RUSSIAN AGRICULTURAL BANK GROUP

Condensed Interim Consolidated Financial Information and Review Report

30 June 2008

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REVIEW REPORT

To the Shareholders and the Supervisory Board of Russian Agricultural Bank Group:

Introduction

1 We have reviewed the accompanying condensed interim consolidated balance sheet of Russian Agricultural Bank and its subsidiaries (hereinafter - the “Group”) as of 30 June 2008, and the related condensed interim consolidated statement of income, condensed interim consolidated statement of changes in equity and condensed interim consolidated statement of cash flows for the six months then ended. Management is responsible for the preparation and presentation of this condensed interim consolidated financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). Our responsibility is to express a conclusion on this condensed interim consolidated financial information based on our review.

Scope of Review

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

Conclusion

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
22 October 2008

Russian Agricultural Bank Group
Condensed Interim Consolidated Balance Sheet

In thousands of Russian Roubles	Note	30 June 2008 (unaudited)	31 December 2007
ASSETS			
Cash and cash equivalents		52 197 658	33 990 183
Mandatory cash balances with the Central Bank of the Russian Federation		4 231 081	2 441 967
Trading securities		11 602 829	12 056 055
Other securities at fair value through profit or loss	7	4 278 195	-
Repurchase receivable		2 703 898	98 326
Derivative financial instruments	15	1 498 703	276 806
Securities available for sale		268 590	1 156 720
Securities held to maturity		5 958 807	5 495 475
Due from other banks		7 318 281	1 627 975
Loans and advances to customers	8	357 547 045	291 583 137
Deferred income tax asset		16 639	5 815
Intangible assets		482 850	347 353
Premises and equipment		7 754 227	6 924 308
Current income tax prepayment		383 042	51 518
Other assets		840 002	404 563
TOTAL ASSETS		**457 081 847**	**356 460 201**
LIABILITIES			
Derivative financial instruments	15	8 188 185	3 559 959
Due to other banks	9	109 142 454	61 302 829
Customer accounts		108 056 516	95 957 714
Promissory notes issued		16 003 070	32 361 154
Other borrowed funds	10	144 775 364	95 288 645
Syndicated loans	10	15 092 605	15 572 209
Deferred income tax liability		582 297	692 694
Other liabilities		1 574 130	580 923
Subordinated debts	10	16 554 284	17 320 463
TOTAL LIABILITIES		**419 968 905**	**322 636 590**
EQUITY			
Share capital		30 477 833	28 477 833
Revaluation reserve for premises and equipment		899 524	911 151
Revaluation reserve for available for sale securities		(14 209)	(1 658)
Retained earnings		5 749 265	4 435 587
Net assets attributable to the Bank's equity holders		**37 112 413**	**33 822 913**
Minority interest		**529**	**698**
TOTAL EQUITY		**37 112 942**	**33 823 611**
TOTAL LIABILITIES AND EQUITY		**457 081 847**	**356 460 201**

Approved for issue and signed on behalf of the Management Board on 22 October 2008.

Y.V. Trushin
Chairman of the Management Board

O.V. Nikonov
Chief Accountant

The notes set out on pages 5 to 21 form an integral part of these condensed interim consolidated financial information

In thousands of Russian Roubles	**Note**	**Six months ended 30 June 2008 (unaudited)**	**Six months ended 30 June 2007 (unaudited)**
Interest income		23 487 797	13 788 170
Interest expense		(11 381 665)	(6 593 835)
Net interest income		**12 106 132**	**7 194 335**
Provision for loan impairment	8	(2 468 640)	(1 576 987)
Net interest income after provision for loan impairment		**9 637 492**	**5 617 348**
(Losses, net of gains)/gains less losses arising from trading securities		(239 651)	31 204
Losses, net of gains arising from other securities at fair value through profit or loss		(223 052)	-
Losses, net of gains arising from redemption of securities held to maturity		(1 181)	-
Gains less losses from trading in foreign currencies		62 426	73 619
Foreign exchange translation gains less losses		4 934 544	1 197 927
Losses, net of gains from derivative financial instruments		(5 910 386)	(2 079 552)
Fee and commission income		872 380	412 867
Fee and commission expense		(60 736)	(36 563)
Provision for other assets		(8 413)	(2 236)
Other operating income		39 564	41 501
Administrative and other operating expenses		(7 030 504)	(4 437 455)
Profit before tax		**2 072 483**	**818 660**
Income tax expense		(592 213)	(234 605)
Profit for the period		**1 480 270**	**584 055**
Profit attributable to			
Equity holders of the Bank		1 480 419	584 017
Minority interest		(149)	38
Profit for the period		**1 480 270**	**584 055**
Earnings per share for profit attributable to the equity holders of the Bank, basic and diluted		**52**	**28**

