DeltaCredit Bank CJSC

Consolidated Financial Statements

30 June 2012
Unaudited

Contents

(in thousands of Russian Rubles)

	Note	30 June 2012	31 December 2011
Assets			
Cash and cash equivalents	5	2,700,886	1,663,279
Mandatory cash balances with the Central Bank of the Russian Federation (CBRF)	22	40,338	28,122
Amounts due from banks	6	-	2,776,556
Mortgage loans to individuals	7	67,610,702	62,506,285
Property, equipment and intangible assets	8	86,332	95,546
Assets acquired by adjudication	7	145,197	163,223
Other assets	9	227,543	137,898
Total assets		**70,810,998**	**67,370,909**
Liabilities			
Amounts due to banks and other financial institutions	10	5,684,400	5,057,464
Customer accounts		1,314,277	1,361,170
Financing from related parties	11	39,534,266	37,462,575
Bonds issued	12	10,034,944	10,031,694
Notes issued	13	1,461,070	1,694,009
Financial liabilities at fair value through profit or loss	14	138,965	158,247
Dividends declared	15	1,000,000	-
Other liabilities	9	386,439	373,188
Total liabilities		**59,554,361**	**56,138,347**
Shareholder's equity			
Share capital	15	2,430,763	2,430,763
Share premium		580,551	580,551
Retained earnings		8,250,758	8,228,489
Cumulative translation reserve		(5,435)	(7,241)
Total equity		**11,256,637**	**11,232,562**
Total liabilities and equity		**70,810,998**	**67,370,909**

Signed and authorised for release on behalf of the Board of Management of the Bank

Serge Ozerov
Chairman of the Board of Management

29 August 2012
Moscow

Elena Kudlik
Chief Financial Officer

29 August 2012
Moscow

The accompanying notes on pages 7 to 54 are an integral part of these consolidated financial statements.

(in thousands of Russian Rubles)

	Note	6 months ended 30 June 2012	6 months ended 30 June 2011
Interest income	16	3,719,592	2,903,519
Interest expense	16	(1,901,764)	(1,557,512)
Net interest income		**1,817,828**	**1,346,007**
Net loss from foreign exchange translation		(7,308)	(14,227)
Fee and commission income	17	189,792	131,410
Fee and commission expense	17	(55,208)	(33,917)
Net loss on financial liabilities at fair value through profit or loss	18	(26,990)	(40,961)
Other operating income	19	11,907	8,590
Net banking income		**1,930,021**	**1,396,902**
Personnel expenses		(359,913)	(272,135)
Other operating expenses	19	(176,399)	(149,851)
Depreciation expenses	8	(20,198)	(23,974)
Gross operating income		**1,373,511**	**950,942**
Cost of risk	7	(81,241)	582,392
Profit before income tax expense		**1,292,270**	**1,533,334**
Income tax expense	20	(270,001)	(308,639)
Net profit for the period		**1,022,269**	**1,224,695**

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(in thousands of Russian Rubles)

	6 months ended 30 June 2012	6 months ended 30 June 2011
Net profit for the period	1,022,269	1,224,695
Other comprehensive income		
Exchange differences on translation of foreign operations	1,806	(17,416)
Net gain resulting on revaluation of available-for-sale investments during the period, net of deferred income tax effect	-	2,439
Other comprehensive income/ (loss) after income tax	**1,806**	**(14,977)**
Total comprehensive income	**1,024,075**	**1,209,718**

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(in thousands of Russian Rubles)

	Share capital	Share premium	Investments available-for-sale revaluation reserve	Retained earnings	Cumulative translation reserve	Total
Balance as of 31 December 2010	**2,430,763**	**580,551**	**(5,159)**	**6,029,812**	**(11,877)**	**9,024,090**
Total comprehensive income for the year	-	-	5,159	2,198,677	4,636	2,208,472
Balance as of 31 December 2011	**2,430,763**	**580,551**	**-**	**8,228,489**	**(7,241)**	**11,232,562**
Dividends declared	-	-	-	(1,000,000)	-	(1,000,000)
Total comprehensive income for the year	-	-	-	1,022,269	1,806	1,024,075
Balance as of 30 June 2012	**2,430,763**	**580,551**	**-**	**8,250,758**	**(5,435)**	**11,256,637**

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(in thousands of Russian Rubles)

	Note	6 months ended 30 June 2012	6 months ended 30 June 2011
Cash flows from operating activities			
Interest received		3,669,758	2,914,757
Interest paid		(1,160,716)	(818,204)
Fees and commissions received		272,528	208,177
Fees and commissions paid		(46,666)	(30,112)
Other operating income received		15,769	9,878
Operating expenses paid		(551,361)	(420,571)
Income tax paid		(239,940)	(289,437)
Cash flows from operating activities before changes in operating assets and liabilities		**1,959,372**	**1,574,488**
Changes in operating assets and liabilities			
Net change in mandatory cash balances with the CBRF		(12,216)	(22,678)
Net change in amounts due from banks		2,750,653	(1,859,930)
Net change in mortgage loans to individuals		(4,727,182)	(2,391,053)
Net change in investments available-for-sale		-	(15,651)
Net change in other assets		(94,133)	45,907
Net change in customer accounts		(52,522)	536,227
Net change in other liabilities		(18,891)	(45,114)
Net cash used in operating activities		**(194,919)**	**(2,177,804)**
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets		(10,988)	(19,287)
Net cash used in investing activities		**(10,988)**	**(19,287)**
Cash flows from financing activities			
Receipts of financing from related parties		1,000,000	-
Repayments of amounts due to to banks and other financial institutions		(375,807)	(538,064)
Receipts of amounts due from banks and other financial institutions		900,000	-
Proceeds from bonds issued		-	5,000,000
Repayment of securitized notes issued		(253,383)	(243,865)
Net cash from financing activities		**1,270,810**	**4,218,071**
Effect of exchange rate changes on cash and cash equivalents		**(27,296)**	**(153,920)**
Net increase in cash and cash equivalents		**1,037,607**	**1,867,060**
Cash and cash equivalents at the beginning of the period		1,663,279	2,179,506
Cash and cash equivalents at the end of the period	5	**2,700,886**	**4,046,566**

Serge Ozerov
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29 August 2012
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Chief Financial Officer

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(in thousands of Russian Rubles)

1 Principal Activities

These consolidated financial statements include the financial statements of Commercial Bank DeltaCredit, Closed joint stock company (the "Bank"), and its special purpose entity Limited Liability Company "Red and Black Prime Russia MBS No.1 Limited" (the "SPE"), (together "the Group").

The Bank is a commercial bank incorporated as a closed joint-stock company under the laws of the Russian Federation ("RF"). Up to January 2011 the immediate holding company of the Bank was DC Mortgage Finance Netherlands B.V. ("DCMF"), which was wholly-owned by Société Générale S.A. In January 2011 the first stage of the assets consolidation by Société Générale Group in Russia was completed. As a result, on 17 January 2011 the Bank was acquired by "Rosbank" OJSC JSCB ("Rosbank"). Rosbank is the largest privately owned bank in Russia in terms of network, it operates more than 600 outlets, covering over 70 of Russia's regions. Société Générale is the principal shareholder of Rosbank owning 82.4% of its shares. Société Générale is the ultimate controlling party of the Bank.

The Bank operates under a banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1999. The Bank's original shareholders were JP Morgan Overseas Capital Corporation and Morgan Guarantee International Finance Corporation. The Bank previously operated as ZAO JP Morgan Bank, and on 24 July 2001 changed its name to DeltaCredit Bank.

The Bank has two termless licenses issued by the CBRF that allow the Bank to perform all types of banking operations according to the Federal Law on Banks and Banking Activity, except for operations with precious metals and making bank transfers without opening bank accounts. In February 2005, the Bank became a member of the deposit insurance system provided by the State Corporation "Agency for Deposit Insurance".

The Bank's registered office is located: 125009, Russia, Moscow, 4/7 Vozdvizhenka St., Bld. 2. The Bank currently maintains outlets in St. Petersburg, Nizhniy Novgorod, Samara, Chelyabinsk, Ekaterinburg, Novosibirsk, Perm and Kazan. In the first half of 2012 the Bank opened new outlets in Ufa and Krasnoyarsk and plans to open outlet in Tumen during the year. The number of the Bank's employees as at 30 June 2012 was 568 (31 December 2011: 515).

The SPE, a limited liability company, incorporated under the laws of Ireland under company registration number 432754 and having its registered office at Ireland, Dublin, 85 Merrion Square, was established for the purpose of purchasing the mortgage loan portfolio from the Bank and issuing notes against such portfolio.

The Bank is a specialized lender core business of which is provision of mortgage loans and mortgage loans purchases in the Russian Federation.

Residential mortgage products are distributed to retail customers through a distribution network with an emphasis on cost efficiency. The network consists of the Bank's outlets and a regional network of partner banks.

Funding is obtained from both domestic and global financial markets from wholesale credit lines, issuance of debt securities and securitisation of loans.

As of 30 June 2012 and 31 December 2011, the shareholders, and the composition of the Board of Directors and Board of Management were as follows:

	30 June 2012		**31 December 2011**	
	% Ownership	**% Votes**	**% Ownership**	**% Votes**
"Rosbank" OJSC JSCB	100.0	100.0	100.0	100.0
	100.0	**100.0**	**100.0**	**100.0**

(in thousands of Russian Rubles)

1 Principal Activities (continued)

Board of Directors as of	
30 June 2012	**31 December 2011**
Didier Hauguel	Jean-Louis Mattei
Serge Ozerov	Serge Ozerov
Vladimir Golubkov	Marc-Emmanuel Vives
Christian Schricke	Christian Schricke
Perrine Gilbert	Perrine Gilbert

Board of Management as of	
30 June 2012	**31 December 2011**
Serge Ozerov	Serge Ozerov
Konstantin Artioukh	Konstantin Artioukh
Irina Aslanova	Irina Aslanova
Elena Kudlik	Elena Kudlik

2 Operating Environment of the Bank

Russia has largely restored its economy after the global financial crisis. During the first half of the year 2012 exchange rate of Russian Ruble ("RUR") for 1 dollar of the United States ("USD") has depreciated from 32.20 to 32.82. Average exchange rate for 6 months 2012 was 30.64 RUR for USD. The GDP of Russia for the first half of the year 2012 has increased by 4.4% comparing to GDP of the same period of 2011.

The macroeconomic situation and the imposition of a number of administrative measures resulted in a record low rate of inflation in the beginning of 2012. However, it can be expected that the rate of inflation will begin to increase already in the nearest future, due to the weakening of administrative price restraints.

According to the statistical analytical data provided by the CBRF, the volume of originated mortgage loans for the first half 2012 compared to the same period of 2011 has increased by 1.6 times: RUR 429.4 billion against RUR 273.4 billion. The number of mortgage loans originated during the first half 2012 has increased by 1.5 times in comparison with the same period of 2011 and constituted 295.5 thousand loans. The mortgage market has exceeded the pre-crisis path of development. According to the overview of the Agency for Housing Mortgage Lending (AHML), from 550.0 thousand to 680.0 thousand mortgage loans totaling from RUR 800 billion to RUR 1 trillion can be issued in 2012 in Russia. This forecast will be met if the Russian economy develops under a baseline scenario of the Ministry for Economic Development and there are no serious external or internal shocks.

