Russian Agricultural Bank Group

Interim Condensed Consolidated Financial Statements with Independent Auditors' Report on Review of Interim Condensed Consolidated Financial Statements

30 June 2013

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улучшаем мир

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Report on review of interim condensed consolidated financial statements

To the Shareholder and Supervisory Board of Russian Agricultural Bank Group

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC Russian Agricultural Bank and its subsidiaries (together the "Group") as at 30 June 2013, comprising of the interim condensed consolidated statement of financial position as at 30 June 2013 and the related interim condensed consolidated statements of comprehensive income for the three months and the six months then ended, interim condensed consolidated statements of changes in equity and of cash flows for the six months then ended and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim 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 accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

16 September 2013

In millions of Russian Roubles	Note	30 June 2013 (unaudited)	31 December 2012
ASSETS			
Cash and cash equivalents		123 472	106 342
Mandatory cash balances with the Central Bank of the Russian Federation		15 754	9 153
Trading securities		2 715	19 220
Financial instruments designated at fair value through profit or loss	5	11 899	12 550
Due from other banks		28 685	45 930
Derivative financial instruments	14	24 355	18 659
Loans and advances to customers	6	1 167 274	1 070 712
Investment securities available for sale		50 487	44 036
Investment securities held to maturity		16 596	27 999
Investment securities pledged under repurchase agreements	13	48 332	20 632
Deferred income tax asset		5 079	5 100
Intangible assets		1 614	1 723
Premises and equipment		22 595	23 068
Current income tax assets		1 613	2 464
Other assets		15 307	15 724
Assets of the disposal groups held for sale	17	5 442	5 338
TOTAL ASSETS		**1 541 219**	**1 428 650**
LIABILITIES			
Derivative financial instruments	14	2 375	5 261
Due to other banks	7	135 716	136 343
Customer accounts		678 140	557 476
Promissory notes issued and deposit certificates		27 408	23 234
Bonds issued	8	430 235	440 866
Deferred income tax liability		1 128	2 065
Current income tax liability		124	-
Other liabilities		9 084	8 824
Subordinated debts	8	57 504	55 274
Liabilities directly associated with the disposal groups held for sale	17	1 378	1 410
TOTAL LIABILITIES		**1 343 092**	**1 230 753**
EQUITY			
Share capital		188 798	188 798
Revaluation reserve for premises		1 251	1 270
Revaluation reserve for investment securities available for sale		(862)	(271)
Retained earnings		7 794	7 117
Equity attributable to the Bank's shareholder		**196 981**	**196 914**
Non-controlling interest		**1 146**	**983**
TOTAL EQUITY		**198 127**	**197 897**
TOTAL LIABILITIES AND EQUITY		**1 541 219**	**1 428 650**

Approved for issue and signed on behalf of the Management Board on 16 September 2013.

D.N. Patrushev
Chairman of the Management Board

E.A. Romankova
Chief Accountant

The notes set out on pages 5 to 26 form an integral part of these interim condensed consolidated financial statements

(Unaudited) *In millions of Russian Roubles*	Note	Six months ended 30 June 2013	Six months ended 30 June 2012	Three months ended 30 June 2013	Three months ended 30 June 2012
Interest income	9	73 754	65 973	37 470	33 856
Interest expense	9	(42 439)	(38 139)	(21 529)	(19 353)
Net interest income		**31 315**	**27 834**	**15 941**	**14 503**
Provision for loan impairment		(10 032)	(15 458)	(5 207)	(7 565)
Net interest income after provision for loan impairment		**21 283**	**12 376**	**10 734**	**6 938**
Fee and commission income		4 147	2 799	2 291	1 597
Fee and commission expense		(388)	(338)	(217)	(199)
Gains less losses/(losses net of gains) from trading securities		20	(1)	4	-
(Losses net of gains)/gains less losses from financial instruments designated at fair value through profit or loss		(251)	1 280	(133)	(216)
Gains less losses/(losses net of gains) from investment securities available for sale		105	(136)	66	(69)
(Losses net of gains)/gains less losses from investment securities held to maturity		-	(39)	-	2
Foreign exchange translation losses net of gains		(9 845)	(7 397)	(7 304)	(17 429)
Gains less losses from derivative financial instruments		3 967	5 057	3 726	16 249
Gains less losses/(losses net of gains) from dealings in foreign currencies		47	4 277	(88)	982
Provision for other assets impairment		(46)	(9)	(69)	(6)
Losses net of gains from early redemption of bonds issued and subordinated debts		(38)	(18)	(21)	(22)
Gains from non-banking activities		2 273	3 235	1 247	1 249
Losses from non-banking activities		(2 739)	(4 571)	(1 353)	(2 466)
Gains on disposal of subsidiaries		493	135	-	-
Other operating income		203	140	129	78
Administrative and other operating expenses		(18 412)	(16 343)	(9 129)	(8 427)
Profit/(loss) before tax		**819**	**447**	**(117)**	**(1 739)**
Income tax (expense)/credit		(216)	(312)	(107)	294
Profit/(loss) for the period		**603**	**135**	**(224)**	**(1 445)**
Profit/(loss) is attributable to:					
Shareholder of the Bank		659	408	(232)	(1 257)
Non-controlling interest		(56)	(273)	8	(188)
Profit/(loss) for the period		**603**	**135**	**(224)**	**(1 445)**
Other comprehensive (loss)/income:					
Securities available for sale:					
- Revaluation of securities at fair value		(634)	(102)	(520)	(649)
- Realised revaluation reserve (at disposal)		(105)	136	(66)	69
Income tax recorded in other comprehensive income		148	(7)	116	116
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods, net of tax		**(591)**	**27**	**(470)**	**(464)**
Total comprehensive income/(loss) for the period		**12**	**162**	**(694)**	**(1 909)**
Total comprehensive income/(loss) is attributable to:					
Shareholder of the Bank		68	435	(702)	(1 721)
Non-controlling interest		(56)	(273)	8	(188)
Total comprehensive income/(loss) for the period		**12**	**162**	**(694)**	**(1 909)**

