: due to the same banks with the balance above 10% of the Group's equity each and the aggregate amount of RR 60 281 million, or 57% of total due to other banks).

As at 30 June 2011, the Group had three customers with the balance above 10% of the Group’s equity (31 December 2010: three customers). The aggregate balance of such customer accounts was RR 179 578 million, or 36% of total customer accounts (31 December 2010: RR 60 639 million, or 16% of total customer accounts).

As at 30 June 2011, other assets included receivables and prepayments related to trade activity of subsidiaries in the total amount of RR 2 917 million (31 December 2010: RR 1 520 million).

As at 30 June 2011, other liabilities included payables related to activity of subsidiaries in the total amount of RR 556 million (31 December 2010: RR 704 million).

As at 30 June 2011, the Group issued guarantees to one company of RR 1 351 million, or 75% of total guarantees issued (31 December 2010: no significant risk concentration).

12 Segment Analysis

Operational decision making is the responsibility of the Management Board of the Bank. The Management Board of the Bank reviews internal management reporting in order to assess efficiency and allocate resources.

The Management Board of the Bank performs geographic analysis of the Bank's operations and therefore the Bank's regional branches have been designated as operating segments.

Taking into account the administrative-territorial division of Russia, federal districts of the Russian Federation have been designated as reportable segments.

The Management Board of the Bank assesses efficiency of operating segments based on a financial performance measure prepared from statutory accounting data.

The accounting policy of the operating segments is based on Russian Accounting Rules (RAR) and thus materially significantly differs from policies described in the summary of significant accounting policies in these condensed consolidated interim financial statements.

12 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses for the six months ended 30 June 2011 and for the six months ended 30 June 2010 and segment reporting of the Group's assets at 30 June 2011 and 31 December 2010 are as follows:

In millions of Russian Roubles	Head office	Central federal district	Far-Eastern federal district	Volga federal district	North-West federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Krasnodar branch	Southern federal district (without Krasnodar branch)	Total
For the six months ended 30 June 2011 (unaudited)											
Revenue from external customers:	**7 722**	**12 436**	**1 892**	**10 849**	**3 059**	**4 336**	**5 440**	**1 075**	**3 794**	**2 236**	**52 839**
- Income from loans and advances to customers, due from other banks and other placed funds	6 835	11 746	1 727	10 317	2 892	4 121	5 100	1 023	3 590	2 104	49 455
- Fee and commission income from credit related operations	887	690	165	532	167	215	340	52	204	132	3 384
Intersegment income/(expense)	25 052	(5 812)	(820)	(5 540)	(1 679)	(2 617)	(2 930)	(602)	(3 829)	(1 223)	-
Profit/(loss) of the reportable segments	**(19 249)**	**7 191**	**325**	**8 694**	**539**	**3 226**	**3 206**	**154**	**(4 139)**	**1 354**	**1 301**
For the six months ended 30 June 2010 (unaudited)											
Revenue from external customers:	**9 355**	**11 821**	**1 753**	**9 498**	**3 514**	**3 563**	**5 282**	**1 174**	**6 275**	**1 921**	**54 156**
- Income from loans and advances to customers, due from other banks and other placed funds	8 347	11 119	1 633	8 988	3 358	3 409	4 955	1 101	5 900	1 836	50 646
- Fee and commission income from credit related operations	1 008	702	120	510	156	154	327	73	375	85	3 510
Intersegment income/(expense)	24 881	(6 122)	(841)	(5 244)	(1 899)	(2 168)	(2 903)	(664)	(3 878)	(1 162)	-
Profit/(loss) of the reportable segments	**(17 231)**	**4 232**	**489**	**3 154**	**925**	**2 627**	**1 147**	**226**	**4 762**	**566**	**897**
Total assets											
30 June 2011 (unaudited)	1 327 979	313 686	48 543	253 184	91 880	102 726	139 787	29 988	156 396	51 937	2 516 106
31 December 2010	1 183 530	311 373	44 238	237 058	99 122	94 890	131 428	26 113	150 337	47 362	2 325 451

12 Segment Analysis (Continued)

Reconciliation of reportable segment result is presented below:

In millions of Russian Roubles	**For the six months ended 30 June 2011 (unaudited)**	**For the six months ended 30 June 2010 (unaudited)**
Total profit of reportable segments (after tax)	**1 301**	**897**
Adjustment of deferred tax	2 108	796
Adjustments of provision for impairment	(1 848)	1 201
Accounting for derivative financial instruments at fair value	(1 442)	(1 335)
Gains less losses/(losses net of gains) arising from revaluation of financial instruments designated at fair value through profit or loss	824	(61)
Accounting for financial assets and liabilities carried at amortised cost	1 068	(887)
Adjustment of current income tax expense	(367)	10
(Expenses)/income of non-reportable segments, including effect of consolidation*	(840)	123
Accrued staff costs	(652)	(514)
Other	(141)	(67)
The Group's profit under IFRS (after tax)	**11**	**163**

* Non-reportable segments are represented by subsidiaries of the Group.