The current situation on the financial market is not stable. The regulating authorities are initiating measures to prevent another financial crisis. However, uncertainty remains and financial institutions are expecting significant changes, though the nature of these changes is not clear yet.

Moody's international rating agency has changed the Russian banking system outlook to 'negative' from 'stable' on the back of global turbulence which is weakening the banking sector's performance. The outlook expresses Moody's expectations for the fundamental conditions in the banking sector over the next 12-18 months. Moody's forecasts that Russia's real gross domestic product growth will slow down to 3.0 percent in 2012 compared to 4.3 percent in 2011 due to a weak global recovery. Increasing risks to global energy demands may impact the operating environment for Russian banks over the outlook horizon as economic growth is largely driven by oil prices. Global financial market volatility, reduced access to wholesale funding, continued capital flight and downward pressure on the ruble, have already lead to a liquidity squeeze in the Russian banking system. Moody's notes that despite the challenging operating environment for the banks during 2012, government liquidity support will remain a key strength of the Russian banking system.

Mortgage underwriting standards and requirements for lenders, although being liberalized, are still maintained at a strict level which was unusual for the pre-crisis period. The liquidity squeeze has resulted in cost of funding increase which in turn led to market participants raising interest rates for mortgage loans in the first half of 2012.

2 Operating environment of the Bank (continued)

Market integration is becoming obvious. Mortgage lending activity is developing in close alliance with real estate developers and realtors. Cooperation helps facilitating and speeding up the process of mortgage loans origination, gives additional opportunities for customers attraction for all parties involved.

3 Basis of Presentation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. The management and shareholders have the intention to further develop the business of the Group in the Russian Federation in the retail segment. The management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in RUR in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These financial statements are based on the Bank's RAL books and records, as adjusted and reclassified in order to comply with IFRS.

The Group presents its statement of financial position broadly in order of liquidity.

These consolidated financial statements are presented in thousands of RUR unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments as explained in the accounting policies below.

The Group's operations are highly integrated and primarily constitute a single industry segment, mortgage lending in the Russian Federation.

Functional currency

The functional currency of the Bank and the presentation currency of the Group used in the preparation of these consolidated financial statements is RUR and that of the SPE is USD.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

4 Significant Accounting Policies

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entity controlled by the Bank (its SPE). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

According to SIC 12, in the context of the SPE, control arose through the predetermination of the activities of the SPE (operating on "autopilot"). The Board of Directors of the SPE considered and resolved to enter into the transaction determined within the frames of the "autopilot" thereby placing contractual obligations on the SPE which it must adhere to or be in breach of its legal obligations. For this reason Management believes that the SPE must be consolidated, despite the fact the Bank does not hold a majority of voting rights in the SPE.

4 Significant Accounting Policies (continued)

Basis of consolidation (continued)

The Group's mortgage portfolio includes the securitized mortgage loan pool. Management views that the majority of the risks and rewards of ownership of the securitized loan pool have been retained by the Group. Accordingly the Group has not derecognized the securitized mortgage pool from its consolidated statement of financial position.

Where necessary, adjustments are made to the financial statements of the SPE to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains in the consolidated statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

4 Significant Accounting Policies (continued)

Cash and cash equivalents

Cash and cash equivalents are items that can be converted into cash within thirty business days. All short term interbank placements including overnight placements are also classified as cash and cash equivalents. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory cash balances with the CBRF represent the amount of obligatory reserves deposited with the CBRF in accordance with the requirements established by the CBRF. The mandatory cash balances with the CBRF are subject to restrictions on their availability, therefore for purposes of determining cash flows, the mandatory cash balances with the CBRF are not included as a cash equivalent. The Bank is required to maintain the mandatory cash balances with the CBRF at the constant basis.

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method. Amounts due from banks are carried net of any allowance for impairment losses.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities are classified as valued at fair value through profit or loss if they meet any of the following conditions: (1) acquired principally for the purpose of selling them in the near future; (2) which are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking; or (3) are designated as derivatives (except for the case when a derivative is defined as an effective hedging instrument).

A financial asset or liability other than a financial asset held for trading may be designated at fair value through profit or loss upon initial recognition if: (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; (2) the financial asset or liability forms part of a group of financial assets or liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (3) it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. The Group uses quoted market prices and pricing models to determine fair value for financial assets and liabilities at fair value through profit or loss. The fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the consolidated income statement for the period. The Group does not reclassify financial instruments in or out of this category while they are held (except for cases of reclassification in accordance with amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosure").

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps to mitigate its risk associated with interest rate.

Derivative financial instruments entered by the Group are not designated as hedges and do not qualify for hedge accounting.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently stated at their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated

4 Significant Accounting Policies (continued)

Derivative financial instruments and hedging (continued)

statement of financial position. Gains and losses resulting from these instruments are included in net gain (loss) on financial assets and liabilities at fair value through profit or loss in the consolidated income statement.

Reclassification of financial assets

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in the following circumstances:

- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- Financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When a financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the consolidated income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Mortgage loans to individuals

Loans originated by the Group by providing money directly to the borrower, other than those that are originated with the intent of being sold immediately or in the short-term, which are recorded as trading assets, are categorized as originated loans.

Loans to individuals, all rights for which were purchased by the Bank from other Russian banks in accordance with assignment agreements, other than those that are purchased with the intent of being sold immediately or in the short-term, are categorized as purchased loans.

Securitized loans represent loans to individuals which were transferred to the SPE under a Mortgage certificates purchase agreement in the course of a securitisation deal.

Originated loans and advances are recognized when cash is transferred to borrowers. Initially, both categories of loans are recorded at fair value adjusted for transaction costs and gains, and subsequently are carried at amortized cost using the effective interest method less allowance for loan impairment. Amortized cost is based on the fair value of cash consideration given determined by reference to market prices at origination date.

Allowance for impairment losses

Credit risk allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect the amounts due according to the original contractual terms. The amount of the allowance is the difference between the carrying amount and the estimated recoverable amount of an individual loan, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The allowance for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the reporting date. These have been estimated based upon historical patterns of losses in each component and reflect the current economic environment in which the borrowers operate.

Restructured loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated

4 Significant Accounting Policies (continued)

Restructured loans (continued)

loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write off of mortgage loans to individuals

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after the management has exercised all available possibilities to collect amounts due to the Group and after the Group has sold all available collateral.

Property, equipment and intangible assets

Property, equipment and intangible assets are stated at cost less accumulated depreciation, amortization and allowance for impairment. Changes in the expected useful life are accounted for by changing the depreciation/amortization period or method, as appropriate, and treated as changes in accounting estimates.

Leasehold improvements include expenditures incurred subsequent to entering a long-term operating lease of banking premises. The Group treats these expenses as leasehold improvements since they are directly attributable costs of bringing the premises to working condition for their intended use. The Bank assumes that it is highly probable that future economic benefits associated with the leasehold improvements will flow to the Bank. Leasehold improvements are stated at cost less accumulated depreciation and allowance for impairment, where required.

Depreciation is calculated using the straight-line method to write down the cost of property, equipment to their residual values, using the following depreciation rates:

Office and computer equipment	20%-25% per annum
Leasehold improvements	10% per annum
Motor vehicles	20% per annum

Intangible assets are generally amortized on a straight-line basis over their estimated useful lives which are generally from 2 to 10 years.

An item of property, equipment and intangible assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in other operating income or other operating expenses in the consolidated income statement in the year the asset is derecognized.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Impairment of property, equipment and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

4 Significant Accounting Policies (continued)

Impairment of property, equipment and intangible assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Assets acquired by adjudication

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated income statement as loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Operating leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents are charged as expenses in the periods in which they are incurred.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from profit before income tax as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

4 Significant Accounting Policies (continued)

Taxation (continued)

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Borrowings

Borrowings, which include amounts due to banks and other financial institutions, bonds and notes issued and financing from related parties are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

Borrowings originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayments discounted at market interest rates for similar borrowings.

For borrowings from non-related parties, the difference between the fair value and the nominal value at origination is credited or charged to the consolidated income statement as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. For borrowings from related parties, such differences are credited or charged directly to other comprehensive income. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the gains/losses on origination and the related expense is recorded as interest expense within the consolidated income statement using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in losses/gains arising from early retirement of debt.

Other credit-related commitments

In the normal course of business, the Group enters into other credit related commitments including guarantees. A specific allowance is recorded against other credit related commitments when losses are considered probable.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed, unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position, but disclosed when an inflow of economic benefits is probable.

Share capital and share premium

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Share premium represents the excess of share capital contributions over the nominal value of the shares issued.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer to be calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

(in thousands of Russian Rubles)

4 Significant Accounting Policies (continued)

Income and expense recognition

Interest income and expense are recognized in the consolidated income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When loans become impaired, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Loan origination fees are deferred, together with the related direct incremental costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct incremental costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commission incomes are recognized when services are provided.

Foreign currency translation

Transactions denominated in a foreign currency are recorded at the exchange rate effective at the transaction date. Exchange differences resulting from the settlements of transactions denominated in foreign currencies are included in the consolidated income statement using the exchange rate effective at that date.

Monetary assets and liabilities denominated in foreign currencies are translated into RUR at the official exchange rate of the Central Bank of the Russian Federation at the end of each reporting period. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the consolidated income statement as net gains/losses from foreign exchange translation.

The results and the financial position of the SPE are translated into the presentation currency as follows. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the corresponding reporting date. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). All resulting exchange differences are recognized within other comprehensive income as cumulative translation reserve.

Rates of exchange

The exchange rates used by the Group in the preparation of the consolidated financial statements as at 30 June 2012 and year-end are as follows:

	30 June 2012	31 December 2011
RUR/1 US Dollar	32.8169	32.1961
RUR/1 Euro	41.323	41.6714

Collateral

The Group obtains collateral in respect of mortgage loans to individuals. The collateral primarily takes the form of a lien over the customer's flats and gives the Group a claim on these assets for both existing and future customer liabilities.

4 Significant Accounting Policies (continued)

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's consolidated statement of financial position include:

- Investments available-for-sale revaluation reserve which comprises changes in fair value of available-for-sale investments;
- Cumulative translation reserve which is used to record exchange differences arising from the translation of the net investment in foreign operations;

Securitisation

As part of its operational activities, the Bank securitises its financial assets, through the sale of these assets to special purpose entities that issue debt securities to investors. Special purpose entity is an entity that is created to accomplish a narrow and well-defined objective such as the securitization of the Bank's mortgage loans. The securitised financial assets may be retained by the Group and are classified as mortgage loans to individuals in the consolidated financial statements.

Significant accounting estimates

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition.

Allowance for impairment of loans

The Group regularly reviews its loans to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and assessment of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its consolidated financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers.

Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and 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 group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

In 2011 the real estate market as well as the mortgage financing in RF experienced considerable growth and increase, which indicated a recovery on these markets. As a reaction to these positive external changes, the Group changed its estimates with regard to consideration of collateral and valuation of collateral in calculation of allowance for impairment of loans. As a result, with regards to mortgage loans to individuals that were beyond 90 days overdue and that were fully impaired in 2010, the Bank took into account collateral in 2011 in calculating its allowance for loan impairment losses. As outlined in Note 21, *Credit risk*, the mortgage loans portfolio is fully secured, resulting in nil net exposure. As at 31 December 2011 allowance for impairment of loans estimated in accordance with the new approach is lower by RUR 629,958 thousand, compared to what it would have been if the old approach had been applied.