	Attributable to shareholder of the Bank						
In millions of Russian Roubles	**Share capital**	**Revaluation reserve for premises**	**Revaluation reserve for securities available for sale**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2011	**148 798**	**1 050**	**(898)**	**7 017**	**155 967**	**808**	**156 775**
Total comprehensive income/(loss) for the period, net of tax	-	-	27	408	435	(273)	162
Change in ownership interests	-	-	-	-	-	277	277
Depreciation of revaluation reserve	-	(37)	-	37	-	-	-
Dividends declared	-	-	-	(318)	(318)	-	(318)
Balance at 30 June 2012 (unaudited)	**148 798**	**1 013**	**(871)**	**7 144**	**156 084**	**812**	**156 896**
Balance at 31 December 2012	**188 798**	**1 270**	**(271)**	**7 117**	**196 914**	**983**	**197 897**
Total comprehensive (loss)/income for the period, net of tax	-	-	(591)	659	68	(56)	12
Change in ownership interests	-	-	-	(1)	(1)	219	218
Depreciation of revaluation reserve	-	(19)	-	19	-	-	-
Balance at 30 June 2013 (unaudited)	**188 798**	**1 251**	**(862)**	**7 794**	**196 981**	**1 146**	**198 127**

(Unaudited) *In millions of Russian Roubles*	Six months ended 30 June 2013	Six months ended 30 June 2012
Cash flows from operating activities		
Interest received	65 664	56 944
Interest paid	(40 435)	(33 386)
Income received/(losses incurred) from trading in securities and financial instruments designated at fair value through profit or loss	121	(161)
Losses incurred from derivative financial instruments	(4 615)	(161)
Income received from dealing in foreign currencies	47	4 277
Fees and commissions received	4 117	2 822
Fees and commissions paid	(388)	(338)
Other operating income received	198	-
Net insurance income received	100	346
Income received from non-banking activities	303	2 286
Losses incurred from non-banking activities	(1 228)	(3 573)
Administrative and other operating expenses paid	(16 145)	(14 387)
Income tax paid	(108)	(1 764)
Cash flows from operating activities before changes in operating assets and liabilities	**7 631**	**12 905**
Changes in operating assets and liabilities		
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation	(6 600)	339
Net decrease/(increase) in trading securities	15 579	(16 764)
Net decrease in financial instruments designated at fair value through profit or loss	1 230	-
Net decrease in due from other banks	19 189	1 807
Net increase in loans and advances to customers	(93 060)	(74 792)
Net decrease in other assets	1 667	988
Net (decrease)/increase in due to other banks	(5 025)	58 687
Net increase/(decrease) in customer accounts	118 628	(59 095)
Net increase/(decrease) in promissory notes issued and deposit certificates	3 673	(2 373)
Net decrease in other liabilities	(1 419)	(288)
Net cash from/(used in) operating activities	**61 493**	**(78 586)**
Cash flows from investing activities		
Acquisition of premises and equipment	(599)	(408)
Proceeds from disposal of premises and equipment	161	466
Acquisition of intangible assets	(158)	(317)
Acquisition of investment securities available for sale	(71 116)	(38 055)
Proceeds from disposal of investment securities available for sale	48 441	40 187
Acquisition of investment securities held to maturity	(596)	-
Proceeds from redemption of investment securities held to maturity	868	1 787
Net cash (used in)/from investing activities	**(22 999)**	**3 660**
Cash flows from financing activities		
Proceeds from bonds issued	24 818	46 587
Repayment of bonds issued	(49 715)	(4 859)
Proceeds from sale of previously bought back bonds issued	4 447	3 043
Buy back of bonds issued	(3 804)	(3 407)
Proceeds from sale of interest in subsidiary	61	-
Net cash (used in)/from financing activities	**(24 193)**	**41 364**
Effect of exchange rate changes on cash and cash equivalents	**2 819**	**(3 452)**
Cash and cash equivalents classified as part of disposal groups held for sale	**10**	**(5)**
Net increase/(decrease) in cash and cash equivalents	**17 130**	**(37 019)**
Cash and cash equivalents at the beginning of the period	106 342	133 959
Cash and cash equivalents at the end of the period	**123 472**	**96 940**

1 Introduction

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”) for the six and three months ended 30 June 2013 for Open-Joint Stock Company Russian Agricultural Bank (the “Bank”) and its subsidiaries (together referred to as the “Group”).

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.

Principal activity. 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.

In April 2013 the Bank received a license to take deposits and make placements in precious metals. This license gives the Bank the right to perform all kinds of operations with precious metals and coins of foreign issuers made of precious metals.

The Bank has 78 (31 December 2012: 78) branches within 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 as at 30 June 2013 was 35 550 (31 December 2012: 35 458).

Presentation currency. These financial statements are presented in Russian Roubles (“RR”), unless otherwise stated.

2 Operating Environment of the Group

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

In the summer 2012, several Russian regions were affected by abnormal climate conditions (drought). This event had significant negative consequences, including a decrease of wheat harvest, that affected financial state of Bank's borrowers and consequently loan loss provision rates. The Russian Government announced state support for drought-affected regions.

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors.

2 Operating Environment of the Group (Continued)

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 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 interim condensed consolidated 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 2012, which have been prepared in accordance with IFRS.

The functional currency of the Bank and its subsidiaries, and the Group’s presentation currency is the national currency of the Russian Federation, Russian Roubles. As at 30 June 2013 the principal rates of exchange used for translating foreign currency balances were USD 1 = RR 32.7090 (31 December 2012: USD 1 = RR 30.3727), EUR 1 = RR 42.7180 (31 December 2012: EUR 1 = RR 40.2286).

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

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2012, except for the application of new Standards and Interpretations as of 1 January 2013, noted below:

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor’s returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 13 Fair Value Measurement. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existed disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures.* Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements. The Group provides these disclosures in Note 15.

3 Summary of Significant Accounting Policies (Continued)

Amendments to IAS 19 Employee Benefits. The IASB has published amendments to IAS 19 *Employee Benefits*, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the “corridor approach”). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. These amendments had no impact on the Group's financial position.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income. The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Group’s financial position or performance.

Amendments to IFRS 7 Financial Instrument: Disclosures — Offsetting Financial assets and Financial Liabilities. These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Group’s financial position or performance.

Amendment to IAS 32 Financial Instruments: Presentation. This amendment clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed consolidated financial statements of the Group, as there is no tax consequences attached to cash or non-cash distribution.

Amendment to IAS 34 Interim Financial Reporting. The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 *Operating Segments*. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity’s previous annual consolidated financial statements for that reportable segment. The Group provides this disclosure as total segment assets were reported to the chief operating decision maker. Refer to Note 12.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The accounting estimates and judgments applied in the preparation of these interim condensed consolidated 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 2012.

Judgements that have the most significant effect on the amounts recognised in the interim condensed consolidated 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 judgment in assessing whether financial assets can be categorized 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 or a sale 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 amortized cost.

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

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 observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in a particular group.

Management determined loan impairment provisions using the ‘incurred loss’ model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions.

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.