Adjustments of provision for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under RAR used for preparation of management reporting, and the methodology used for IFRS reporting. The provision under RAR is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model.

Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR gross settled swap transactions are recognised as back-to-back deposits, whereas in the IFRS financial statement such transactions are recognised at fair value.

Adjustments to financial assets and liabilities carried at amortised cost resulted from accruals of interest income/expenses using effective interest rate method.

There is no concept of deferred tax accounting in RAR for credit organizations.

All other differences also resulted from the differences between RAR (used as the basis for management reporting) and IFRS.

13 Contingencies and Commitments

Legal proceedings. From time to time in the normal course of business, claims against the Group are received. As at 30 June 2011, based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in these condensed consolidated interim financial statements (31 December 2010: nil).

Tax contingencies. Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

13 Contingencies and Commitments (Continued)

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying the transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other or higher level courts in the future.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

The management of the Group believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Therefore, as at 30 June 2011 the management has not created any provision for potential tax liabilities (31 December 2010: nil).

Capital expenditure commitments. As at 30 June 2011, the Group has contractual capital expenditure commitments totalling RR 243 million (31 December 2010: RR 307 million).

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases of premises and equipment are as follows:

In millions of Russian Roubles	**30 June 2011 (unaudited)**	**31 December 2010**
Not later than 1 year	1 880	1 676
Later than 1 year and not later than 5 years	2 516	3 679
Later than 5 years	2 090	2 391
Total operating lease commitments	**6 486**	**7 746**

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

Assets pledged and restricted. The Group had the following assets pledged and restricted:

In millions of Russian Roubles	**30 June 2011 (unaudited)**	**31 December 2010**
Under secured loans from the CBRF		
- loans to customers	13	7 101
Under term deposits from clients		
- State Eurobonds	6 155	6 682
Under repo agreements		
- Corporate bonds	411	12 547
- Federal loan bonds (OFZ)	316	-
- State Eurobonds	-	2 658
- Municipal and subfederal bonds	-	35
Restricted cash	202	-

13 Contingencies and Commitments (Continued)

In addition, mandatory cash balances with the CBRF in the amount of RR 7 243 million (31 December 2010: RR 3 468 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 30 June 2011, the Bank's subsidiaries pledged production premises and equipment under loan agreements with other banks for the total amount of RR 1 862 million (31 December 2010: RR 1 863 million).

14 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivative financial instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms.

The aggregate fair values of derivative financial instruments may fluctuate significantly from time to time. Liquidity risk on derivative financial instruments is managed by the Group's Treasury and the Capital Markets Department within powers of the departments. Management of derivative financial instrument portfolio risks is carried out by the authorized Group's bodies through establishing limits.

Foreign exchange swaps with original settlement dates of more than 30 working days are structured as loans issued by the Bank in US Dollars, Swiss Francs and Japanese yen to five OECD banks with maturities from August 2011 to May 2023, and deposits in Russian Roubles received from the same five banks with the same maturities ("back to back loans"). These transactions are aimed at economically hedging the currency exposure of the Group.

As at 30 June 2011, international credit ratings of these banks were not less than BB- (S&P) (31 December 2010: not less than BB- (S&P)).

Most of these agreements contain special procedures for counterparties upon the occurrence of a credit event or an event of default (including bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring of any Bank's obligation on its debts, falling of ratings, providing incorrect and/or misleading representation). The subjects of such events are the Group, in some instances, the counterparty of the agreement, and/or the Russian Federation. No further mutual payment obligation between the parties is due, if a credit event or default event happens and the Group receives a formal Event Notice from its counterparty. Other of these swaps agreements, in case of a default event, will be terminated with a mark-to-market payment.