In thousands of Russian Roubles	**Note**	**Attributable to the equity holders of the Bank**					**Minority interest**	**Total equity**
		Share capital	**Revaluation reserve for premises and equipment**	**Revaluation reserve for available for sale securities**	**Retained earnings**	**TOTAL**		
Balance at 1 January 2007		**21 620 833**	**-**	**-**	**308 366**	**21 929 199**	**557**	**21 929 756**
Profit for the period		-	-	-	584 017	584 017	38	584 055
Dividends declared		-	-	-	(226 450)	(226 450)	(15)	(226 465)
Balance at 30 June 2007 (unaudited)		**21 620 833**	-	-	**665 933**	**22 286 766**	**580**	**22 287 346**
Balance at 1 January 2008		**28 477 833**	**911 151**	**(1 658)**	**4 435 587**	**33 822 913**	**698**	**33 823 611**
Revaluation of premises and equipment, net of deferred tax		-	(11 627)	-	11 627	-	-	-
Revaluation of available for sale securities, net of deferred tax		-	-	(12 551)	-	(12 551)	-	(12 551)
Net income recognised directly in equity		-	(11 627)	(12 551)	11 627	(12 551)	-	(12 551)
Profit for the period		-	-	-	1 480 419	1 480 419	(149)	1 480 270
Total recognised income for the period		-	(11 627)	(12 551)	1 492 046	1 467 868	(149)	1 467 719
Share issue	11	2 000 000	-	-	-	2 000 000	-	2 000 000
Dividends declared		-	-	-	(178 368)	(178 368)	(20)	(178 388)
Balance at 30 June 2008 (unaudited)		**30 477 833**	**899 524**	**(14 209)**	**5 749 265**	**37 112 413**	**529**	**37 112 942**

In thousands of Russian Roubles	**Six months ended 30 June 2008 (unaudited)**	**Six months ended 30 June 2007 (unaudited)**
Cash flows from operating activities		
Interest received	23 130 153	13 405 194
Interest paid	(11 600 030)	(4 790 289)
(Expenses paid)/income received from trading in trading securities	(38 755)	52 360
Income received from trading in foreign currencies	62 426	73 619
Realised losses on derivative financial instruments	(2 504 057)	(652 359)
Fees and commissions received	872 380	412 867
Fees and commissions paid	(60 736)	(36 563)
Other operating income received	38 472	41 258
Staff costs paid	(3 957 398)	(2 553 275)
Other administrative and operating expenses paid	(2 028 257)	(1 489 108)
Income tax paid	(1 040 994)	(203 774)
Cash flows from operating activities before changes in operating assets and liabilities	**2 873 204**	**4 259 930**
Changes in operating assets and liabilities		
Net increase in mandatory cash balances with the Central Bank of the Russian Federation	(1 789 114)	(922 427)
Net increase in trading securities and repurchase receivables	(2 467 240)	(6 815 443)
Net increase in other securities at fair value through profit or loss	(4 431 255)	-
Net (increase)/decrease in due from other banks	(5 685 414)	660 681
Net increase in loans and advances to customers	(68 399 760)	(69 414 503)
Net increase in other assets	(358 920)	(430 700)
Net increase/(decrease) in due to other banks	49 353 878	(390 981)
Net increase in customer accounts	12 083 535	14 115 216
Net (decrease)/increase in promissory notes issued	(15 427 205)	4 596 125
Net increase in other liabilities	8 031	2 982
Net cash used in operating activities	**(34 240 260)**	**(54 339 120)**
Cash flows from investing activities		
Acquisition of premises and equipment	(1 107 129)	(1 093 026)
Proceeds from disposal of premises and equipment	4 102	1 520
Dividends received	473	188
Acquisition of intangible assets	(181 603)	(91 629)
Acquisition of securities available for sale	(190 797)	-
Proceeds from disposal of securities available for sale	1 058 055	-
Acquisition of securities held to maturity	(5 973 368)	-
Proceeds from redemption of securities held to maturity	5 551 581	-
Net cash used in investing activities	**(838 686)**	**(1 182 947)**
Cash flows from financing activities		
Issue of ordinary shares	2 000 000	-
Receipt of other borrowed funds	54 699 675	50 371 412
Repayment of other borrowed funds	(3 000 000)	-
Receipt of subordinated debts	-	5 180 200
Receipt of syndicated loans	-	13 430 872
Dividends paid	(20)	(15)
Net cash from financing activities	**53 699 655**	**68 982 469**
Effect of exchange rate changes on cash and cash equivalents	**(413 234)**	**(66 068)**
Net increase in cash and cash equivalents	**18 207 475**	**13 394 334**
Cash and cash equivalents at the beginning of the period	33 990 183	13 615 695
Cash and cash equivalents at the end of the period	**52 197 658**	**27 010 029**