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. 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 reported values.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumption in the business plan is to obtain profits in the current and subsequent financial years through widening of product range and client base.

Changes in presentation and reclassifications. The Group has changed disclosure of results from non-banking activities. The presentation of the comparative figures has been adjusted to be consistent with the new presentation. The effect of changes on the interim consolidated statement of comprehensive income for the six months ended 30 June 2012 is as follows:

	As previously reported		**Reclassification**		**As adjusted**	
In millions of Russian Roubles	**For the six months ended 30 June 2012**	**For the three months ended 30 June 2012**	**For the six months ended 30 June 2012**	**For the three months ended 30 June 2012**	**For the six months ended 30 June 2012**	**For the three months ended 30 June 2012**
Consolidated Statement of Comprehensive Income						
Losses net of gains from non-banking activities	(1 336)	(1 217)	1 336	1 217	-	-
Gains from non-banking activities	-	-	3 235	1 249	3 235	1 249
Losses from non-banking activities	-	-	(4 571)	(2 466)	(4 571)	(2 466)

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

The Group has changed disclosure of cash flows from non-banking activities and cash flows on staff costs paid. The presentation of the comparative figures has been adjusted to be consistent with the new presentation. The effect of changes on the interim consolidated statement of cash flows for the six months ended 30 June 2012 is as follows:

In millions of Russian Roubles	**As previously reported**	**Reclassification**	**As adjusted**
Consolidated Statement of Cash Flows			
Administrative and other operating expenses paid	(5 290)	(9 097)	(14 387)
Staff costs paid	(10 038)	10 038	-
Income received from non-banking activities	-	2 286	2 286
Losses incurred from non-banking activities	-	(3 573)	(3 573)
Net insurance income received	-	346	346

5 Financial Instruments Designated at Fair Value through Profit or Loss

In millions of Russian Roubles	**30 June 2013 (unaudited)**	**31 December 2012**
Credit Linked Notes	1 058	1 036
Due from other banks	10 841	11 514
Total financial instruments designated at fair value through profit or loss	**11 899**	**12 550**

International credit ratings of issuers of the notes and of counterparty banks were not less than BB- (S&P) as at 30 June 2013 (31 December 2012: not less than BB- (S&P)).

No additional financial instruments designated at fair value through profit or loss were recognised during six months ended 30 June 2013.

In March 2013 the Group received funds placed in April 2010 under the contract with embedded derivative linked to a credit risk of a quasi-sovereign issuer. Funds were placed with one OECD bank in the amount of USD 40 million equivalent to RR 1 230 million as at maturity date and interest rate of 10.3% p.a.

6 Loans and Advances to Customers

In millions of Russian Roubles	**30 June 2013 (unaudited)**	**31 December 2012**
Loans to legal entities		
- Loans to corporates	1 039 646	946 315
- Lending for food interventions	9 839	21 794
- Investments in agricultural cooperatives	393	396
Loans to individuals	221 373	199 572
Total loans and advances to customers (before impairment)	**1 271 251**	**1 168 077**
Less: Provision for loan impairment	(103 977)	(97 365)
Total loans and advances to customers	**1 167 274**	**1 070 712**

Lending for food interventions is represented by loans to the company under the control of the Russian Federation (31 December 2012: to the company under the control of the Russian Federation).

As at 30 June 2013, the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 139 045 million (before impairment), or 11% of total loans and advances to customers (2012: the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 138 884 million (before impairment), or 12% of total loans and advances to customers).

6 Loans and Advances to Customers (Continued)

Analysis of the movements in the provision for loan impairment is as follows:

	Six months ended 30 June 2013				Six months ended 30 June 2012			
(Unaudited) *In millions of Russian Roubles*	**Loans to corporates**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**	**Loans to corporates**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**
Provision for loan impairment at 1 January	**92 257**	**16**	**5 092**	**97 365**	**73 084**	**18**	**2 809**	**75 911**
Provision/(recovery of provision) for loan impairment during the period	7 504	28	2 503	10 035	14 695	(11)	776	15 460
Provision for loans sold during the period	(749)	-	-	(749)	(773)	-	-	(773)
Loans and advances to customers written off during the period as uncollectible	(2 322)	-	(7)	(2 329)	(685)	-	(2)	(687)
Disposal of subsidiaries	(345)	-	-	(345)	-	-	-	-
Provision for loan impairment at 30 June	**96 345**	**44**	**7 588**	**103 977**	**86 321**	**7**	**3 583**	**89 911**

	Three months ended 30 June 2013				Three months ended 30 June 2012			
(Unaudited) *In millions of Russian Roubles*	**Loans to corporates**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**	**Loans to corporates**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**
Provision for loan impairment at 1 April	**94 173**	**18**	**6 431**	**100 622**	**80 457**	**12**	**3 170**	**83 639**
Provision/(recovery of provision) for loan impairment during the period	4 024	26	1 157	5 207	7 155	(5)	415	7 565
Provision for loans sold during the period	(464)	-	-	(464)	(773)	-	-	(773)
Loans and advances to customers written off during the period as uncollectible	(1 388)	-	-	(1 388)	(518)	-	(2)	(520)
Provision for loan impairment at 30 June	**96 345**	**44**	**7 588**	**103 977**	**86 321**	**7**	**3 583**	**89 911**

The information on related party transactions is disclosed in Note 16.

7 Due to Other Banks

In millions of Russian Roubles	30 June 2013 (unaudited)	31 December 2012
Borrowings from other banks with term to maturity:		
- sale and repurchase agreements less than 30 days	6 647	-
- sale and repurchase agreements from 31 to 180 days	17 873	-
- sale and repurchase agreements from 181 days to 1 year	-	17 161
- less than 30 days	40 681	33 100
- from 31 to 180 days	24 447	32 538
- from 181 days to 1 year	5 509	23 783
- from 1 year to 3 years	4 443	5 526
- more than 3 years	8 016	13 662
Borrowings from the CBRF with term to maturity:		
- sale and repurchase agreements less than 30 days	18 026	-
- less than 30 days	-	22
- from 31 to 180 days	-	10 000
Correspondent accounts and overnight placements of other banks	10 074	551
Total due to other banks	**135 716**	**136 343**

The information on related party transactions is disclosed in Note 16.

8 Bonds Issued and Subordinated Debts

In millions of Russian Roubles	30 June 2013 (unaudited)	31 December 2012
Eurobonds issued	272 205	293 678
Bonds issued on domestic market	158 030	147 188
Total bonds issued	**430 235**	**440 866**
Subordinated debts	**57 504**	**55 274**

Bonds issued. As at 30 June 2013, bonds issued consist of US Dollars, CHF, CNY and Russian Roubles 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.