4 Significant Accounting Policies (continued)

Significant accounting estimates (continued)

Allowance for impairment of loans (continued)

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in RF and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at 30 June 2012 and 31 December 2011 the gross mortgage loans to individuals value totaled RUR 67,861,724 thousand and RUR 62,771,240 thousand, respectively, and allowance for impairment losses amounted to RUR 251,022 thousand and RUR 264,955 thousand, respectively.

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Mortgage loans purchased from other banks, in which the Group has either an unlimited right of recourse or right to recourse during 12 months from the date of repurchase in the event of a borrower's default, have been recognized as part of the Group's own loans as the Group receives predominantly all incomes relating to these loans and, while not entirely accepting credit risk, it accepts prepayment and interest rate risks, which in aggregate are considered to be substantially all the risks related to these loans (as the loans are fully collateralized). Therefore, management views that substantially all risks and rewards of ownership of these loans have been transferred to the Group.

Standards and interpretations in issue and not yet adopted

At the date of authorization of these consolidated financial statements, other than the Standards and Interpretations adopted by the Group in advance of their effective dates, the following Standards and Interpretations were in issue but not yet effective.

Amendments to IFRS 7 "Financial Instruments: Disclosures"

The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 9 "Financial Instruments"

IFRS 9 issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

4 Significant Accounting Policies (continued)

Standards and interpretations in issue and not yet adopted (continued)

IFRS 9 "Financial Instruments" (continued)

Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The management anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 10 "Consolidated Financial Statements"

IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 and SIC-12 by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, the single definition of control, accompanied by extensive application guidance, is based on whether an investor has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 "Joint Arrangements"

IFRS 11 replaces IAS 31 with new accounting requirements for joint arrangements by classifying them as either joint operations or joint ventures (the 'jointly controlled assets' classification exists no more).

- In recognising their rights and obligations arising from the arrangement, the parties should no longer focus on the legal structure of the joint arrangement, but rather on how rights and obligations are shared by them.
- A joint operation gives parties to the arrangement direct rights to the assets and obligations for the liabilities. Thus, a joint operator recognises its interest based on its involvement in the joint operation (ie based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement. A party to a 'joint operation' recognises assets, liabilities, revenues and expenses arising from the arrangement.
- A joint venture gives the parties rights to the net assets or outcome (profit or loss) of the arrangement. Joint ventures are accounted for using the equity method in accordance with IAS 28 "Investments in Associates". Entities can no longer account for an interest in a joint venture using the proportionate consolidation method. A party to a 'joint venture' recognises an investment.

IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement, so that financial statement users are able to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Thus, IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11 and replaces the disclosure requirements currently found in IAS 28.

IAS 27 (2011) "Separate Financial Statements"

IAS 27 (2011) includes the provisions on separate financial statements that are left almost unchanged after the control provisions of IAS 27 have been replaced with the new IFRS 10.

IAS 28 (2011) Investments in Associates and Joint Ventures

IAS 28 now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

4 Significant Accounting Policies (continued)

Standards and interpretations in issue and not yet adopted (continued)

IFRS 13 "Fair Value Measurement"

IFRS 13 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 to use across IFRSs. The Standard:

- defines fair value;
- sets out in a single IFRS a framework for measuring fair value;
- requires disclosures about fair value measurements.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for share-based payment transactions within the scope of IFRS 2 "Share-based Payment", leasing transactions within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Amendments to IAS 1 "Presentation of Financial Statements"

Amendments to IAS 1 revise the way other comprehensive income is presented.

The amendments to IAS 1:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement as was proposed in the exposure draft
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified;
- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

The Group does not expect this amendment to have a material effect on its financial position or results of operations.

Amendment to IAS 12 "Income Taxes"

Amendment to IAS 12 provides a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale.

(in thousands of Russian Rubles)

5 Cash and Cash Equivalents

	30 June 2012	31 December 2011
Cash on hand	418,629	326,350
Cash balances with the CBRF (other than mandatory cash balances)	255,261	77,813
Correspondent accounts, overnight placements with other banks and interbank loans less than 30 days		
- Russian Federation	697,092	586,178
- Other countries	1,329,904	672,938
Total cash and cash equivalents	**2,700,886**	**1,663,279**

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 21.

6 Amounts Due from Banks

There were no amounts due from banks as at 30 June 2012. As at 31 December 2011 amounts due from banks included deposits placed with banks-members of Société Générale Group and constituted RUR 2,776,556 thousand.

Geographical, currency, maturity and interest rate analyses of amounts due from banks are disclosed in Note 21.

7 Mortgage Loans to Individuals

	30 June 2012	31 December 2011
Originated loans	54,086,301	50,024,473
Purchased loans:		
- Under recourse agreement	4,800,678	3,275,531
- With no recourse agreement	6,692,614	6,970,508
Securitized loans	1,757,592	2,003,319
Total loans before accrued income and allowance	**67,337,185**	**62,273,831**
Accrued interest income	513,984	486,500
Accrued interest income on securitized loans	10,555	10,909
Total loans before allowance	**67,861,724**	**62,771,240**
Less: Allowance for loan impairment	(251,022)	(264,955)
Total mortgage loans to individuals	**67,610,702**	**62,506,285**

As at 30 June 2012 RUR 5,116,004 thousand of mortgage loans to individuals were pledged as collateral under mortgage-backed bonds issued (2011: RUR 5,117,982 thousand). Refer to Note 22.

Assets acquired by adjudication as at 30 June 2012 totaled RUR 145,197 thousand (31 December 2011: RUR 163,223 thousand) represent collateralized property repossessed by the Group from its defaulted borrowers, which the Bank intends to realize in 2012.

As the Group originates only mortgage loans to individuals, the Group therefore does not have loans in its portfolio which are individually significant in relation to the Group's equity.

(in thousands of Russian Rubles)

7 Mortgage Loans to Individuals (continued)

Analysis on overdue loans to individuals is presented below:

Class of financial asset	Carrying amount as at 30 June 2012	Of which: neither impaired nor past due	not impaired as of reporting date but past due: less than 90 days overdue	impaired: 91 - 180 days overdue	impaired: 181 - 360 days overdue	impaired: more than 360 days overdue
Mortgage loans to individuals, excluding securitized loans	66,093,577	64,866,108	730,050	93,014	94,860	309,545
Less: Allowance for loan impairment	(240,624)	-	-	(9,323)	(23,770)	(207,531)
Securitized loans	1,768,147	1,595,093	140,272	17,101	4,649	11,032
Less: Allowance for loan impairment	(10,398)	-	-	(1,766)	(1,236)	(7,396)
Total mortgage loans to individuals	**67,610,702**	**66,461,201**	**870,322**	**99,026**	**74,503**	**105,650**

Class of financial asset	Carrying amount as at 31 December 2011	Of which: neither impaired nor past due	not impaired as of reporting date but past due: less than 90 days overdue	impaired: 91 - 180 days overdue	impaired: 181 - 360 days overdue	impaired: more than 360 days overdue
Mortgage loans to individuals, excluding securitized loans	60,757,012	59,673,953	516,191	92,975	148,652	325,241
Less: Allowance for loan impairment	(259,402)	-	-	(9,322)	(37,251)	(212,829)
Securitized loans	2,014,228	1,886,418	106,504	7,224	10,848	3,234
Less: Allowance for loan impairment	(5,553)	-	-	(735)	(2,907)	(1,911)
Total mortgage loans to individuals	**62,506,285**	**61,560,371**	**622,695**	**90,142**	**119,342**	**113,735**

Movements in the provision for loan impairment are as follows:

	30 June 2012	31 December 2011
Provision for loans impairment at 1 January	**264,955**	**918,177**
Write-offs	(97,585)	(84,410)
Recoveries of loans previously written off	2,008	1,567
Translation difference	403	(97)
Additional provision recognized/ (recovery of provision)	81,241	(570,282)
Provision for loans impairment at the end of the period	**251,022**	**264,955**

In 2011 the Group has changed the approach to estimation of allowance for loan impairment losses, which resulted in recovery of provisions. Details of the change in estimate are described in Note 4.

(in thousands of Russian Rubles)

7 Mortgage Loans to Individuals (continued)

The Group has property and guarantees as collateral for its mortgage loans. Property is disclosed based on its fair value at the time of loan origination. Guarantees represent the nominal amounts pledged by the guarantor.

	30 June 2012	31 December 2011
Property	135,836,224	123,603,846
Guarantees	6,675,002	5,694,481
Collateral received	**142,511,226**	**129,298,327**

Geographical, currency, maturity and interest rate analyses of mortgage loans to individuals are disclosed in Note 21.

8 Property, Equipment and Intangible Assets

	Office and computer equipment	Leasehold improvements	Motor vehicles	Intangible assets	Total
Net book amount at 31 December 2011	**45,204**	**2,401**	**1,855**	**46,086**	**95,546**
Book amount at cost					
Opening balance	126,547	41,426	2,926	60,640	231,539
Additions	6,320	-	-	4,668	10,988
Disposals	(1,072)	-	-	(99)	(1,171)
Closing balance	**131,795**	**41,426**	**2,926**	**65,209**	**241,356**
Accumulated depreciation and amortiozation					
Opening balance	81,343	39,025	1,071	14,554	135,993
Charge for the period	9,902	877	379	9,040	20,198
Disposals	(1,068)	-	-	(99)	(1,167)
Closing balance	**90,177**	**39,902**	**1,450**	**23,495**	**155,024**
Net book amount at 30 June 2012	**41,618**	**1,524**	**1,476**	**41,714**	**86,332**

(in thousands of Russian Rubles)

8 Property, Equipment and Intangible Assets (continued)

	Office and computer equipment	Leasehold improvements	Motor vehicles	Intangible assets	Total
Net book amount at 31 December 2010	**40,966**	**5,111**	**1,409**	**43,565**	**91,051**
Book amount at cost					
Opening balance	104,132	41,418	3,659	66,391	215,600
Additions	25,986	8	1,301	23,773	51,068
Disposals	(3,571)	-	(2,034)	(29,524)	(35,129)
Closing balance	**126,547**	**41,426**	**2,926**	**60,640**	**231,539**
Accumulated depreciation and amortiozation					
Opening balance	63,166	36,307	2,250	22,826	124,549
Charge for the period	20,487	2,718	855	21,252	45,312
Disposals	(2,310)	-	(2,034)	(29,524)	(33,868)
Closing balance	**81,343**	**39,025**	**1,071**	**14,554**	**135,993**
Net book amount at 31 December 2011	**45,204**	**2,401**	**1,855**	**46,086**	**95,546**

Intangible assets of the Bank are mainly represented by software and software licenses.

As at 30 June 2012 and at 31 December 2011 fully depreciated assets included in property and equipment comprised RUR 92,047 thousand and RUR 87,344 thousand, respectively.