1 Introduction

This condensed interim consolidated financial information has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") for the six months ended 30 June 2008 for Open Joint-Stock Company Russian Agricultural Bank (the "Bank") and its subsidiary, Closed Joint-Stock Company Chelyabinsky Commercial Land Bank (together referred to as the "Group"). The Group also consolidates a special purpose entity RSHB Capital S.A., a company incorporated in Luxembourg in 2005 and governed through its foundation documents under the laws of the Netherlands. RSHB Capital S.A. has been established as a special purpose vehicle for the sole purpose of issuing Eurobonds and lending the issue proceeds to the Bank.

The information about the consolidated subsidiary and the special purpose entity is presented below.

Name	Nature of business	Percentage of voting rights, %	Percentage of ownership,%	Jurisdiction
Subsidiary				
Closed Joint – Stock Company "Chelyabinsky Commercial Land Bank"	Bank	99,47%	99,47%	Russia
Special purpose entity				
RSHB Capital S.A.	Eurobonds issue	-	-	Luxembourg

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

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

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

The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 13 June 2000. The Bank participates in the state deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 100 thousand and repayment of 90% of individual deposits in excess of 100 thousand up to a limit of RR 400 thousand per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

The Bank has 77 (31 December 2007: 76) branches within the Russian Federation. The Bank's registered address is 119034 Russia, Moscow, Gagarinsky lane 3.

The number of the Group's employees as at 30 June 2008 was 21 536 (31 December 2007: 19 025).

Activities of the Group include deposit taking and commercial lending, foreign exchange dealing, cash operations and securities trading. These activities are conducted principally in Russia.

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

2 Operating Environment of the Group

The Group, through its operations, has a significant exposure to the economy and financial markets of the Russian Federation.

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and strong economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity and increased levels of volatility in market prices as witnessed during 2008. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Group.

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

Recent volatility in global and Russian financial markets. While the Group does not have any exposure to the US sub-prime market, the ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the Russian banking sector, and higher interbank lending rates. The uncertainties in the global financial market, has also led to bank failures and bank rescues in the United States of America, Western Europe and in Russia. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The borrowers of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their outstanding loans. Deteriorating operating conditions for borrowers may also have an impact on Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, Management has reflected revised estimates of expected future cash flows in their impairment assessments.

The uncertainty in the global markets combined with other local factors has during 2008 led to very high volatility in the Russian Stock Markets and at times much higher than normal interbank lending rates.

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.

3 Basis of Preparation and Significant Accounting Policies

This condensed interim consolidated financial information has been prepared in accordance with IAS 34. This condensed interim consolidated financial information does not provide all the information that is required in full consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2007, since this condensed interim consolidated financial information provides update of the previously reported financial information.