In February 2013, the Group issued CNY 1 000 million Eurobonds (loan participation notes) (placed at par) equivalent to RR 4 818 million as at the date of issue maturing in February 2016 with semi-annual payments of coupon at 3.6% p.a.

In February 2013, the Group re-issued on the domestic market RR 990 million of previously bought back bonds maturing in September 2017 with semi-annual payments of coupon at 7.5% p.a.

In February 2013, the Group issued RR 10 000 million Eurobonds (loan participation notes) (placed at par) maturing in February 2018 with semi-annual payments of coupon at 7.875% p.a.

In March 2013, the Group repaid Eurobonds denominated in Russian Roubles in the amount of RR 30 000 million issued in March 2010.

In April 2013, the Group issued RR 10 000 million bonds (placed at par) maturing in April 2023 with semi-annual payments of coupon at 7.99% p.a. for the first six semi-annual interest periods. The Group has a right to change the interest rate and determine the number of subsequent interest periods on a new interest rate, while bondholders have a right to require the Group to repurchase the bonds.

In May 2013, the Group repaid Eurobonds denominated in US Dollars in the amount of USD 630 million equivalent to RR 19 715 million as at maturity date issued in May 2006.

In June 2013, the Group repaid bonds denominated in RR issued on the domestic market in the amount of RR 3 573 million at the put option date.

8 Bonds Issued and Subordinated Debts (Continued)

In January, February and June 2013, the Group re-issued on the domestic market RR 3 200 million of previously bought back bonds issued on the domestic market maturing in February 2018 with semi-annual payments of coupon at 7.8% p.a.

Refer to Note 18 for information on issues/redemption after the end of the reporting period.

The information on related party transactions is disclosed in Note 16.

9 Interest Income and Expense

(Unaudited)	Six months ended 30 June		Three months ended 30 June	
In millions of Russian Roubles	**2013**	**2012**	**2013**	**2012**
Interest income				
Loans and advances to customers	67 260	59 370	34 481	30 533
Investment securities available for sale including pledged under repurchase agreements	2 070	2 241	1 041	1 105
Investment securities held to maturity including pledged under repurchase agreements	1 650	1 650	844	843
Due from other banks	1 429	1 223	532	619
Financial instruments designated at fair value through profit or loss	519	548	252	282
Cash equivalents	463	560	268	157
Trading securities	363	381	52	317
Total interest income	**73 754**	**65 973**	**37 470**	**33 856**
Interest expense				
Bonds issued	(16 176)	(13 756)	(7 927)	(7 151)
Term deposits of legal entities	(12 369)	(13 160)	(6 590)	(6 111)
Term deposits of individuals	(6 002)	(4 097)	(3 100)	(2 076)
Term deposits of other banks	(4 190)	(3 659)	(2 027)	(1 943)
Subordinated debts	(1 654)	(1 697)	(842)	(910)
Promissory notes issued and deposit certificates	(1 315)	(833)	(636)	(399)
Current/settlement accounts	(384)	(354)	(203)	(201)
Term deposits of the CBRF	(349)	(583)	(204)	(562)
Total interest expense	**(42 439)**	**(38 139)**	**(21 529)**	**(19 353)**
Net interest income	**31 315**	**27 834**	**15 941**	**14 503**

10 Losses Net of Gains from Non-banking Activities

(Unaudited)	Six months ended 30 June		Three months ended 30 June	
In millions of Russian Roubles	**2013**	**2012**	**2013**	**2012**
Sales of goods	1 235	2 445	582	1 120
Cost of goods sold	(1 491)	(2 455)	(683)	(1 143)
Net income from insurance operations	164	127	186	89
Impairment charge of trade receivables and prepayments	(319)	(788)	(190)	(775)
Other non-banking income	548	634	365	36
Other non-banking expenses	(603)	(1 299)	(366)	(544)
Total losses net of gains from non-banking activities	**(466)**	**(1 336)**	**(106)**	**(1 217)**

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

10 Losses Net of Gains from Non-banking Activities (Continued)

Net income from insurance operations is as follows:

(Unaudited) *In millions of Russian Roubles*	Six months ended 30 June 2013	Six months ended 30 June 2012	Three months ended 30 June 2013	Three months ended 30 June 2012
Insurance premiums				
Premium earned	805	205	509	131
Reinsurers share in premiums earned	(315)	(49)	(209)	(38)
Net insurance premiums earned	**490**	**156**	**300**	**93**
Insurance benefits and claims				
Claims incurred during the period	(444)	(48)	(199)	(26)
Acquisition costs	(112)	(19)	(59)	-
Reinsurers share in claims incurred during the period	230	38	144	22
Net insurance benefits and claims	**(326)**	**(29)**	**(114)**	**(4)**
Net income from insurance operations	**164**	**127**	**186**	**89**

11 Significant Risk Concentrations

As at 30 June 2013, cash and cash equivalents and placement with other banks included no balances with other banks each above 10% of the Group's equity (31 December 2012: balances with one Russian banking group (state-owned) and one foreign bank rated not less than BBB (S&P) totalled RR 47 381 million, or 31% of total cash and cash equivalents and due from other banks).

As at 30 June 2013, cash and cash equivalents included the balances with the CBRF in the total amount of RR 19 823 million, or 16% of total cash and cash equivalents (31 December 2012: RR 46 266 million, or 44% of total cash and cash equivalents).

As at 30 June 2013, the Group's loan portfolio included loans issued to a state-controlled borrower in the total amount of RR 9 839 million, or 1% of the gross loan portfolio (31 December 2012: loans issued to the same borrower in the total amount of RR 21 794 million, or 2% of the gross loan portfolio).

As at 30 June 2013, the Group had the balances due to CBRF in the total amount of RR 18 026 million, or 13% of total due to other banks (31 December 2012: balances due to CBRF in the total amount of RR 10 022 million, or 7% of total due to other banks).

As at 30 June 2013, the Group had the balance due to one foreign bank with the balance above 10% of the Group's equity and the aggregate amount of RR 21 601 million, or 16% of total due to other banks (31 December 2012: the Group had the balances due to two foreign banks with the balance above 10% of the Group's equity each and the aggregate amount of RR 52 087 million, or 38% of total due to other banks).

As at 30 June 2013, the Group had five customers with the balance above 10% of the Group's equity each (31 December 2012: four customers). The aggregate balance of such customer accounts was RR 209 281 million, or 31% of total customer accounts (31 December 2012: RR 119 756 million, or 21% of total customer accounts).