14 Derivative Financial Instruments (Continued)

The table below reflects gross positions in derivative financial instruments before the netting of any counterparty positions as at 30 June 2011 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	**Contracts with positive fair value (unaudited)**	**Contracts with negative fair value (unaudited)**	**Total**
Foreign exchange swaps with settlement dates of more than 30 working days: fair values at the end of the reporting period, of			
USD receivable on settlement (+)	72 675	43 717	116 392
RR payable on settlement (-)	(62 542)	(47 476)	(110 018)
CHF receivable on settlement (+)	5 302	-	5 302
RR payable on settlement (-)	(3 605)	-	(3 605)
JPY receivable on settlement (+)	4 192	-	4 192
RR payable on settlement (-)	(3 782)	-	(3 782)
Foreign exchange forwards with settlement dates of up to 2 working days: fair values at the end of the reporting period, of			
USD receivable on settlement (+)	139	2 090	2 229
RR payable on settlement (-)	(139)	(2 091)	(2 230)
RR receivable on settlement (+)	3 960	725	4 685
USD payable on settlement (-)	(3 958)	(725)	(4 683)
Foreign exchange forwards with settlement dates from 2 to 30 working days: fair values at the end of the reporting period, of			
RR receivable on settlement (+)	8 390	-	8 390
USD payable on settlement (-)	(8 362)	-	(8 362)
EUR receivable on settlement (+)	202	162	364
USD payable on settlement (-)	(201)	(162)	(363)
USD receivable on settlement (+)	-	8 362	8 362
RR payable on settlement (-)	-	(8 434)	(8 434)
USD receivable on settlement (+)	-	322	322
EUR payable on settlement (-)	-	(323)	(323)
Forwards contracts on sale and purchase of securities: fair value at the end of the reporting period, of			
RR receivable on settlement (+)	-	312	312
Short position (-)	-	(312)	(312)
Total net fair value	**12 271**	**(3 833)**	**8 438**

14 Derivative Financial Instruments (Continued)

The table below reflects gross positions before the netting of any counterparty positions as at 31 December 2010 and covers the contracts with settlement dates after the respective end of reportive period:

In millions of Russian Roubles	Contracts with positive fair value	Contracts with negative fair value	Total
Foreign exchange swaps with settlement dates of more than 30 working days: fair values at the end of the reporting period, of			
USD receivable on settlement (+)	95 172	21 373	116 545
RR payable on settlement (-)	(76 548)	(21 883)	(98 431)
CHF receivable on settlement (+)	5 313	-	5 313
RR payable on settlement (-)	(3 824)	-	(3 824)
JPY receivable on settlement (+)	4 364	-	4 364
RR payable on settlement (-)	(3 898)	-	(3 898)
Foreign exchange forwards with settlement dates from 2 to 30 working days: fair values at the end of the reporting period, of			
RR receivable on settlement (+)	31	3 954	3 985
USD payable on settlement (-)	(31)	(3 966)	(3 997)
USD receivable on settlement (+)	14 257	13 430	27 687
RR payable on settlement (-)	(14 215)	(13 449)	(27 664)
Total net fair value	**20 621**	**(541)**	**20 080**

15 Related Party Transactions

For the purposes of these condensed consolidated interim financial statements, 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. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note 1).

The Group early adopted amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011) in the consolidated financial statements for the year ended 31 December 2009.

In these condensed consolidated interim financial statements the most significant balances (in the aggregate amount of more than RR 1 000 million) with related parties controlled by the Russian State and balances with related parties represented by key management and their family members are disclosed.

In millions of Russian Roubles	30 June 2011 (unaudited)	31 December 2010
Loans and advances to customers (before impairment)		
State-controlled companies (contractual interest rate: 7%-12% p.a. (2010: 7%-12% p.a.))	36 670	45 937
Key management and their family members (contractual interest rate: 2010: 5% p.a.)	-	21
Provision for loan impairment at period end		
State-controlled companies	(13)	(8)
Customer accounts		
State-controlled companies (contractual interest rate for term deposits: 3%-7% p.a. (2010: 1%-9% p.a.))	195 441	89 763
Key management and their family members (contractual interest rate for term deposits: 1%-7% p.a. (2010: 1%-7% p.a.))	144	235
Subordinated debts		
State-controlled companies (contractual interest rate: 6.5% p.a. (2010: 6.5% p.a.))	25 000	25 000

15 Related Party Transactions (Continued)

The income and expense items with related parties were as follows:

In millions of Russian Roubles	For the six months ended 30 June 2011 (unaudited)	For the six months ended 30 June 2010 (unaudited)
Interest income on loans and advances to customers		
State-controlled companies	1 567	1 688
Key management and their family members	-	1
Interest expense on customer accounts		
State-controlled companies	(3 526)	(2 603)
Key management and their family members	(6)	(22)
Interest expense on subordinated debts		
State-controlled companies	(806)	(992)

The Group has the following insignificant transactions with related parties:

- interest income on cash equivalents, trading securities, due from other banks;
- interest expenses on due to other banks;
- results from operations with trading securities and available for sale; and
- other.