This condensed interim consolidated financial information comprises the condensed interim consolidated balance sheet as at 30 June 2008, corresponding amounts as at 31 December 2007, the condensed interim consolidated income statement, condensed interim consolidated statement of changes in equity and condensed interim consolidated statement of cash flows for the six months ended 30 June 2008, corresponding amounts for the six months ended 30 June 2007 and selected notes.

This condensed interim consolidated financial information has been prepared under the historical cost convention, as modified by the revaluation of premises and equipment, securities available for sale and financial instruments categorised as at fair value through profit or loss (trading securities, repurchase receivables and derivative financial instruments).

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Changes in accounting policies. The accounting policies applied in the preparation of this condensed interim consolidated financial information are consistent with the accounting policies applied in the preparation of consolidated interim financial information of the Group for the year ended 31 December 2007, except for the new standards, effective since 1 January 2008 set out further below.

Staring from 1 January 2008, the Group also classified certain securities as other securities at fair value through profit or loss. Securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's Management.

Recognition and measurement of this category of financial assets is consistent with the policy for trading securities.

Changes in accounting estimates. The Group changed its accounting estimates for useful life of one class of premises and equipment – "leasehold (premises) improvement", and starting from 1 January 2008, applies annual depreciation rate of 10% (31 December 2007: 2.5%). In case of applying annual depreciation rate of 2.5%, the depreciation amount would be less by RR 49 057 thousand.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies.

Judgments made by management in the process of applying the accounting policies were consistent with the judgments disclosed in the annual consolidated financial statements for the year ended 31 December 2007. Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include:

Classification of financial instruments with embedded derivatives. The management classified financial instrument with embedded derivatives as other securities at fair value through profit or loss, while there was an option to separate embedded derivative and value host contract at amortised cost.

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

Impairment of available-for-sale investments. The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would suffer an additional loss of RR 12 551 thousand (31 December 2007: RR 1 658 thousand), being the transfer of the total debit balance in the fair value reserve to profit or loss.

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

Interim period measurement. Income tax expense is recognised in this interim condensed consolidated financial information based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. Costs that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately RR 188 959 thousand (31 December 2007: RR 156 739 thousand) higher or RR 197 652 thousand (31 December 2007: RR 151 320 thousand) lower.

5 Adoption of New or Revised Standards and Interpretations

As indicated in the consolidated financial statements of the Group for the year ended 31 December 2007, certain new standards, amendments and interpretations are mandatory for application from 1 January 2008. Their application did not have a material impact on this condensed interim consolidated financial information.

- *IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007).*

- *IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).*

- *IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).*

- *Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008)*. The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Croup's accounting periods beginning on or after 1 July 2008 and which the Group has not early adopted:

- ***IAS 39, Financial Instruments: Recognition and** Measurement (effective for annual periods beginning on or after 1 July 2008).* On 13 October 2008, the International Accounting Standards Board agreed to allow the reclassification of certain financial assets previously classified as 'held for trading' or 'available for sale' to another category under limited circumstances. Various disclosures are required where a reclassification has been made. Derivatives and assets designated as 'at fair value through profit or loss' under the fair value option are not eligible for this reclassification. The Group is currently assessing the impact of the interpretation on its condensed interim consolidated financial information.

6 New Accounting Pronouncements (Continued)

- ***Improvements to International Financial Reporting Standards*** (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification of assets as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its condensed interim consolidated financial information.

- ***IFRS 3, Business Combinations*** *(revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).*The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. Management does not believe that the amendment will have any material impact on the condensed interim consolidated financial information of the Group.

- ***IFRS 8, Operating Segments*** *(effective for annual periods beginning on or after 1 January 2009).* The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the standard will have on segment disclosures in the condensed interim consolidated Group’s financial information.

- ***IAS 1, Presentation of Financial Statements*** *(Revised September 2007; effective for annual periods beginning on or after 1 January 2009).* The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

6 New Accounting Pronouncements (Continued)

- ***IAS 23, Borrowing Costs*** *(revised March 2007; effective for annual periods beginning on or after 1 January 2009)*. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Management does not believe that the amendment will have any material impact on the condensed interim consolidated financial information of the Group.