As at 30 June 2013, other assets included receivables and prepayments related to trade activity of subsidiaries in the total amount of RR 1 965 million (31 December 2012: RR 1 969 million).

As at 30 June 2013, other liabilities included payables related to activity of subsidiaries in the total amount of RR 178 million (31 December 2012: RR 368 million).

12 Segment Analysis

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Management Board has been identified as the CODM.

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 significantly differs from policies described in the summary of significant accounting policies in these interim condensed consolidated financial statements and in Group's last annual consolidated financial statements.

12 Segment Analysis (Continued)

Segment reporting of the Group's revenue and profit/(loss) for the six months ended 30 June 2013 and for the six months ended 30 June 2012 and segment reporting of the Group's assets at 30 June 2013 and 31 December 2012 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 2013 (unaudited)											
Revenue from external customers:	**8 445**	**17 947**	**3 610**	**16 441**	**4 941**	**6 495**	**7 802**	**2 318**	**2 631**	**4 667**	**75 297**
- Interest income from loans and advances to customers, due from other banks and other placed funds	8 317	16 398	3 229	15 062	4 463	5 931	6 968	2 104	2 436	4 281	69 189
- Net fee and commission income from credit related operations	128	1 549	381	1 379	478	564	834	214	195	386	6 108
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and currency	(3 362)	97	142	(83)	(31)	(161)	50	(26)	(8)	(17)	(3 399)
Interest expenses from due to other banks, customer accounts and bonds issued	(29 898)	(4 788)	(568)	(2 265)	(1 047)	(358)	(1 107)	(475)	(426)	(504)	(41 436)
Provision (charge)/recovery for impairment	(5 953)	6 553	(129)	(644)	(523)	(864)	(950)	(48)	(8 125)	(2 023)	(12 706)
Administrative and maintenance expense	(12 360)	(821)	(266)	(768)	(293)	(331)	(544)	(164)	(168)	(202)	(15 917)
- Including depreciation charge for the reporting period	(76)	(106)	(24)	(92)	(38)	(44)	(61)	(11)	(23)	(17)	(492)
Other income less other expenses	(346)	(287)	(40)	66	14	66	264	20	323	13	93
Current income tax expense	(948)	-	-	-	-	-	-	-	-	-	(948)
Intersegment income and expense*	**36 856**	**(8 869)**	**(1 311)**	**(8 575)**	**(2 583)**	**(3 712)**	**(4 556)**	**(1 021)**	**(3 573)**	**(2 656)**	**-**
(Loss)/profit of the reportable segments	**(44 422)**	**18 701**	**2 749**	**12 747**	**3 061**	**4 847**	**5 515**	**1 625**	**(5 773)**	**1 934**	**984**
For the six months ended 30 June 2012 (unaudited)											
Revenue from external customers:	**8 431**	**16 084**	**2 301**	**13 282**	**4 062**	**5 686**	**7 522**	**1 569**	**2 893**	**3 529**	**65 359**
- Interest income from loans and advances to customers, due from other banks and other placed funds	8 063	14 795	2 024	12 222	3 714	5 258	6 896	1 426	2 675	3 230	60 303
- Net fee and commission income from credit related operations	368	1 289	277	1 060	348	428	626	143	218	299	5 056
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and currency	(2 153)	40	12	12	9	3	11	2	10	5	(2 049)
Interest expenses from due to other banks, customer accounts and bonds issued	(27 299)	(4 142)	(448)	(1 890)	(703)	(291)	(939)	(244)	(390)	(408)	(36 754)
Provision recovery/(charge) for impairment	261	(1 133)	(431)	(3 008)	(390)	(712)	(1 164)	(56)	(1 946)	(310)	(8 889)
Administrative and maintenance expense	(3 512)	(2 429)	(933)	(2 314)	(939)	(943)	(1 912)	(436)	(433)	(623)	(14 474)
- Including depreciation charge for the reporting period	(99)	(123)	(30)	(108)	(41)	(53)	(73)	(15)	(26)	(20)	(588)
Other income less other expenses	(270)	800	5	57	53	39	64	7	85	9	849
Current income tax expense	(2 356)	-	-	-	-	-	-	-	-	-	(2 356)
Intersegment income and expense*	**29 243**	**(6 296)**	**(1 128)**	**(6 749)**	**(2 082)**	**(3 431)**	**(3 771)**	**(800)**	**(3 088)**	**(1 898)**	**-**
(Loss)/profit of the reportable segments	**(26 898)**	**9 220**	**506**	**6 139**	**2 092**	**3 782**	**3 582**	**842**	**219**	**2 202**	**1 686**
Total assets											
30 June 2013 (unaudited)	1 904 326	544 889	71 599	368 767	136 616	140 884	212 049	69 184	113 323	95 798	3 657 435
31 December 2012	1 418 521	419 974	59 391	278 982	108 575	123 741	165 569	44 612	102 840	76 109	2 798 314

* Intersegment income and expense are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

12 Segment Analysis (Continued)

Segment reporting of the Group's revenue and profit/(loss) for the three months ended 30 June 2013 and for the three months ended 30 June 2012 are as follows:

(Unaudited) *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 three months ended 30 June 2013											
Revenue from external customers:	**3 797**	**9 703**	**2 147**	**8 842**	**2 571**	**3 294**	**4 005**	**1 203**	**1 487**	**2 425**	**39 474**
- Interest income from loans and advances to customers, due from other banks and other placed funds	3 710	8 821	1 948	8 069	2 314	3 016	3 544	1 082	1 381	2 200	36 085
- Net fee and commission income from credit related operations	87	882	199	773	257	278	461	121	106	225	3 389
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and currency	(1 561)	63	107	(88)	(41)	(126)	34	(26)	(9)	(20)	(1 667)
Interest expenses from due to other banks, customer accounts and bonds issued	(15 251)	(2 523)	(299)	(1 247)	(523)	(189)	(574)	(258)	(211)	(257)	(21 332)
Provision (charge)/recovery for impairment	(5 943)	1 327	(79)	463	163	(94)	(150)	(25)	(298)	(1 682)	(6 318)
Administrative and maintenance expense	(6 837)	(428)	(143)	(400)	(157)	(176)	(290)	(94)	(88)	(108)	(8 721)
- Including depreciation charge for the reporting period	(41)	(53)	(12)	(46)	(19)	(22)	(30)	(6)	(11)	(8)	(248)
Other income less other expenses	(178)	(264)	(48)	53	(4)	32	150	17	213	6	(23)
Current income tax expense	(919)	-	-	-	-	-	-	-	-	-	(919)
Intersegment income and expense*	**18 835**	**(4 478)**	**(670)**	**(4 423)**	**(1 325)**	**(1 904)**	**(2 323)**	**(498)**	**(1 836)**	**(1 378)**	**-**
(Loss)/profit of the reportable segments	**(26 892)**	**7 878**	**1 685**	**7 623**	**2 009**	**2 741**	**3 175**	**817**	**1 094**	**364**	**494**
For the three months ended 30 June 2012											
Revenue from external customers:	**4 009**	**7 930**	**1 205**	**6 927**	**2 072**	**2 880**	**3 824**	**824**	**1 332**	**1 881**	**32 884**
- Interest income from loans and advances to customers, due from other banks and other placed funds	3 987	7 267	1 050	6 365	1 885	2 648	3 485	748	1 218	1 713	30 366
- Net fee and commission income from credit related operations	22	663	155	562	187	232	339	76	114	168	2 518
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and currency	(1 288)	22	7	6	5	(1)	7	1	5	2	(1 234)
Interest expenses from due to other banks, customer accounts and bonds issued	(13 750)	(2 107)	(232)	(933)	(374)	(145)	(471)	(125)	(191)	(208)	(18 536)
Provision recovery/(charge) for impairment	9	669	(260)	(1 224)	(212)	(472)	(1 096)	(48)	(985)	(284)	(3 903)
Administrative and maintenance expense	(2 003)	(1 272)	(486)	(1 214)	(496)	(493)	(1 011)	(233)	(230)	(328)	(7 766)
- Including depreciation charge for the reporting period	(51)	(60)	(15)	(53)	(20)	(26)	(36)	(7)	(13)	(10)	(291)
Other income less other expenses	(131)	57	1	32	10	25	34	2	71	5	106
Current income tax expense	(1 473)	-	-	-	-	-	-	-	-	-	(1 473)
Intersegment income and expense*	**14 633**	**(2 900)**	**(588)**	**(3 535)**	**(1 007)**	**(1 760)**	**(1 873)**	**(425)**	**(1 538)**	**(1 007)**	**-**
(Loss)/profit of the reportable segments	**(14 627)**	**5 299**	**235**	**3 594**	**1 005**	**1 794**	**1 287**	**421**	**2**	**1 068**	**78**

* Intersegment income and expense are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

12 Segment Analysis (Continued)

Reconciliation of reportable segments results is as follows:

(Unaudited) *In millions of Russian Roubles*	Six months ended 30 June 2013	Six months ended 30 June 2012	Three months ended 30 June 2013	Three months ended 30 June 2012
Total profit of reportable segments (after tax)	**984**	**1 686**	**494**	**78**
Adjustment of deferred tax	2 063	113	1 877	(726)
Adjustments of provision for impairment	2 634	(5 242)	774	(2 673)
Adjustments of derivative financial instruments at fair value	(2 691)	3 789	(2 065)	863
(Losses less gains)/gains less losses from revaluation of other financial instruments at fair value through profit or loss	(251)	1 280	(133)	(216)
Adjustments of financial assets and liabilities carried at amortised cost	(5 799)	(3 410)	(7 041)	(532)
Adjustment of income tax expense	(124)	2 255	332	2 403
Results of non-reportable segments, including the effect of consolidation*	5 255	1 443	5 496	(286)
Accrued staff costs	(1 299)	(1 142)	130	(280)
Other	(169)	(637)	(88)	(76)
The Group's profit/(loss) under IFRS (after tax)	**603**	**135**	**(224)**	**(1 445)**

* 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 which have the legal form of deposits are recognised as back-to-back deposits, whereas in the IFRS financial statement such transactions are recognised at fair value. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.

Adjustments to financial assets and liabilities carried at amortised cost resulted from accruals of interest income/expenses using effective interest rate method in IFRS, whereas there is nominal rate accrual approach under RAR.

Adjustments of income tax expense and accrued staff costs arise from the timing difference in recognition of certain expenses (mainly related to unused vacations provision) under RAR compared to IFRS.

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 2013, 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 interim condensed consolidated financial statements (31 December 2012: nil).

13 Contingencies and Commitments (Continued)

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.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the consequences of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may have impact on the financial conditions 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 2013 the management has not created any provision for potential tax liabilities (31 December 2012: nil).

Capital expenditure commitments. As at 30 June 2013, the Group had contractual capital expenditure commitments of RR 569 million (31 December 2012: RR 1 million).

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

In millions of Russian Roubles	**30 June 2013 (unaudited)**	**31 December 2012**
Not later than 1 year	2 649	2 506
Later than 1 year and not later than 5 years	7 742	7 007
Later than 5 years	1 870	2 478
Total operating lease commitments	**12 261**	**11 991**

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.

Outstanding credit related commitments are as follows:

In millions of Russian Roubles	**30 June 2013 (unaudited)**	**31 December 2012**
Undrawn credit lines	22 866	29 127
Financial guarantees issued	17 485	20 535
Letters of credit	16 750	11 286
Total credit related commitments	**57 101**	**60 948**

13 Contingencies and Commitments (Continued)

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

In millions of Russian Roubles	**30 June 2013 (unaudited)**	**31 December 2012**
State Eurobonds pledged under term deposits from clients	**7 171**	**6 659**
Under repo agreements		
- Corporate Eurobonds	22 388	20 632
- Corporate bonds	21 138	-
- Municipal and subfederal bonds	3 311	-
- State Eurobonds	1 029	-
- Federal loan bonds (OFZ)	466	-
Total assets pledged under repo agreements	**48 332**	**20 632**
Restricted cash	**202**	**202**

As at 30 June 2013, mandatory cash balances with the CBRF of RR 15 754 million (31 December 2012: RR 9 153 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 30 June 2013, the Bank's subsidiaries pledged production premises and equipment under loan agreements with other banks in the total amount of RR 950 million (31 December 2012: RR 1 378 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 can 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 departments. Management of derivative financial instrument portfolio risks is carried out by authorized Group's bodies through establishing limits.

In the aggregate amount of foreign exchange swaps with original settlement dates of more than 30 working days prevails swaps structured as loans issued by the Group in US Dollars, Euros, Swiss Francs, Chinese Yuans and Japanese yens to large OECD banks and one of the Russian banking groups with maturities from July 2013 to May 2023, and deposits in Russian Roubles received from the same counterparties with the same maturities ("back-to-back loans"). These transactions are aimed at economically hedging the currency exposure of the Group.