Key management of the Group represents members of the Management Board of the Bank and Chief Accountant. For the six months ended 30 June 2011 short-term benefits of the key management was RR 60 million (for the six months ended 30 June 2010: RR 81 million).

As at 30 June 2011, investment securities available for sale and investment securities held to maturity included securities issued by Russian Federation in the total amount of RR 18 436 million (31 December 2010: RR 15 710 million); interest income from these securities for the six months ended 30 June 2011 amounted to RR 444 million (for the six months ended 30 June 2010: RR 230 million).

16 Disposal of Subsidiaries and Groups Classified as Held for Sale

a) Disposal of Subsidiaries

In June 2011 the Group completed disposal of its subsidiary Chelyabinskiy Commercial Land Bank.

In millions of Russian Roubles	06 June 2011 (unaudited)
Cash and cash equivalents	250
Mandatory cash balances with the Central Bank of the Russian Federation	2
Intangible assets	1
Premises and equipment	58
Customer accounts	(30)
Current income tax liability	(2)
Other liabilities	(74)
Net assets of subsidiary	**205**
Carrying amount of net assets disposed of	**205**
Total disposal consideration	**226**
Less: cash and cash equivalents in subsidiary disposed of	(250)
Cash outflow on disposal	**(24)**

16 Disposal of Subsidiaries and Groups Classified as Held for Sale (Continued)

In millions of Russian Roubles	**Gain on disposal of subsidiary**
Consideration for disposal of the subsidiary	226
Carrying amount of net assets disposed of	(205)
Gains on disposal of subsidiary	**21**

b) Groups Classified as Held for Sale

As at 30 June 2011 the Group has classified the assets and liabilities related to companies in Bashkortostan and Leningrad Region as disposal groups held for sale (31 December 2010: the assets and liabilities related to companies in Leningrad Region and Chelyabinskiy Commercial Land Bank).

Major classes of assets of disposal groups held for sale are as follows:

In millions of Russian Roubles	**30 June 2011 (unaudited)**	**31 December 2010**
Premises and equipment	2 695	2 122
Trade receivables	943	364
Inventory	694	125
Loans and advances to customers	125	93
Cash and cash equivalents	11	12
Other	280	133
Total assets of disposal groups held for sale	**4 748**	**2 849**

Major classes of liabilities directly associated with disposal groups held for sale are as follows:

In millions of Russian Roubles	**30 June 2011 (unaudited)**	**31 December 2010**
Trade payables	724	498
Deferred income tax liability	294	309
Due to other banks	167	158
Customer accounts	-	16
Other	313	34
Total liabilities directly associated with disposal groups held for sale	**1 498**	**1 015**

17 Events after the End of the Reporting Period

In July 2011, the Group attracted RR 20 000 million through three issues of bonds denominated in Russian Roubles with semi-annual payment of coupon at 7.7% p.a., maturing in June 2021 and July 2021 depending on the issue.

In July 2011, the Group entered into a legal agreement on disposal of companies in Leningrad Region (Open Joint-Stock Company Rassvet, Open Joint-Stock Company Luzhskiy kombikormoviy zavod, Open Joint-Stock Company Luzhskiy Myasokombinat) previously classified as a disposal group held for sale. The disposal is expected to be completed in March 2012 for a cash consideration of RR 1 061 million.

In August 2011, the Group acquired 100% of shares in Closed Joint-Stock Company «Insurance Company «GazGarant» for a cash consideration of RR 61 million. At the date of acquisition the carrying value of net assets of the company amounted to RR 53 million.

17 Events after the End of the Reporting Period (Continued)

In August 2011, dividends for the year ended 31 December 2010 in the amount of RR 253 million were paid to the Bank's shareholder.

In September 2011, the Group executed its option to early terminate the subordinated debt attracted in September 2006 in the total amount of USD 500 million.

In October 2011, the Government of the Russian Federation introduced a legislative proposal to increase the Bank's share capital by RR 40 000 million. The proposal is to be considered by the Federal Assembly in the fourth quarter 2011.