- ***IAS 27, Consolidated and Separate Financial Statements*** *(revised January 2008; effective for annual periods beginning on or after 1 July 2009).* The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. Management does not believe that the amendment will have any material impact on the condensed interim consolidated financial information of the Group.

- ***IFRIC 13, Customer Loyalty Programmes*** *(effective for annual periods beginning on or after 1 July 2008).* IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group is currently assessing the impact of the Interpretation on its condensed interim consolidated financial information.

- ***IFRIC 15, Agreements for the Construction of Real Estate*** *(effective for annual periods beginning on or after 1 January 2009).* The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The Group is currently assessing the impact of the interpretation on its condensed interim consolidated financial information.

- ***IFRIC 16, Hedges of a Net Investment in a Foreign Operation*** *(effective for annual periods beginning on or after 1 October 2008).* The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have an impact on these condensed interim consolidated financial information as the Group does not apply hedge accounting.

7 Other Securities at Fair Value through Profit or Loss

In April 2008, the Group purchased a 3 times Leveraged Credit Linked Note from one OECD bank in the nominal amount of USD 167 000 thousand with maturity on 3 April 2013 and semi-annual coupon at the rate of LIBOR + 6.4% p.a. The Note has two embedded derivatives – put/call option at 3 April 2011 and Credit Default Swap linked to another Russian state-owned bank. At the same time the Bank obtained a loan from the issuer of these Credit Linked Notes in the total amount of USD 500 million. Refer also to Note 17.

In May 2008, the Group purchased a Credit Linked Note from another OECD bank in the nominal amount of RR 2 500 000 thousand at the net price of 19.5% of nominal amount with maturity on 30 May 2023 and zero coupon. The Note has an embedded Credit Default Swap linked to the Bank.

8 Loans and Advances to Customers

In thousands of Russian Roubles	30 June 2008 (unaudited)	31 December 2007
Loans to legal entities		
- Loans to corporates	310 701 148	247 233 851
- Lending for food interventions	565 251	3 189 928
- Reverse repo agreements	2 591 726	2 466 091
- Investments in agricultural cooperatives	662 599	663 912
Loans to individuals	52 591 533	45 130 912
Total loans and advances to customers (before impairment)	**367 112 257**	**298 684 694**
Less: Provision for loan impairment	(9 565 212)	(7 101 557)
Total loans and advances to customers	**357 547 045**	**291 583 137**

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

Movements in the provision for loan impairment are as follows:

In thousands of Russian Roubles	Six months ended 30 June 2008 (unaudited)	Six months ended 30 June 2007 (unaudited)
Provision for loan impairment at 1 January	**7 101 557**	**4 057 516**
Provision for loan impairment during the period	2 468 640	1 576 987
Loans and advances to customers written off during the period as uncollectible	(4 985)	(34 057)
Provision for loan impairment at 30 June	**9 565 212**	**5 600 446**

9 Due to Other Banks

In thousands of Russian Roubles	30 June 2008 (unaudited)	31 December 2007
Term borrowing from other banks with maturity in		
- less than 30 days	7 592 769	4 682 141
- from 31 to 180 days	5 554 839	2 293 547
- from 181 days to one year	28 090 095	1 227 190
- from one to three years	25 619 459	32 553 722
- more than 3 years	40 731 118	20 393 514
Correspondent accounts and overnight placements of other banks	8 506	66 687
Repo agreements	1 545 668	86 028
Total due to other banks	**109 142 454**	**61 302 829**

10 Other Borrowed Funds, Syndicated Loans and Subordinated Debts

In thousands of Russian Roubles	30 June 2008 (unaudited)	31 December 2007
Issued Eurobonds	107 384 374	64 994 398
Bonds issued on domestic market	37 390 990	30 294 247
Total other borrowed funds	**144 775 364**	**95 288 645**
Syndicated loans	**15 092 605**	**15 572 209**
Subordinated debts	**16 554 284**	**17 320 463**

Other borrowed funds. As at 30 June 2008, other borrowed funds consist of US Dollars and Swiss Francs denominated Eurobonds issued by the Group through its special purpose entity, RHSB Capital S.A and Russian Roubles denominated bonds issued on domestic market.