9 Other Assets and Other Liabilities

Other Assets comprise:

	30 June 2012	31 December 2011
Other financial assets		
Settlements with other debtors	125,399	45,967
Insurance commission receivable	38,075	39,515
Total other financial assets	**163,474**	**85,482**
Other non- financial assets		
Deferred expenses	54,045	42,391
Rent prepaid	10,024	10,024
Total other non- financial assets	**64,069**	**52,415**
Total other assets	**227,543**	**137,897**

(in thousands of Russian Rubles)

9 Other Assets and Other Liabilities (continued)

Other Liabilities comprise:

	30 June 2012	31 December 2011
Other financial liabilities		
Fees for professional services	71,929	65,729
Salary and bonuses payable	66,488	67,662
Commissions payable	23,307	17,074
Unused vacation provision	15,423	14,969
Other	13,641	20,785
Other accruals	7,402	7,560
Total other financial liabilities	**198,190**	**193,779**
Other non- financial liabilities		
Deferred tax liability	152,272	136,119
Income tax and other taxes payable	31,205	26,311
Advances received for assets held for sale	4,772	16,979
Total other non- financial liabilities	**188,249**	**179,409**
Total other liabilities	**386,439**	**373,188**

10 Amounts Due to Banks and Other Financial Institutions

	30 June 2012	31 December 2011
Overseas Private Investments Corporation ("OPIC")	2,461,537	2,495,223
European Bank for Reconstruction and Development ("EBRD")	1,648,832	761,921
International Finance Corporation ("IFC")	964,833	1,053,403
Kreditanstalt fuer Wiederaufbau ("KfW')	609,198	746,917
Total due to banks and other financial institutions	**5,684,400**	**5,057,464**

Geographical, currency, maturity and interest rate analyses of amounts due to banks and other financial institutions are disclosed in Note 21.

The Group is obliged to comply with financial covenants in relation to certain borrowings from banks and other financial institutions disclosed above. These covenants include liquidity ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during 6 months of the year 2012 and during the year ended 31 December 2011, except for Economic Group Exposure Ratio required by IFC. The Economic Group Exposure Ratio was breached as at 31 December 2011, however this breach did not resulted in any accelerated repayments and hence no requirement to reclassify the loan to the category "demand and less than 1 month" in the Group's liquidity position disclosed in Note 21.

11 Financing from Related Parties

For definition of related parties and other transactions with related parties refer to Note 25.

As at 30 June 2012 financing from related parties represents borrowings from Rosbank, Société Générale and DCMF.

As at 30 June 2012 financing from Société Générale, the ultimate controlling party, represents borrowings with a nominal value of RUR 36,980,788 thousand (31 December 2011: RUR 36,649,157 thousand) as well as subordinated loan received from DCMF with a nominal value of USD 5,000 thousand or RUR 164,085 thousand

(in thousands of Russian Rubles)

11 Financing from Related Parties (continued)

(31 December 2011: USD 5,000 thousand or RUR 160,981 thousand) obtained in order to finance the mortgage lending activities within the Russian Federation. Subordinated loan received from DCMF was fully repaid in July 2012.

As at 30 June 2012 financing from Société Générale includes a loan with nominal value of USD 9,200 thousand (USD 5,000 thousand as subordinated loan) or RUR 301,915 thousand that was originally received from The U.S. Russia Investment Fund. The transfer of the financing took place upon the successful ownership transfer of DCMF to Société Générale. The transfer resulted in no change in the deposit terms.

In July 2007 the Bank received a credit facility from Société Générale in the amount of USD 300,000 thousand or RUR 9,845,070 thousand of nominal value as at 30 June 2012. The credit facility is guaranteed by the Multilateral Investment Guarantee Agency. During the year 2007 the Bank withdrew funding from this credit facility in the amount of USD 110,000 thousand or RUR 2,700,082 thousand and during the year 2008 funding in the amount of USD 190,000 thousand or RUR 5,582,276 thousand. Contractual maturity is 10 years from the date of funding withdrawal. In addition, during 2009 the Bank received a loan of the nominal amount of RUR 700,000 thousand under a multicurrency Framework Agreement (2008: RUR 11,000,000 and USD 215,000 or RUR 6,316,786). Contractual maturity from the date of funding the amount is 5 years (2008: between 3 and 5 years). In March 2010 the Bank has received USD 60,000 thousand or RUR 1,828,614 thousand (nominal amount) under a Framework Agreement with Société Générale with maturity of 5 years.

On 30 May 2008 the Bank received a subordinated loan of RUR 1,250,000 thousand from Société Générale with maturity of 8 years.

In April 2012 the Bank received financing from Rosbank with nominal value of RUR 1,000,000 thousand with maturity of 3 years.

In the event of bankruptcy or liquidation of the Group, repayments of the subordinated debts described above are subordinate to the repayments of the Group's liabilities to all other creditors.

The reconciliation between the total funds received and the carrying value of financing from related parties is presented below (the market interest rates used for determining fair values at the dates of financing vary from 8% to 11%):

	30 June 2012	31 December 2011
Subordinated loans below market received	245,462	245,462
Financing below market received	103,094	103,094
Less: Cumulative fair value adjustment on financing and subordinated loans from related parties received at rate below market	(261,785)	(261,785)
Fair value at the respective dates of funding	**86,771**	**86,771**
Cumulative accrued interest expense	185,746	170,932
Translation effect	29,222	27,041
Financing and subordinated loans below market received (at amortized cost)	**301,739**	**284,744**
Financing at amortized cost, long-term	37,970,832	35,916,233
Subordinated loan	1,261,695	1,261,598
Total financing from related parties	**39,534,266**	**37,462,575**

Geographical, currency, maturity and interest rate analyses of financing from related parties are disclosed in Note 21.

12 Bonds Issued

In June 2011 the Group issued bonds with a nominal value of RUR 5,000,000 thousand bearing annual coupon rate of 7.2%. The put option is available in June 2014. The bonds' maturity date is 15 June 2016.

(in thousands of Russian Rubles)

12 Bonds Issued (continued)

In November 2011 the Group issued mortgage-backed bonds with a nominal value of RUR 5,000,000 thousand bearing annual coupon rate of 8.33%. The put option is available on November 2014. The bonds will mature in November 2016.

In accordance with the terms of the mortgage-backed bonds issue the Bank has to comply with the CBRF normatives. As at 30 June 2012 and 31 December 2011 the Bank was in compliance with such normatives.

The bonds issues were secured by guarantees issued by Société Générale.

As at 30 June 2012 amortized cost of bonds issued comprised RUR 10,034,944 thousand (31 December 2011: RUR 10,031,694 thousand).

13 Notes Issued

In April 2007 the Group securitised a mortgage loans in the amount of USD 206 300 thousand or RUR 5 346 904 thousand. The securitisation is structured as a sale of a pool of loans to the SPE. The Group financed the purchase through the issuance of Mortgage Backed Floating Rate Notes maturing in 2035.

Issued notes comprise:

	Nominal Value thousand USD	Nominal interest rate, %	Amortized value as at 30 June 2012	Amortized value as at 31 December 2011
Class A Senior Notes	173,200	1.05%+ 1 month LIBOR	1,080,433	1,253,138
Class B	14,500	1.45%+ 1 month LIBOR	111,311	127,667
Class C	18,600	3.35%+ 1 month LIBOR	269,326	313,204
Total notes issued	**206,300**		**1,461,070**	**1,694,009**

14 Financial Liabilities at Fair Value through Profit or Loss

As a result of the securitisation transaction (Note 13), the SPE issued 1 month LIBOR floating rate notes and purchased mortgage loans, the majority of which consisted of fixed rate mortgage loans and the rest consisted of mortgage loans tied to 12- month LIBOR.

In order to manage its interest rate exposure, the SPE entered into two balance guaranteed swap transactions with Société Générale CIB on 12 April 2007 in the form of a confirmation letter to ISDA Master Agreement.

As a result of entering into the balance guaranteed swaps, management believes that the SPE has effectively secured 100% of any interest rate changes during the life of the swap transactions.

As at 30 June 2012 the fair value of the swap is RUR 138,965 thousand (31 December 2011: RUR 158,247 thousand). The gain from the change in fair value is recognized in net loss on financial instruments at fair value through profit or loss in the amount of RUR 20,851 thousand (30 June 2011: gain in the amount of RUR 18,783 thousand; 31 December 2011: gain in the amount of RUR 27,629 thousand). The initial valuation of the derivative instruments in the amount of USD 665 thousand or RUR 21,823 thousand was deferred.

(in thousands of Russian Rubles)

15 Share Capital

Issued and fully paid share capital of the Group comprises:

	Number of shares	Nominal amount, RUB	Carrying value
		30 June 2012	
Ordinary shares	2,586,999,999	2,586,999,999	2,430,763
Total share capital	**2,586,999,999**	**2,586,999,999**	**2,430,763**
		31 December 2011	
Ordinary shares	2,586,999,999	2,586,999,999	2,430,763
Total share capital	**2,586,999,999**	**2,586,999,999**	**2,430,763**

All ordinary shares have a nominal value RUR 1 per share, rank equally and carry one vote. Shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the general shareholders' meetings of the Group.

The Group does not have any authorized but not issued capital.

Equity reserves represent share premium, investments available-for-sale reserve and cumulative translation reserve the nature of which is described in Note 4.

In 2012 the Group declared dividends of RUR 0.386548125391 per share on ordinary shares. Subsequent to 30 June 2012 the Group paid dividends totaling RUR 1,000,000 thousand on ordinary shares.

(in thousands of Russian Rubles)

16 Interest Income and Expense

	6 months ended 30 June 2012	6 months ended 30 June 2011
Interest income comprises:		
Interest income on financial assets recorded at amortized cost	3,719,592	2,901,026
Interest income on financial assets at fair value	-	2,493
Total interest income	**3,719,592**	**2,903,519**
Interest income on financial assets recorded at amortized cost comprises:		
Interest on mortgage loans to individuals	3,643,867	2,838,316
Interest on amounts due from banks	75,725	62,710
Total interest income on financial assets recorded at amortized cost	**3,719,592**	**2,901,026**
Interest income on financial assets at fair value:		
Interest income on financial assets available-for-sale	-	2,493
Total interest income on financial assets at fair value	**-**	**2,493**
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	1,901,764	1,557,512
Total interest expense	**1,901,764**	**1,557,512**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on financing from related parties	1,336,359	1,392,702
Interest on bonds issued	390,430	7,805
Interest on amounts due to banks and other financial institutions	150,705	131,264
Interest on notes issued	16,399	20,456
Interest on customer accounts	7,871	5,285
Total interest expense on financial liabilities recorded at amortized cost	**1,901,764**	**1,557,512**
Net interest income	**1,817,828**	**1,346,007**

(in thousands of Russian Rubles)

17 Fee and Commission Income and Expense

	6 months ended 30 June 2012	6 months ended 30 June 2011
Fee and commission income		
Insurance agent fees	68,304	41,017
Commission on cash and settlements transactions	59,413	42,101
Commission on issued guarantees	20,123	543
Fines and penalties	13,076	20,219
Other commission income	12,354	3,827
Commission on rental of safe deposits boxes	9,652	6,991
Commission for clients' applications processing	4,538	4,190
Correspondent programme entry fee	2,332	1,186
Commission on early repayment of mortgage loans	-	11,336
Total fee and commission income	**189,792**	**131,410**
Fee and commission expense		
Commission on guarantees received	43,570	25,469
Fees and comissions paid to banks and other financial institutions	7,863	5,560
Commission on settlement transactions	3,775	2,888
Total fee and commission expense	**55,208**	**33,917**
Net fee and commission income	**134,584**	**97,493**