Most of these agreements contain special procedures for counterparties upon the occurrence of a credit event or an event of default (for example bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring external unsubordinated public liabilities, falling of ratings, providing incorrect or misleading representation). The subjects of such events are the Group, and in some instances, the counterparty of the agreement, and/or the Russian Federation. Some of the agreements provide that no further mutual payment obligation between the parties is due, if a credit event or default event happens. Some agreements on the exchange of resources provide termination of liabilities with a mark-to-market payment in the case of a relevant event (e.g., a default event).

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 2013 and covers the contracts with settlement dates after the respective end of the reporting period:

(Unaudited) *In millions of Russian Roubles*	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Positive fair value	Negative fair value
Forwards and swaps				
Currency				
- purchase RUB/sale USD	265 002	(245 176)	22 158	(2 332)
- purchase USD/sale RUB	4 441	(4 347)	96	(2)
- purchase EUR/sale USD	171	(171)	-	-
- purchase USD/sale EUR	2 313	(2 311)	2	-
- purchase RUB/sale EUR	884	(829)	55	-
- purchase RUB/sale JPY	4 488	(3 717)	771	-
- purchase RUB/sale CHF	16 208	(15 453)	755	-
- purchase JPY/sale USD	196	(196)	-	-
- purchase RUB/sale CNY	5 305	(4 787)	518	-
- purchase GBP/sale USD	299	(299)	-	-
Securities				
- purchase USD/sale securities	2 425	(2 466)	-	(41)
Total	**301 732**	**(279 752)**	**24 355**	**(2 375)**

The table below reflects gross positions before the netting of any counterparty positions as at 31 December 2012 and covers the contracts with settlement dates after the respective end of reporting period:

In millions of Russian Roubles	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Positive fair value	Negative fair value
Forwards and swaps				
Currency				
- purchase RUB/sale USD	214 817	(201 747)	17 742	(4 672)
- purchase USD/sale RUB	33 587	(34 141)	-	(554)
- purchase EUR/sale USD	1 207	(1 206)	2	(1)
- purchase USD/sale EUR	1 486	(1 489)	-	(3)
- purchase RUB/sale EUR	824	(831)	-	(7)
- purchase RUB/sale JPY	4 734	(3 891)	843	-
- purchase RUB/sale CHF	15 922	(15 874)	72	(24)
Total	**272 577**	**(259 179)**	**18 659**	**(5 261)**

15 Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, securities available for sale, and related investment securities pledged under repurchase agreements are carried on the consolidated statement of financial position at their fair value based on quoted market prices.

Financial instruments designated at fair value through profit or loss and derivative financial instruments are carried on the consolidated statement of financial position at their fair value based on valuation technique with inputs observable in markets. Derivative financial instruments are measured at fair value as assets when fair value is positive and as liabilities when fair value is negative. The Bank uses discounted cash flow techniques with observable market data inputs as offshore and onshore yield curves, as well as market data, reflecting the distribution of the probability of default over time.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

Held to maturity securities carried at amortised cost. The fair value for held to maturity securities and related investment securities pledged under repurchase agreements is based on market price.

Liabilities carried at amortised cost. The fair value of bonds issued is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

15 Fair Value of Financial Instruments (Continued)

a) Fair value of financial instruments carried at amortised cost and at fair value:

	30 June 2013 (unaudited)		31 December 2012	
In millions of Russian Roubles	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash and cash equivalents	123 472	123 472	106 342	106 342
Mandatory cash balances with the CBRF	15 754	15 754	9 153	9 153
Due from other banks	28 685	28 827	45 930	46 646
Loans and advances to customers				
- Loans to corporates	943 301	932 727	854 058	849 537
- Lending for food interventions	9 839	9 839	21 794	21 794
- Reverse repo agreements	-	-	-	-
- Investments in agricultural cooperatives	349	349	380	380
- Loans to individuals	213 785	210 955	194 480	191 913
Investment securities held to maturity including pledged under repurchase agreements				
- Corporate bonds	14 899	14 776	14 916	14 723
- State Eurobonds	7 171	7 410	6 659	7 575
- Municipal and subfederal bonds	3 350	3 347	3 403	3 413
- Federal Loan bonds (OFZ)	2 755	2 622	2 754	2 691
- Corporate Eurobonds	20 570	19 834	20 899	19 801
Other financial assets	7 549	7 549	8 065	8 065
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**1 391 479**	**1 377 461**	**1 288 833**	**1 282 033**
FINANCIAL ASSETS CARRIED AT FAIR VALUE	**105 639**	**105 639**	**94 465**	**94 465**
TOTAL FINANCIAL ASSETS	**1 497 118**	**1 483 100**	**1 383 298**	**1 376 498**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Due to other banks				
- Term borrowings from other banks	107 616	109 415	125 770	131 727
- Term borrowings from the CBRF	18 026	18 026	10 022	10 022
- Correspondent accounts and overnight placements of other banks	10 074	10 074	551	551
Customer accounts	678 140	678 142	557 476	557 657
Promissory notes issued and deposit certificates	27 408	27 408	23 234	23 234
Bonds issued				
- Eurobonds issued	272 205	282 135	293 678	314 302
- Bonds issued on domestic market	158 030	159 215	147 188	148 124
Other financial liabilities	2 813	2 813	4 040	4 040
Subordinated debts	57 504	57 637	55 274	56 630
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**1 331 816**	**1 344 865**	**1 217 233**	**1 246 287**
FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	**2 375**	**2 375**	**5 261**	**5 261**
TOTAL FINANCIAL LIABILITIES	**1 334 191**	**1 347 240**	**1 222 494**	**1 251 548**

15 Fair Value of Financial Instruments (Continued)

b) Analysis by fair value hierarchy of financial instruments carried at fair value

Analysis of financial instruments at fair value at 30 June 2013 is as follows:

(Unaudited) *In millions of Russian Roubles*	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Total**
Financial assets			
Trading securities	-	2 715	**2 715**
Financial instruments designated at fair value through profit or loss	-	11 899	**11 899**
Investment securities available for sale pledged under repurchase agreements	16 183	-	**16 183**
Investment securities available for sale	50 487	-	**50 487**
Derivative financial instruments assets	-	24 355	**24 355**
Financial liabilities			
Derivative financial instruments liabilities	-	(2 375)	**(2 375)**

Analysis of financial instruments at fair value at 31 December 2012 is as follows:

In millions of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Total**
Financial assets			
Trading securities	-	19 220	**19 220**
Financial instruments designated at fair value through profit or loss	-	12 550	**12 550**
Investment securities available for sale	44 036	-	**44 036**
Derivative financial instruments assets	-	18 659	**18 659**
Financial liabilities			
Derivative financial instruments liabilities	-	(5 261)	**(5 261)**

There were no financial instruments carried at fair value based on a valuation technique with non-observable inputs (Level 3) at 30 June 2013 (31 December 2012: nil).