Currency of denomination	Nominal value, in thousand of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issues							
US Dollars	350 000	29 November 2005	29 November 2010	-	6.875%	6 months	6.1%
US Dollars	700 000	16 May 2006	16 May 2013	-	7.175%	6 months	7.3%
Swiss Francs	375 000	29 March 2007	29 March 2010	-	3.583%	1 year	5.1%
US Dollars	1 250 000	14 May 2007	15 May 2017	-	6.299%	6 months	8.0%
Swiss Francs	150 000	30 April 2008	30 April 2012	-	6.263%	1 year	7.1%
US Dollars:							
• tranche A	750 000	29 May 2008	14 January 2014	-	7.125%	6 months	7.4%
• tranche B	1 000 000	29 May 2008	29 May 2018	-	7.750%	6 months	8.2%
Bonds issued in domestic market							
Russian Roubles	7 000 000	22 February 2006	16 February 2011	-	7.850%	3 months	9.2%
Russian Roubles	10 000 000	22 February 2007	9 February 2017	22 February 2010	7.340%	6 months	8.9%
Russian Roubles	10 000 000	10 October 2007	27 September 2017	10 October 2008	8.200%	6 months	7.3%
Russian Roubles	5 000 000	22 February 2008	9 February 2018	24 February 2009	8.750%	6 months	8.2%
Russian Roubles	5 000 000	17 June 2008	5 June 2018	18 June 2009	8.300%	6 months	8.7%

As at 31 December 2007 other borrowed funds comprise the following issues:

Currency of denomination	Nominal value, in thousand of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issued							
US Dollars	350 000	29 November 2005	29 November 2010	-	6.875%	6 months	6.2%
US Dollars	700 000	16 May 2006	16 May 2013	-	7.175%	6 months	6.6%
Swiss Francs	375 000	29 March 2007	29 March 2010	-	3.583%	1 year	4.1%
US Dollars	1 250 000	14 May 2007	15 May 2017	-	6.299%	6 months	7.0%
Bonds issued on domestic markets							
Russian Roubles	3 000 000	8 December 2004	4 June 2008	-	7.200%	3 months	8.1%
Russian Roubles	7 000 000	22 February 2006	16 February 2011	-	7.850%	3 months	8.1%
Russian Roubles	10 000 000	22 February 2007	9 February 2017	22 February 2010	7.340%	6 months	8.0%
Russian Roubles	10 000 000	10 October 2007	27 September 2017	10 October 2008	8.200%	6 months	8.5%

10 Other Borrowed Funds, Syndicated Loans and Subordinated Debts (Continued)

Syndicated loans. As at 30 June 2008, syndicated loans received by the Group amounted to RR 15 092 605 thousand (31 December 2007: RR 15 572 209 thousand).

In October 2006 the Group received a syndicated loan denominated in Euros from ten OECD banks in the nominal amount of EUR 75 000 thousand with maturity in October 2009 and with floating interest rate 3M EURIBOR + 1.15% p.a.

In April 2007 the Group received 2 tranches of syndicated loan in US Dollars with the total amount of USD 520 000 thousand, with maturities in October 2008 and April 2010, semi-annual coupon at the rate of LIBOR + 0.3% p.a. (for tranche A) and LIBOR + 0.4% p.a. (for tranche B).

Subordinated debts. As at 30 June 2008, subordinated debts received by the Group amounted to RR 16 554 284 thousand (31 December 2007: RR 17 320 463 thousand).

In September 2006 the Group attracted a subordinated debt totaling USD 500 000 thousand in Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. The Eurobonds mature in September 2016, have current interest rate of 6.97% p.a. (31 December 2007: 6.97% p.a.) and yield to the next repricing date, i.e. in September 2011 at 8.6% p.a.(31 December 2007: 7.4% p.a.). The Group has an option to terminate in advance subordinated debt in last five years since attraction date.

In June 2007 the Group attracted a subordinated debt totaling USD 200 000 thousand with maturity in June 2017. The Group has an option to terminate in advance subordinated debt in last five years since attraction date.