18 Net Loss on Financial Liabilities at Fair Value through Profit or Loss

Net loss on financial liabilities at fair value through profit or loss comprises:

	6 months ended 30 June 2012	6 months ended 30 June 2011
Net loss on operations with financial liabilities initially recognized at fair value through profit and loss comprise:		
Fair value adjustment	20,851	18,783
Interest expense	(47,841)	(59,744)
Total net loss on operations with financial liabilities designated at fair value through profit or loss	**(26,990)**	**(40,961)**

(in thousands of Russian Rubles)

19 Other Operating Income and Expenses

Other operating income and expenses comprise the following:

	6 months ended 30 June 2012	6 months ended 30 June 2011
Other operating income		
Income from sale of assets acquired by adjudication	9,940	2,787
Other	1,967	5,803
Total other operating income	**11,907**	**8,590**
Other operating expenses		
Rent expense	52,364	42,162
Professional services	27,284	19,738
Taxes other than on income	24,207	22,339
Advertising and representative expenses	18,207	16,775
Telecommunication services	8,099	7,656
Maintenance of buildings and equipment	5,744	2,421
Information technology	5,674	1,947
Low-value equipment expenses	5,379	10,627
Repairment	4,867	7,745
Communications and information services	4,522	1,882
Travelling and transportation	3,065	3,008
Security expense	3,019	3,034
Materials and office supplies	2,294	1,282
Insurance expense	1,607	1,891
Other	10,067	7,344
Total other operating expenses	**176,399**	**149,851**

20 Income Tax Expense

The Group measures and records its current income tax payable and its tax bases for its assets and liabilities in accordance with the tax regulations of Russian Federation for the Bank and in accordance with tax regulations of Ireland for the SPE, and these regulations may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 30 June, 2012 and 31 December 2011 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

Income tax expense comprises the following:

	6 months ended 30 June 2012	6 months ended 30 June 2011
Current tax charge	253,848	261,488
Deferred tax charge	16,153	47,151
Income tax expense for the year	**270,001**	**308,639**

(in thousands of Russian Rubles)

20 Income Tax Expense (continued)

The income tax rate applicable to the majority of the Group's income is 20% (31 December 2011: 20%). Reconciliation between the expected and the actual taxation charge is provided below.

	6 months ended 30 June 2012	6 months ended 30 June 2011
Profit before income tax	**1,292,270**	**1,533,334**
Theoretical tax charge at the applicable statutory rate	258,454	306,667
Income of SPE taxed at different rate	(2,243)	(7,187)
Permanent differences	10,701	6,493
The effect of consolidation adjustments	3,089	2,666
Income tax expense	**270,001**	**308,639**

Deferred tax liabilities/assets as of 30 June 2012 and 31 December 2011 and their movements for the respective periods comprise:

Tax effect of deductible temporary difference	31 December 2011	Recognized in the income statement	30 June 2012
Other	12,217	4,584	16,801
Deferred tax asset	**12,217**	**4,584**	**16,801**
Mortgage loans to individuals	(116,083)	(23,261)	(139,344)
Property, equipment and intangible assets	(5,670)	(239)	(5,909)
Amounts due to banks and other financial institutions	(14,554)	1,080	(13,474)
Financing from related parties	(4,528)	1,032	(3,496)
Bonds issued	(7,501)	651	(6,850)
Deferred tax liability	**(148,336)**	**(20,737)**	**(169,073)**
Net deferred tax liability	**(136,119)**	**(16,153)**	**(152,272)**

(in thousands of Russian Rubles)

20 Income Tax Expense (continued)

Tax effect of deductible temporary difference	31 December 2010	Recognized in the income statement	Recognized directly in equity	31 December 2011
Financial liabilities at fair value through profit or loss	182	(182)	-	-
Other	5,449	8,058	(1,290)	12,217
Deferred tax asset	**5,631**	**7,876**	**(1,290)**	**12,217**
Mortgage loans to individuals	(65,445)	(50,638)	-	(116,083)
Property, equipment and intangible assets	(5,819)	149	-	(5,670)
Amounts due to banks and other financial institutions	(13,193)	(1,361)	-	(14,554)
Financing from related parties	(4,593)	65	-	(4,528)
Deferred tax liability on SPE	(7,836)	7,836	-	-
Bonds issued	-	(7,501)	-	(7,501)
Deferred tax liability	**(96,886)**	**(51,450)**	**-**	**(148,336)**
Net deferred tax liability	**(91,255)**	**(43,574)**	**(1,290)**	**(136,119)**

21 Risk Management

Risk is inherent in the Group's activities and it is managed through a process of ongoing risk identification, measurement and monitoring subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to financial and operational risks.

Financial risks

The primary objectives of the financial risk management function are to establish risk limits for credit, liquidity and market risks, and then ensure that exposure to risks stays within these limits. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower are approved regularly by the Board of Management.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations. Exposure to credit risk is also managed, in part, by obtaining collateral and personal guarantees.

The Bank's Credit Policy stipulates the main activities related to credit risk management and credit risk monitoring. The Credit Policy is approved by the Board of Management. Under the Credit Policy decision-making powers regarding loans origination are distributed between the Board of Management and the Credit Committee. The Bank's Credit Committee transfers the full scope of its powers regarding approval of applications for mortgage loans in the frame of approved standard loan programs to individual members of the Credit Committee and to the specialists of the Analytical Unit of the Credit Department (underwriters), at the same time limiting these powers by the loan amount.

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Credit risk (continued)

For interbank lending activities, the Bank engages in transactions only with stable and reliable financial institutions. The Bank mostly originates short-term interbank loans, which also allows minimizing the credit risk. The Bank's Risk Committee sets credit limits for the Bank's counterparties - financial institutions. Further these limits are approved by the Société Générale.

30 June 2012	Maximum exposure	Collateral pledged	Net exposure after offset and collateral
Cash and cash equivalents (excluding cash on hand)	2,700,886	-	2,700,886
Mortgage loans to individuals	67,610,702	135,836,224	-
Guarantees issued	6,000,000	-	6,000,000
Total credit risk exposure	**76,311,588**	**135,836,224**	**8,700,886**

31 December 2011	Maximum exposure	Collateral pledged	Net exposure after offset and collateral
Cash and cash equivalents (excluding cash on hand)	1,336,929	-	1,336,929
Amounts due from banks	2,776,556	-	2,776,556
Mortgage loans to individuals	62,506,285	123,603,846	-
Guarantees issued	3,067,855	-	3,067,855
Total credit risk exposure	**69,687,625**	**123,603,846**	**7,181,340**

Past due or individually impaired loans comprise:

	not impaired as of reporting date but past due		**Impaired and past due**			
30 June 2012	**less than 30 days**	**31 to 90 days**	**91 to 180 days**	**181 to 360 days**	**more than 360 days**	**Total**
Mortgage loans to individuals	666,363	203,959	110,115	99,509	320,577	1,400,523
Total	**666,363**	**203,959**	**110,115**	**99,509**	**320,577**	**1,400,523**

	not impaired as of reporting date but past due		**Impaired and past due**			
31 December 2011	**less than 30 days**	**31 to 90 days**	**91 to 180 days**	**181 to 360 days**	**more than 360 days**	**Total**
Mortgage loans to individuals	379,134	243,561	100,199	159,500	328,475	1,210,869
Total	**379,134**	**243,561**	**100,199**	**159,500**	**328,475**	**1,210,869**

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Credit risk (continued)

The Group's maximum exposure to credit risk is primary reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Prepayment risk

The Group is exposed to prepayment risk through providing fixed and variable rate mortgage loans, which give the borrower the right to early repay the loan.

The prepayment effect on interest income is set out below. The effect was estimated based on prepayment statistics.

	Effect on interest income	Effect on equity
	(596,593)	**(596,593)**
Mortgage loans to individuals		
USD	(170,303)	(170,303)
RUR	(426,290)	(426,290)

Prepayment risk is the risk that the Group will incur a financial loss because its customers repay earlier than expected. The above effect of prepayment risk on income represents projected loss that the Group can incur till the end of 2012 if the customers make prepayments. In order to manage prepayment risk, the Group sets minimum amount of prepayment for customers and makes projections on future prepayments based on historical statistics. Projection of prepayment effect for 2012 is based on historical statistics. Starting from November 2011, according to the new law enacted no prepayment penalties are charged and no prepayment moratoriums are set.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. In addition the Group has also committed lines of credit that it can access to meet liquidity needs. Liquidity risk is managed by Asset and Liability Management Committee (ALM Committee) and the Treasury of the Group in accordance with the approved "Liquidity Measurement, Management and Control Policy" and "Assets and Liabilities Management Policy".

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Group. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

The table below shows financial assets and liabilities by their remaining maturities, based on the net present value of future principal and interest cash flows, based on repayment obligations. With regard to mortgage loans to individuals, management believes that the development of the mortgage loan market in Russia in the medium term will result in loans being repaid prior to maturity and the expected prepayment effect calculated based on historical repayment statistics and market expectations has been reflected in the following liquidity disclosures.

A negative cumulative liquidity gap as of 30 June 2012 in the time bucket "from 1 to 3 months" is closed with the financing attracted in the third quarter of 2012 the details of which are disclosed in Note 28.

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Liquidity risk (continued)

The liquidity position of the Group based on discounted cash flows taking into account expected prepayments as at 30 June 2012 is set out below:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	More than 10 years	Total
Financial assets								
Cash and cash equivalents	2,700,886	-	-	-	-	-	-	2,700,886
Mortgage loans to individuals	2,259,227	2,806,804	10,597,393	22,126,605	21,577,617	8,243,056	-	67,610,702
Other financial assets	-	158,897	-	-	4,577	-	-	163,474
Total financial assets	**4,960,113**	**2,965,701**	**10,597,393**	**22,126,605**	**21,582,194**	**8,243,056**	**-**	**70,475,062**
Financial liabilities								
Amounts due to banks and other financial institutions	20,909	303,545	686,515	2,131,902	1,431,339	1,110,190	-	5,684,400
Customer accounts	1,059,754	3,472	251,051	-	-	-	-	1,314,277
Financing from related parties	121,875	9,213,001	2,525,340	13,878,977	13,795,073	-	-	39,534,266
Bonds issued	-	-	736,229	9,298,715	-	-	-	10,034,944
Notes issued	29,644	58,063	239,699	495,674	451,260	186,730	-	1,461,070
Financial liabilities at fair value through profit or loss	3,984	7,119	26,141	63,087	34,063	4,571	-	138,965
Dividends declared	-	1,000,000	-	-	-	-	-	1,000,000
Other financial liabilities	-	76,044	47,194	69,551	5,401	-	-	198,190
Total financial liabilities	**1,236,166**	**10,661,243**	**4,512,169**	**25,937,906**	**15,717,136**	**1,301,491**	**-**	**59,366,112**
Net liquidity gap	**3,723,947**	**(7,695,542)**	**6,085,224**	**(3,811,301)**	**5,865,058**	**6,941,565**	**-**	**11,108,950**
Cumulative liquidity gap	**3,723,947**	**(3,971,595)**	**2,113,629**	**(1,697,672)**	**4,167,386**	**11,108,951**	**11,108,951**	

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Liquidity risk (continued)