16 Related Party Transactions

For the purposes of these interim condensed consolidated 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 decided to apply the exemption from disclosure of individually insignificant transactions and balances with the state-controlled entities and parties that are related to such entities because the Russian state has control, joint control or significant influence over such parties.

In these interim condensed consolidated financial statements, individually and collectively significant balances and transactions with related parties controlled by the Russian State and balances and transactions with related parties represented by key management and their family members are disclosed.

16 Related Party Transactions (Continued)

Subordinated debt attracted from Vnesheconombank with maturity in December 2019 and an interest rate of 6.5% p.a. represent the individually significant balance with the related party controlled by the Russian Federation. The outstanding balance of the subordinated debt as at 30 June 2013 was RR 25 009 million (31 December 2012: RR 25 009 million). Interest expense on the subordinated debt for the six months ended 30 June 2013 was RR 806 million and for the three months ended 30 June 2013 was RR 405 million (for the six months ended 30 June 2012: RR 808 million, for the three months ended 30 June 2012: RR 404 million).

Collectively significant balances with related parties controlled by the Russian State and with related parties represented by key management and their family members were as follows:

In millions of Russian Roubles	**30 June 2013 (unaudited)**	**31 December 2012**
Cash and cash equivalents		
State-controlled entities	18 845	16 878
Loans and advances to customers (before impairment)		
State-controlled entities	26 529	30 222
Provision for loan impairment at the end of the period		
State-controlled entities	(32)	(15)
Securities		
Securities issued by Russian Federation	19 273	17 042
Securities of state-controlled entities	25 412	32 747
Due from other banks		
State-controlled entities	1 310	5 075
Customer accounts		
State-controlled entities	211 000	87 135
Key management and their family members	98	59
Due to other banks		
State-controlled entities	21 946	8 525

The income and expense items on collectively significant operations with related parties were as follows:

(Unaudited)	**Six months ended 30 June**		**Three months ended 30 June**	
In millions of Russian Roubles	**2013**	**2012**	**2013**	**2012**
Interest income on loans and advances to customers				
State-controlled entities	1 274	1 500	718	727
Interest income on securities				
Securities issued by Russian Federation	509	593	227	296
Securities of state-controlled entities	712	902	366	523
Interest expense on customer accounts				
State-controlled entities	(4 677)	(4 721)	(2 651)	(1 609)
Key management and their family members	(3)	(1)	(2)	(1)

16 Related Party Transactions (Continued)

The Group has also the following insignificant income and expense items on operations with related parties:

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

Key management of the Group represents members of the Supervisory Board, the Management Board and Chief Accountant of the Bank. For the six months ended 30 June 2013 short-term benefits of the key management amounted to RR 162 million (for the six months ended 30 June 2012: RR 82 million), for the three months ended 30 June 2013: 88 million (for the three months ended 30 June 2012: RR 51 million).

17 Disposal of Subsidiaries and Groups Classified as Held for Sale

a) Disposal of Subsidiaries

As a result of insolvency procedures the Group lost the control over OOO "Agrostar" (in January 2013) and over OOO "Agroinvest" (in February 2013). The details of the disposed assets and liabilities and disposal consideration are as follows:

(Unaudited) *In millions of Russian Roubles*	**OOO "Agrostar"**	**OOO "Agroinvest"**
Premises and equipment	9	2
Deferred tax assets	-	99
Prepaid current taxes	-	58
Other assets	11	20
Due to other banks	(19)	(345)
Current income tax liability	(1)	(22)
Borrowings	(2)	(310)
Trade payables	(22)	(122)
Other liabilities	-	(6)
Net liabilities of subsidiaries	**(24)**	**(626)**
Less: non-controlling interest	-	157
Carrying amount of net liabilities disposed of	**(24)**	**(469)**

The gain on disposal of the subsidiaries comprises:

(Unaudited) *In millions of Russian Roubles*	**OOO "Agrostar"**	**OOO "Agroinvest"**
Consideration for disposal of the subsidiaries	-	-
Less: carrying amount of net liabilities disposed of	24	469
Gain on disposal of subsidiaries	**24**	**469**

As a result of insolvency procedure over OOO "AgroInvest" and subsequent exclusion of this subsidiary from the scope of consolidation, loans granted to OOO "AgroInvest" were recognised at fair value.

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

b) Groups Classified as Held for Sale

As at 30 June 2013 the Group classified the assets and liabilities related to companies in Bashkortostan and Leningrad Region as disposal groups held for sale (31 December 2012: the assets and liabilities related to companies in Bashkortostan and Leningrad Region as disposal groups held for sale).

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

In millions of Russian Roubles	**30 June 2013 (unaudited)**	**31 December 2012**
Premises and equipment	3 060	3 032
Trade receivables	965	957
Inventory	813	792
Loans and advances to customers	114	117
Cash and cash equivalents	2	6
Other	488	434
Total assets of the disposal groups held for sale	**5 442**	**5 338**

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

In millions of Russian Roubles	**30 June 2013 (unaudited)**	**31 December 2012**
Due to other banks	-	7
Trade payables	657	731
Deferred income tax liability	271	280
Other	450	392
Total liabilities directly associated with disposal groups held for sale	**1 378**	**1 410**

During 2012 certain circumstances arised which were previously considered unlikely, and as a result non-current assets previously classified as held for sale were not sold by the end of 2012. The Group is actively marketing these assets and expects the sale to be completed by the end of 2013.

18 Events after the End of the Reporting Period

The Bank’s Supervisory Board recommended to pay out dividends for the year ended 31 December 2012 in the amount of RR 131 million.

In July 2013, the Group placed USD 800 million Eurobonds (loan participation notes) (placed at par) equivalent to RR 25 877 million maturing in July 2018 with semi-annual payments of coupon at 5.1% p.a.

In July 2013, the Group issued RR 10 000 million bonds (placed at par) maturing in July 2023 with semi-annual payments of coupon at 7.85% p.a. for the first four semi-annual interest periods. The Group has a right to change the interest rate and determine the number of subsequent interest periods on a new interest rate, while bondholders have a right to require the Group to repurchase the bonds.

In August 2013, the Group repaid bonds denominated in RR issued on the domestic market in the amount of RR 15 000 million at maturity date issued in September 2010.

In August 2013 heavy rains in the Far-Eastern federal district resulted in floods that caused serious damages to several regions where the Group’s branches, clients and borrowers are located. The Group is currently assessing the impact of abnormal climate conditions (floods) on its consolidated financial statements.