The liquidity position of the Group based on discounted cash flows taking into account prepayments as at 31 December 2011 is set out below:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	More than 10 years	Total
Financial assets								
Cash and cash equivalents	1,663,279	-	-	-	-	-	-	1,663,279
Amounts due from banks	-	2,113,687	504,821	158,048	-	-	-	2,776,556
Mortgage loans to individuals	2,027,927	2,328,124	8,482,464	18,813,908	20,458,898	10,394,964	-	62,506,285
Other financial assets	-	82,087	-	-	3,395	-	-	85,482
Total financial assets	**3,691,206**	**4,523,898**	**8,987,285**	**18,971,956**	**20,462,293**	**10,394,964**	**-**	**67,031,602**
Financial liabilities								
Amounts due to banks and other financial institutions	-	297,683	675,551	1,974,327	1,035,354	1,027,487	47,062	5,057,464
Customer accounts	1,175,781	-	185,389	-	-	-	-	1,361,170
Financing from related parties	-	81,557	10,986,194	11,021,469	15,358,071	284	15,000	37,462,575
Bonds issued	-	-	736,229	9,295,465	-	-	-	10,031,694
Notes issued	33,019	64,383	266,704	552,401	516,419	261,083	-	1,694,009
Financial liabilities at fair value through profit or loss	4,159	7,991	30,053	71,108	38,224	6,712	-	158,247
Other financial liabilities	-	94,074	99,705	-	-	-	-	193,779
Total financial liabilities	**1,212,959**	**545,688**	**12,979,825**	**22,914,770**	**16,948,068**	**1,295,566**	**62,062**	**55,958,938**
Net liquidity gap	**2,478,247**	**3,978,210**	**(3,992,540)**	**(3,942,814)**	**3,514,225**	**9,099,398**	**(62,062)**	**11,072,664**
Cumulative liquidity gap	**2,478,247**	**6,456,457**	**2,463,917**	**(1,478,897)**	**2,035,328**	**11,134,726**	**11,072,664**	

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Liquidity risk (continued)

Undiscounted cash flows on financial liabilities as at 30 June 2012 comprise:

30 June 2012	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	Total
Financial liabilities							
Amounts due to banks and other financial institutions	21,034	306,735	719,009	2,393,904	1,937,007	1,821,585	7,199,274
Customer accounts	1,059,754	3,472	263,873	-	-	-	1,327,099
Financing from related parties	272,658	9,347,218	2,515,638	14,635,484	18,986,744	-	45,757,742
Bonds issued	-	-	774,400	12,530,900	-	-	13,305,300
Notes issued	34,834	68,407	284,878	604,627	589,788	272,075	1,854,609
Financial liabilities at fair value through profit or loss	7,630	13,633	50,060	120,820	65,235	8,754	266,132
Dividents declared	-	1,000,000	-	-	-	-	1,000,000
Other financial liabilities	-	76,044	47,194	69,551	5,401	-	198,190
Total undiscounted financial liabilities	**1,395,910**	**10,815,509**	**4,655,052**	**30,355,286**	**21,584,175**	**2,102,414**	**70,908,346**

Undiscounted cash flows on financial liabilities as of 31 December 2011 comprise:

31 December 2011	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	Total
Financial liabilities							
Amounts due to banks and other financial institutions	-	300,795	707,282	2,208,557	1,342,401	1,650,076	6,299,278
Customer accounts	1,175,781	-	187,555	-	-	-	1,363,336
Financing from related parties	-	82,170	11,550,482	12,852,712	21,340,394	644	45,989,522
Bonds issued	-	-	774,400	12,918,100	-	-	13,692,500
Notes issued	38,896	76,018	317,709	675,342	662,492	395,135	2,165,592
Financial liabilities at fair value through profit or loss	7,944	15,262	57,399	135,818	73,008	12,820	302,251
Other financial liabilities	-	94,074	99,705	-	-	-	193,779
Total undiscounted financial liabilities	**1,222,621**	**568,319**	**13,694,532**	**28,790,529**	**23,418,295**	**2,058,675**	**70,006,258**

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Market risk

The Group actively manages its exposure to market risks. Market risks arise from open positions in currency products, interest rates, all of which are exposed to general and specific market movements as well as to geographical location. To minimize market risk the Group does not actively engage in transactions with financial instruments exposed to significant market risk. The Group does not hold trading securities portfolio, does not actively engage in transactions with derivatives. The Group does not conduct speculative foreign exchange trading. On a daily basis the Bank monitors its open currency position.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Asset and Liability Committee sets guidelines to minimize the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group does not carry out speculative operations which can lead to currency risk exposure. The Group performs conversion operations in the internal currency market to eliminate open foreign currency positions.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at 30 June 2012. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorized by currency.

	RUR	USD USD 1 = RUR 32.8169	Euro Euro 1 = RUR 41.3230	Total
Financial assets				
Cash and cash equivalents	1,883,264	803,616	14,006	2,700,886
Mortgage loans to individuals, net	44,099,933	23,510,769	-	67,610,702
Other financial assets	157,011	1,646	4,817	163,474
Total financial assets	**46,140,208**	**24,316,031**	**18,823**	**70,475,062**
Financial liabilities				
Amounts due to banks and other financial institutions	1,071,197	4,613,203	-	5,684,400
Customer accounts	1,167,554	143,476	3,247	1,314,277
Financing from related parties	21,697,747	17,836,519	-	39,534,266
Bonds issued	10,034,944	-	-	10,034,944
Notes issued	-	1,461,070	-	1,461,070
Financial liabilities at fair value through profit or loss	-	138,965	-	138,965
Dividents declared	1,000,000	-	-	1,000,000
Other financial liabilities	110,780	17,851	69,559	198,190
Total financial liabilities	**35,082,222**	**24,211,084**	**72,806**	**59,366,112**
Net position	**11,057,986**	**104,947**	**(53,983)**	**11,108,950**

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Currency risk (continued)

At 31 December 2011 the Group had the following positions in currency:

	RUR	USD USD 1 = RUR 32.1961	Euro Euro 1 = RUR 41.6714	Total
Financial assets				
Cash and cash equivalents	893,629	755,527	14,123	1,663,279
Amounts due from banks	2,776,556	-	-	2,776,556
Mortgage loans to individuals, net	38,785,509	23,720,776	-	62,506,285
Other financial assets	81,433	654	3,395	85,482
Total financial assets	**42,537,127**	**24,476,957**	**17,518**	**67,031,602**
Financial liabilities				
Amounts due to banks and other financial institutions	241,678	4,815,786	-	5,057,464
Customer accounts	1,119,182	236,295	5,693	1,361,170
Financing from related parties	20,078,632	17,383,943	-	37,462,575
Bonds issued	10,031,694	-	-	10,031,694
Notes issued	-	1,694,009	-	1,694,009
Financial liabilities at fair value through profit or loss	-	158,247	-	158,247
Other financial liabilities	103,133	24,917	65,729	193,779
Total financial liabilities	**31,574,319**	**24,313,197**	**71,422**	**55,958,938**
Net position	**10,962,808**	**163,760**	**(53,904)**	**11,072,664**

As a result of significant operations in USD the Group's consolidated statement of financial position can be affected significantly by movements in the USD/RUR exchange rates. The Bank seeks to mitigate the effect of its structural currency exposure by borrowing in USD to fund USD assets.

30 June 2012

Currency	Exchange rate	Change in currency rate %	Effect on profit before tax	Effect on equity
USD	32.8169	±10%	±10,495	±10,495
EUR	41.323	±10%	±(5,398)	±(5,398)

31 December 2011

Currency	Exchange rate	Change in currency rate %	Effect on profit before tax	Effect on equity
USD	32.1961	±10%	±16,376	±16,376
EUR	41.6714	±10%	±(5,390)	±(5,390)

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Interest rate risk

Interest rate risk arises from possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group is exposed to interest rate risk, principally as a result of loans to banks and mortgage loans to individuals, at fixed interest rates, in amounts and for periods that differ from those of term borrowings at fixed interest rates.

The ALM Committee sets guidelines to limit the level of interest rate mismatch that may be undertaken. The objective of the guidelines is to keep well-balanced assets and liabilities in terms of their structure, maturity and rates. The Group analyzes possible gaps in assets and liabilities in terms of rates and maturity, takes steps on minimization and covering of such risks.

The interest rates on the mortgage loans to individuals are either fixed or variable or combined. As at 30 June 2012 2.8% of the Group's mortgage loan portfolio included loans with an interest rate indexed to LIBOR (2011: 3.5%) and 1.7% (2011: 2.4%) with an interest rate indexed to MosPrime, which is reset on an annual basis and quarterly basis, respectively.

The table below summarizes the Group's exposure to interest rate risks. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

30 June 2012	Demand less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	Non-interest bearing	Total
Financial assets								
Cash and cash equivalents	1,779,030	-	-	-	-	-	921,856	2,700,886
Mortgage loans to individuals	2,156,204	2,678,811	11,284,130	23,030,741	20,593,653	7,867,163	-	67,610,702
Other financial assets	-	-	-	-	-	-	163,474	163,474
Total financial assets	**3,935,234**	**2,678,811**	**11,284,130**	**23,030,741**	**20,593,653**	**7,867,163**	**1,085,330**	**70,475,062**
Financial liabilities								
Amounts due to banks and other financial institutions	20,909	303,545	686,514	2,131,902	1,431,339	1,110,191	-	5,684,400
Customer accounts	5,033	3,472	251,051	-	-	-	1,054,721	1,314,277
Financing from related parties	121,875	9,213,001	2,525,340	13,878,977	13,795,073	-	-	39,534,266
Bonds issued	-	-	736,229	9,298,715	-	-	-	10,034,944
Notes issued	29,644	58,063	239,699	495,674	451,260	186,730	-	1,461,070
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	138,965	138,965
Dividents declared	-	-	-	-	-	-	1,000,000	1,000,000
Other financial liabilities	-	-	-	-	-	-	198,190	198,190
Total financial liabilities	**177,461**	**9,578,081**	**4,438,833**	**25,805,268**	**15,677,672**	**1,296,921**	**2,391,876**	**59,366,112**
Net interest sensitivity gap	**3,757,773**	**(6,899,270)**	**6,845,297**	**(2,774,527)**	**4,915,981**	**6,570,242**	**(1,306,546)**	**11,108,950**

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Interest rate risk (continued)

31 December 2011	Demand less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 6 years	From 6 to 10 years	More than 10 years	Non-interest bearing	Total
Financial assets									
Cash and cash equivalents	959,069	-	-	-	-	-	-	704,210	1,663,279
Amounts due from banks	-	2,113,687	504,821	158,048	-	-	-	-	2,776,556
Mortgage loans to individuals	1,908,888	2,191,464	9,490,817	19,872,380	19,257,958	9,784,778	-	-	62,506,285
Other financial assets	-	-	-	-	-	-	-	85,482	85,482
Total financial assets	**2,867,957**	**4,305,151**	**9,995,638**	**20,030,428**	**19,257,958**	**9,784,778**	**-**	**789,692**	**67,031,602**
Financial liabilities									
Amounts due to banks and other financial institutions	-	297,683	675,551	1,974,327	1,035,354	1,027,487	47,062	-	5,057,464
Customer accounts	9,654	-	185,389	-	-	-	-	1,166,127	1,361,170
Financing from related parties	-	81,557	10,986,194	11,021,469	15,358,071	284	15,000	-	37,462,575
Bonds issued	-	-	736,229	9,295,465	-	-	-	-	10,031,694
Notes issued	33,019	64,383	266,704	552,401	516,419	261,083	-	-	1,694,009
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	158,247	158,247
Other financial liabilities	-	-	-	-	-	-	-	193,779	193,779
Total financial liabilities	**42,673**	**443,623**	**12,850,067**	**22,843,662**	**16,909,844**	**1,288,854**	**62,062**	**1,518,153**	**55,958,938**
Net interest sensitivity gap	**2,825,284**	**3,861,528**	**(2,854,429)**	**(2,813,234)**	**2,348,114**	**8,495,924**	**(62,062)**	**(728,461)**	**11,072,664**

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax and equity, as at the respective reporting date.

	Increase/(decrease) in basis points	Effect on profit before tax	Effect on equity
30 June 2012			
RUR	+15	1,772	1,772
USD	+10	452	452
RUR	-15	(1,772)	(1,772)
USD	-10	(452)	(452)
31 December 2011			
RUR	+15	2,281	2,281
USD	+10	466	466
RUR	-15	(2,281)	(2,281)
USD	-10	(466)	(466)

The table below summarizes the weighted average interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using period-end effective interest rates.

	30 June 2012		31 December 2011	
	USD	RUR	USD	RUR
Financial assets				
Cash and cash equivalents	0.05%	6.1%	0.01%	5.5%
Amounts due from banks	-	-	-	6.8%
Mortgage loans to individuals	9.9%	12.5%	9.9%	12.4%
Financial liabilities				
Amounts due to banks and other financial institutions	5.7%	9.8%	5.8%	8.8%
Customer accounts	3.0%	7.5%	2.8%	5.4%
Financing from related parties	5.1%	9.4%	5.1%	9.4%
Bonds issued	-	8.0%	-	8.0%
Notes issued	2.2%	-	2.2%	-

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Interest rate risk (continued)

Included in the table below are the Group's loans to individuals and financing received categorized by fixed and variable interest rates excluding effect of interest rate swaps (see Note 14).

30 June 2012	Fixed rate			Variable rate			
	RUR	USD	Weight (%)	MOSPRIME (RUR)	LIBOR (USD)	Weight (%)	Total
Financial assets							
Cash and cash equivalents	1,240,832	538,198	100%	-	-	0%	1,779,030
Mortgage loans to individuals, excluding securitized portfolio, gross	43,020,307	20,018,242	95%	1,184,341	1,870,687	5%	66,093,577
Securitized portfolio, gross	-	1,713,894	97%	-	54,253	3%	1,768,147
Allowance for loan impairment	(101,909)	(134,373)	94%	(2,806)	(11,934)	6%	(251,022)
Financial liabilities							
Amounts due to banks and other financial institutions	1,071,197	4,613,203	100%	-	-	0%	5,684,400
Customer accounts	251,254	8,301	100%	-	-	0%	259,555
Financing from related parties	21,697,747	17,836,519	100%	-	-	0%	39,534,266
Bonds issued	10,034,944	-	-	-	-	0%	10,034,944
Notes issued	-	-	-	-	1,461,070	100%	1,461,070
Net interest sensitivity gap	**11,104,088**	**(322,062)**		**1,181,535**	**451,936**		**12,415,497**

31 December 2011	Fixed rate			Variable rate			
	RUR	USD	Weight (%)	MOSPRIME (RUR)	LIBOR (USD)	Weight (%)	Total
Financial assets							
Cash and cash equivalents	550,179	408,890	100%	-	-	0%	959,069
Mortgage loans to individuals, excluding securitized portfolio, gross	37,385,675	19,733,895	94%	1,525,411	2,112,031	6%	60,757,012
Securitized portfolio, gross	-	1,953,325	97%	-	60,903	3%	2,014,228
Allowance for loan impairment	(120,654)	(126,272)	93%	(4,923)	(13,106)	7%	(264,955)
Amounts due from banks	2,776,556	-	100%	-	-	0%	2,776,556
Financial liabilities							
Amounts due to banks and other financial institutions	241,678	4,815,786	100%	-	-	0%	5,057,464
Customer accounts	178,629	16,414	100%	-	-	0%	195,043
Financing from related parties	20,078,632	17,383,943	100%	-	-	0%	37,462,575
Bonds issued	10,031,694	-	100%	-	-	0%	10,031,694
Notes issued	-	-	0%	-	1,694,009	100%	1,694,009
Net interest sensitivity gap	**10,061,123**	**(246,305)**		**1,520,488**	**465,819**		**11,801,125**

(in thousands of Russian Rubles)

21 Risk Management (continued)

Financial risks (continued)

Geographical risk

The Bank is registered in Moscow and operates in the Russian Federation.
The geographical concentration of the Group's assets and liabilities as at 30 June 2012 is set out below:

	Russia	OECD	Total
Financial assets			
Cash and cash equivalents	1,370,982	1,329,904	2,700,886
Mortgage loans to individuals	67,610,702	-	67,610,702
Other financial assets	158,897	4,577	163,474
Total financial assets	**69,140,581**	**1,334,481**	**70,475,062**
Financial liabilities			
Amounts due to banks and other financial institutions	-	5,684,400	5,684,400
Customer accounts	1,314,277	-	1,314,277
Financing from related parties	1,016,598	38,517,668	39,534,266
Bonds issued	10,034,944	-	10,034,944
Notes issued	-	1,461,070	1,461,070
Financial liabilities at fair value through profit or loss	-	138,965	138,965
Dividents declared	1,000,000	-	1,000,000
Other financial liabilities	98,446	99,744	198,190
Total financial liabilities	**13,464,265**	**45,901,847**	**59,366,112**
Net position	**55,676,316**	**(44,567,366)**	**11,108,950**

The geographical concentration of the Group's assets and liabilities as at 31 December 2011 is set out below:

	Russia	OECD	Total
Financial assets			
Cash and cash equivalents	990,341	672,938	1,663,279
Amounts due from banks	2,776,556	-	2,776,556
Mortgage loans to individuals	62,506,285	-	62,506,285
Other financial assets	85,482	-	85,482
Total financial assets	**66,358,664**	**672,938**	**67,031,602**
Financial liabilities			
Amounts due to banks and other financial institutions	-	5,057,464	5,057,464
Customer accounts	1,361,170	-	1,361,170
Financing from related parties	-	37,462,575	37,462,575
Bonds issued	10,031,694	-	10,031,694
Notes issued	-	1,694,009	1,694,009
Financial liabilities at fair value through profit or loss	-	158,247	158,247
Other financial liabilities	111,273	82,506	193,779
Total financial liabilities	**11,504,137**	**44,454,801**	**55,958,938**
Net position	**54,854,527**	**(43,781,863)**	**11,072,664**

21 Risk Management (continued)

Operational risks

The operational risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational risks.

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit and Risk department.

Compliance risk

Compliance Risk is defined as the risk of damage to the Group's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies and procedures or ethical standards. In addition to reputational damage, failure to effectively manage compliance risk can expose financial institutions to fines, civil and criminal penalties, payment of damages, court orders and suspension or revocation of licenses. A failure (or perceived failure) can adversely impact customers, staff and the shareholder of the Group.

The management understands that good compliance risk management involves understanding and delivering on the expectations of customers and stakeholders, thereby improving the quality of key relationships based on honesty, integrity and fairness.

The Bank has effective compliance control system realized through the functions performed by the Risk Management Department in accordance with the internal documentation. Compliance responsibilities are also carried out by all staff in different units as per their expertise.

The main issues of the compliance control function in the Bank are realized through:

- identification (on a pro-active basis), documentation and assessment of the compliance risks associated with the Bank's business activities, including the development of new products and business practices, the proposed establishment of new types of business or customer relationships, or material changes in the nature of such relationships;
- dealing with and leading and co-ordination of investigations into issues of conflict of interest (of the Bank, staff, etc), cases of alleged corruption, money laundering, terrorist financing, and complaints received with regard to bank-financed operations;
- assessment of the appropriateness and consistency of the Bank's regulatory framework (statutory documents, policies, strategies, guidelines, rules, regulations and procedures in force) related to compliance issues, promptly following up any identified deficiencies in the policies and procedures and, where necessary, formulating proposals for amendments.

Analysis of the compliance risk control system is carried out based on the results of the Permanent Supervision Process successfully implemented in the Bank. The main principle of the Permanent Supervision Process is self-assessment of the existing processes performed by all Bank's departments concerned for the detection of the compliance risk events and improvement of the control processes.

22 Contingencies and Commitments

Russian operating environment

Although in recent years there has been a general improvement in economic conditions in Russia, Russia continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in Russia continue to change rapidly. Tax, currency and customs legislation within Russia is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia.

22 Contingencies and Commitments (continued)

Russian operating environment (continued)

The future economic direction of Russia is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt the Russian economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Because the Russian Federation produces and exports large volumes of oil and gas, the Russian Federation's economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during 2012 and 2011. In the beginning of 2012, the macroeconomic situation in Russia was determined by persistently high oil prices, an ongoing considerable capital outflow (capital outflow estimates for January–February range between 22 billion and $ 30 billion USD), and the additional anti-inflation measures adopted in anticipation of the presidential election.

Management is unable to reliably estimate the effects on the Group's financial position of any 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 growth of the Group's business in the current circumstances.

Legal proceedings

From time to time and in the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group and accordingly no provision has been made in these consolidated financial statements.

Tax legislation

Provisions of the RF tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the RF tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the RF tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the RF tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of "unjustified tax benefit", "primary commercial goal of transaction" and the criteria of "commercial purpose (substance) of transaction".

Such uncertainty could, in particular, be attributed to tax treatment of financial instruments/derivatives and determination of market price of transactions for transfer pricing purposes. It could also lead to temporary taxable differences occurred due to loan impairment provisions and income tax liabilities being treated by the tax authorities as understatement of the tax base. The management of the Group is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also according to the clarification of the RF Constitutional Court the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayers has obstructed or hindered a tax inspection.

The SPE is a qualifying Company within the meaning of Section 110 of the Taxes Consolidation Act, 1997. As such, the profits are chargeable to corporation tax under Case III of Schedule D at a rate of 25 per cent but are computed in accordance with the provisions applicable to Case I of Schedule D.

(in thousands of Russian Rubles)

22 Contingencies and Commitments (continued)

Contingencies and commitments

As at 30 June 2012 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

As at 30 June 2012 and 31 December 2011 the Group's commitments and contingencies comprised the following:

	30 June 2012	31 December 2011
Contingent liabilities		
Guarantees issued	6,000,000	3,067,855
Operating lease commitments		
Not later than 1 year	43,706	36,771
Later than 1 year but not later than 5 years	58,716	57,605
Total operating lease commitments	**102,422**	**94,376**
Commitments and contingencies	**6,102,422**	**3,162,231**

The guarantees in the amount of RUR 6,000,000 thousand and RUR 3,000,000 was issued in 2012 and 2011 respectively in favor of the CBRF on behalf of Rusfinance Bank to guarantee the loans received by Rusfinance Bank from the CBRF. The guarantees mature up to June 2013 and on July 2012 respectively.

The guarantee in the amount of RUR 67,855 thousand was issued in favor of the Ministry of Finance of the Krasnoyarsk Region on behalf of Rosbank. Ministry of Finance of the Krasnoyarsk Region issues bonds and Rosbank serves as originator in this transaction. The guarantee ensures that Rosbank will transfer funds obtained from bonds placement to the bonds issuer. The guarantee matured on 9 February 2012.

Assets pledged and restricted

As at 30 June 2012 RUR 5,116,004 thousand of mortgage loans to individuals were pledged as collateral under mortgage-backed bonds issued (31 December 2011: 5,117,982).

Mandatory cash balances with the CBRF in the amount of RUR 40,338 thousand (31 December 2011: RUR 28,122 thousand) represent mandatory reserve deposits which are not available to finance the Group's day to day operations. The Group is required to maintain mandatory reserve deposits at the CBRF at all times.

23 Segment Reporting

Group's operations primarily constitute a single industry segment as the Group sells standard mortgage products within the Russian Federation. As such no disclosure of revenue, costs, assets and liabilities has been made in the financial statements as required by IFRS 8 "Operating segments" as the Group considers itself to be a single operating segment.

24 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

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, judgment 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 operations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

24 Fair Value of Financial Instruments (continued)

Financial instruments carried at fair value

Cash and cash equivalents

Cash and cash equivalents are carried on the consolidated statement of financial position at their fair value.

Amounts due from banks

The fair value of floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing placement is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and remaining maturity. The estimated fair value of amounts due from Banks approximates their carrying value. As at 30 June 2012 there were no amounts due from banks. As at 31 December 2011 amounts due from banks constituted RUR 2,776,556 thousand.

Mortgage loans to individuals

Mortgage loans to individuals are net of allowance for impairment. The estimated fair value of mortgage loans to individuals represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at estimated market rates which are adjusted from current rates by eliminating fluctuations that arose due to financial crisis in Russia at the end of 2008 to determine fair value. As at 30 June 2012 the estimated fair value of mortgage loans to individuals approximates their carrying value of RUR 67,610,702 thousand (31 December 2011: RUR 62,506,285 thousand).

Amounts due to banks and other financial institutions

The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing placements and other borrowings without a quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. As at 30 June 2012 the estimated fair value of due to banks and other financial institutions approximates their carrying value of RUR 5,684,400 thousand (31 December 2011: RUR 5,057,464 thousand).

Customer accounts

As at 30 June 2012 fair value of customer accounts approximates their carrying value of RUR 1,314,277 thousand (31 December 2011: RUR 1,361,170 thousand).

Financing from related parties

For financing received with maturity within one year, the carrying amount approximates fair value due to the relatively short-term maturity of these loans. For long-term financing from related parties which is at below market rates, fair value adjustments have been recognized within retained earnings and other reserves. As at 30 June 2012 the estimated fair value of financing from related parties approximates their carrying value of RUR 39,534,266 thousand (31 December 2011: RUR 37,462,575 thousand).

Bonds issued

Bonds were issued at market interest rates, thus, their carrying value approximates their fair value.

Notes issued

The fair value of the notes approximates their carrying value because they are issued at variable market interest rate.

Financial instruments at fair value through profit or loss

As at 30 June 2012 the fair value of the swaps is calculated based on the pricing models and is RUR 138,965 thousand (31 December 2011: RUR 158,247 thousand).

(in thousands of Russian Rubles)

24 Fair Value of Financial Instruments (continued)

Set out below is comparison by category of carrying amount and fair value of all the Group's financial instruments:

	30 June 2012		31 December 2011	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial Assets				
Cash and cash equivalents	2,700,886	2,700,886	1,663,279	1,663,279
Amounts due from banks	-	-	2,776,556	2,776,556
Mortgage loans to individuals	67,610,702	67,610,702	62,506,285	62,506,285
Other financial assets	163,474	163,474	85,482	85,482
Financial Liabilities				
Amounts due to banks and other financial institutions	5,684,400	5,684,400	5,057,464	5,057,464
Customer accounts	1,314,277	1,314,277	1,361,170	1,361,170
Financing from related parties	39,534,266	39,534,266	37,462,575	37,462,575
Financial liabilities at fair value through profit or loss	138,965	138,965	158,247	158,247
Bonds issued	10,034,944	10,034,944	10,031,694	10,031,694
Notes issued	1,461,070	1,461,070	1,694,009	1,694,009
Dividents declared	1,000,000	1,000,000	-	-
Other financial liabilities	198,190	198,190	193,779	193,779

Financial instruments recognized at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products does not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2) – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Group's valuation approach and fair value hierarchy categorization for certain significant classes of financial instruments recognized at fair value is as follows:

30 June 2012	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Financial Liabilities		
Financial liabilities at fair value through profit or loss	138,965	138,965
Total Financial Liabilities	**138,965**	**138,965**

(in thousands of Russian Rubles)

24 Fair Value of Financial Instruments (continued)

31 December 2011	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Financial Liabilities		
Financial liabilities at fair value through profit or loss	158,247	158,247
Total Financial Liabilities	**158,247**	**158,247**

Derivative financial instruments under Level 3 represent swaps which the SPE has entered to, disclosed in Note 14. The valuation technique is based on the assumptions of the projected mortgage pool repayments and the share of floating rate loans in the total mortgage pool. These assumptions are relatively stable and are not expected to change so that to affect the swaps fair value significantly.

Changes in the swaps fair value during the period are as follows:

	30 June 2012	31 December 2011
Fair value at 1 January	**158,247**	**178,450**
Total gains for the period recognised in profit or loss	(20,851)	(27,629)
Translation difference	1,569	7,426
Fair value at the end of the period	**138,965**	**158,247**

Total gains for the period are presented in the consolidated income statement. Translation difference is comprised of RUR 1,482 thousand translation gain (31 December 2011: RUR 2,640 thousand) presented in the consolidated statement of comprehensive income and RUR 3,051 thousand exchange difference loss (31 December 2011: RUR 10,066 thousand) presented in the consolidated income statement.

25 Related Party Transactions

For the purposes of these financial statements, parties are considered to be as defined by IAS 24 "Related Party Disclosures":

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives then significant influence over the Bank; and that have joint control over the Bank;

(b) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) Joint ventures in which the Bank is a venturer;

(d) Members of key management personnel of the Bank or its parent;

(e) Close members of the family of any individuals referred to in (a) or (d);

(f) Parties that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);

(g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

(in thousands of Russian Rubles)

25 Related Party Transactions (continued)

Banking transactions are entered into in the normal course of business with the shareholder of the Bank, Société Générale, its affiliates, directors and senior management. The outstanding balances at the year end and income and expense items as well as other transactions for the year with related parties are as follows:

(a) Transactions with key management personnel

Total remuneration included in personnel expenses is as follows:

	6 months ended 30 June 2012	6 months ended 30 June 2011
Key management personnel	22,308	29,869
Social security costs	2,743	4,575
Total management remuneration	**25,051**	**34,444**

(b) Transactions with Société Générale Group entities except for Rosbank Group entities

Included in the consolidated statement of financial position:

	30 June 2012	31 December 2011
Cash and cash equivalents	198,255	766
Financing from related parties	38,517,668	37,462,575
Other liabilities	89,184	72,032
Financial liabilities at fair value through profit or loss	138,965	158,247
Customer accounts	144,324	144,324

Included in the consolidated income statement:

	6 months ended 30 June 2012	6 months ended 30 June 2011
Interest income	-	1,964
Net loss on financial liabilities at fair value through profit or loss	(26,990)	(41,070)
Interest expense	(1,319,762)	(1,392,702)
Professional services	(8,048)	(6,222)
Other operating income	1,210	1,484
Commissions on guarantees	(43,570)	(25,469)

The Group has entered into two interest rate swap agreements with Société Générale CIB on 12 April 2007 to manage the interest rate risk associated with the floating rate notes, as described in Note 14.

(c) Transactions with Rosbank Group entities

Included in the consolidated statement of financial position:

	30 June 2012	31 December 2011
Cash and cash equivalents	198,802	308,421
Financing from related parties	1,016,598	-
Amounts due from banks	-	2,776,556

(in thousands of Russian Rubles)

25 Related Party Transactions (continued)

(c) Transactions with Rosbank Group entities (continued)

Included in the consolidated income statement:

	6 months ended 30 June 2012	6 months ended 30 June 2011
Commissions on guarantees issued	20,123	543
Interest income	44,653	44,783
Interest expense	(16,598)	-

Commitments and contingencies:

	30 June 2012	31 December 2011
Guarantees issued	6,000,000	3,067,855

In 2011 the guarantees were issued in favor of the Ministry of Finance of the Krasnoyarsk Region on behalf of Rosbank and in 2011 and 2012 in favor of the CBRF on behalf of Rusfinance Bank. The details of the transactions are disclosed in Note 22.

26 Capital Management

The Group actively manages its capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBRF in supervising the Group.

As of 30 June 2012, the Group complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group's overall capital risk management policy remains unchanged from 2008.

CBRF capital adequacy ratio

The CBRF requires banks to maintain a minimum capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As of 30 June 2012 and 31 December 2011, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

Capital adequacy ratio under Basel Capital Accord 1988 with amendments

For Basel I ratio calculation purposes, two tiers of capital are distinguished:

Tier I capital is "core" bank capital and includes paid share capital (less the carrying value of treasury shares), minority interests in the equity of subsidiaries and retained earnings (including their allocations to reserves), less certain deductions, such as goodwill.

Tier II capital is "supplementary" bank capital that includes subordinated debt, hybrid instruments with characteristics of both capital and equity and certain revaluation reserves, such as unrealized gains on the revaluation of financial instruments classified as available-for-sale and property revaluation surplus.

The Group's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, of 29.46% and 34.4% as of 30 June 2012 and 31 December 2011, respectively, exceeded the minimum ratio of 8% recommended by the Basel Accord.

(in thousands of Russian Rubles)

26 Capital Management (continued)

Capital adequacy ratio under Basel Capital Accord 1988 with amendments (continued)

	30 June 2012	31 December 2011
Tier 1 capital	11,256,637	11,232,562
Tier 2 capital	757,017	1,054,715
Total capital	**12,013,654**	**12,287,277**
Risk weighted assets	40,774,769	35,721,397

27 Share Based Payments

On 2 November 2010 Société Générale announced granting of 16 shares and 24 shares to each employee of the Société Générale Group, including those of the Bank, in the years ending 31 December 2015 and 2016, respectively. The share price at the initiation of the program was EUR 42.10. This share based payment program will be accounted as a cash settled share based program over the vesting periods. The cost of the program will be reimbursed by the SG at the end of the vesting periods.

28 Subsequent Events

For further financing of its activity the Group has attracted a range of financing during the third quarter of 2012.

In August 2012 the Bank has issued RUR 4 billion of commercial bonds with maturity of three years and put option available in two years from the date of issue.

In August 2012 the Bank has received financing from Rosbank which constituted RUR 3 billion maturing in 2 years and RUR 3 billion maturing in 3 years.

In August 2012 the Bank has withdrawn financing of RUR 1.75 billion from the credit line provided by the EBRD.

In July 2012 the Bank received short-term financing from the AHML totaling RUR 1.75 billion, within the frameworks of bridge financing of total amount of RUR 3.5 billion.