11 Share Capital

In April 2008, the Bank increased its share capital by issuing 2 000 ordinary shares with the total nominal amount of RR 2 000 000 thousand. All shares were purchased by the Bank’s only shareholder – the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

12 Significant Risk Concentrations

As at 30 June 2008 cash and cash equivalents included the balance with two foreign banks in the amount of RR 12 905 702 thousand or 25% of total cash and cash equivalents (31 December 2007: Maximum balance with these banks was RR 4 213 519 thousand or 12% of total cash and cash equivalents).

As at 30 June 2008 cash and cash equivalents included the balance with the Bank of Russia in the amount of RR 21 743 539 thousand or 42% of total cash and cash equivalents (31 December 2007: RR 19 685 479 thousand or 58% of total cash and cash equivalents).

As at 30 June 2008 the Group had placements with banks that were members of one banking group with the aggregate amount of RR 6 118 742 thousand, or 84% of total due from other banks (31 December 2007: placements with three Russian banks with the aggregate amount of RR 901 845 thousand, or 55% of total due from other banks).

As at 30 June 2008 the Group had loans in the aggregate amount of RR 8 445 164 thousand granted to two groups of related borrowers (31 December 2007: RR 3 189 928 thousand were granted to the company which is 100% owned by the Government of the Russian Federation).

As at 30 June 2008 the Group had balances due to two banks with the aggregate amount of each above RR 20 000 000 thousand, the total aggregate amount of these banks was RR 41 737 335 thousand, or 38% of total due to other banks (31 December 2007: due to two banks with the aggregate amount of each above RR 10 000 000 thousand, the total aggregate amount of these banks was RR 26 605 528 thousand, or 43% of total due to other banks).

As at 30 June 2008, the Group has one customer with the balance above 10% of the Group's equity (31 December 2007: another customer). The aggregate balance of such customer was RR 20 030 873 thousand, or 19% of total customer accounts (31 December 2007: RR 13 552 721 thousand, or 14% of total customer accounts).

13 Segment Analysis

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments. The Group is organized on the basis of two main business segments:

- Commercial banking – representing current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

- Retail banking – representing private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

Segment information for the main reportable business segments of the Group for the six months ended 30 June 2008 is set out below:

In thousands of Russian Roubles	**Commercial banking**	**Retail banking**	**Total**
Six months ended 30 June 2008 (unaudited)			
External revenues	20 591 442	3 808 299	24 399 741
Total revenues	**20 591 442**	**3 808 299**	**24 399 741**
Total revenues comprise:			
- Interest income	19 798 561	3 689 236	23 487 797
- Fee and commission income	753 720	118 660	872 380
- Other operating income	39 161	403	39 564
Total revenues	**20 591 442**	**3 808 299**	**24 399 741**
Total expenses comprise:			
- Interest expense	(10 055 446)	(1 326 219)	(11 381 665)
- Fee and commission expense	(60 736)	-	(60 736)
- Other administrative and operating expenses	(6 557 847)	(472 657)	(7 030 504)
- Provisions	(1 908 602)	(568 451)	(2 477 053)
Total expense	**(18 582 631)**	**(2 367 327)**	**(20 949 958)**
Intersegment results	437 948	(437 948)	-
Total expenses	**(18 144 683)**	**(2 805 275)**	**(20 949 958)**
Segment results	**2 446 759**	**1 003 024**	**3 449 783**
Unallocated expenses	-	-	(1 377 300)
Income tax expense	-	-	(592 213)
Profit for the period	**-**	**-**	**1 480 270**

13 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the six months ended 30 June 2007 is set out below:

In thousands of Russian Roubles	**Commercial banking**	**Retail banking**	**Total**
Six months ended 30 June 2007 (unaudited)			
External revenues	12 253 604	1 988 934	14 242 538
Total revenues	**12 253 604**	**1 988 934**	**14 242 538**
Total revenues comprise:			
- Interest income	11 850 866	1 937 304	13 788 170
- Fee and commission income	361 237	51 630	412 867
- Other operating income	41 501	-	41 501
Total revenues	**12 253 604**	**1 988 934**	**14 242 538**
Total expenses comprise:			
- Interest expense	(6 084 884)	(508 951)	(6 593 835)
- Fee and commission expense	(36 563)	-	(36 563)
- Other administrative and operating expenses	(4 157 699)	(279 756)	(4 437 455)
- Provisions	(1 331 599)	(247 624)	(1 579 223)
Total expense	**(11 610 745)**	**(1 036 331)**	**(12 647 076)**
Intersegment results	573 249	(573 249)	-
Total expenses	**(11 037 496)**	**(1 609 580)**	**(12 647 076)**
Segment results	**1 216 108**	**379 354**	**1 595 462**
Unallocated expenses	-	-	(776 802)
Income tax expense	-	-	(234 605)
Profit for the period	**-**	**-**	**584 055**

Geographical segments. The Group operates only in the Russian Federation. Substantially all revenues of the Group were received from contracting parties operating in the Russian Federation.

14 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in this condensed interim consolidated financial information.

Tax legislation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

14 Contingencies and Commitments (Continued)

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

The Management of the Group believes that its interpretation of the relevant legislation is reliable and the Group's tax, currency and customs positions will be confirmed. Therefore, as at 30 June 2008 the Management has not created any provision for potential tax liabilities (31 December 2007: nil).

Capital expenditure commitments. At 30 June 2008 the Group had contractual capital expenditure commitments totaling RR 703 876 thousand (31 December 2007: RR 627 270 thousand).

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

In thousands of Russian Roubles	**30 June 2008 (unaudited)**	**31 December 2007**
Not later than 1 year	1 034 625	770 439
Later than 1 year and not later than 5 years	2 583 126	1 803 476
Later than 5 years	1 676 745	1 436 458
Total operating lease commitments	**5 294 496**	**4 010 373**

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings in respect of maintenance of capital adequacy ratio calculated in accordance with recommendations of Basle Committee on Banking Regulations. Non-compliance with these covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group's Management believes that the Group is in compliance with the covenants.

Assets pledged and restricted. At 30 June 2008 the Group had federal, municipal and corporate bonds pledged under repo agreements with fair value of RR 2 703 898 thousand (31 December 2007: municipal bonds with fair value of RR 98 326 thousand).

Mandatory cash balances with the CBRF in the amount of RR 4 231 081 thousand (31 December 2007: RR 2 441 967 thousand) represent mandatory reserve deposit which is not available to finance the Group's day to day operations.

15 Derivative Financial Instruments

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

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

Foreign exchange swaps with settlement dates of more than 30 days are structured as loans issued in US Dollars, Euros, Swiss Francs and Japanese yen to six OECD banks with maturities from October 2008 to May 2018, and deposits in Russian Roubles received from the same six banks with similar maturities ("back to back loans"). These transactions were aimed at hedging the currency exposure of the Group.

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

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 30 June 2008 and covers the contracts with settlement dates after the respective balance sheet date:

In thousands of Russian Roubles	**Contracts with positive fair value**	**Contracts with negative fair value**	**Total**
Foreign exchange swaps with settlement dates of more than 30 days: fair values at the balance sheet date, of			
USD receivable on settlement (+)	23 144 042	141 835 571	164 979 613
RR payable on settlement (-)	(22 565 439)	(150 018 136)	(172 583 575)
CHF receivable on settlement (+)	12 497 385	-	12 497 385
RR payable on settlement (-)	(11 951 805)	-	(11 951 805)
Euros receivable on settlement (+)	2 772 755	-	2 772 755
RR payable on settlement (-)	(2 588 943)	-	(2 588 943)
JPY receivable on settlement (+)	1 269 721	-	1 269 721
RR payable on settlement (-)	(1 079 332)	-	(1 079 332)
Foreign exchange forward deals with settlement dates up to 2 days: fair values at the balance sheet date, of			
USD receivable on settlement (+)	211 115	-	211 115
RR payable on settlement (-)	(210 796)	-	(210 796)
RR receivable on settlement (+)	-	2 645 270	2 645 270
USD payable on settlement (-)	-	(2 650 675)	(2 650 675)
Foreign exchange forward deals with settlement dates from 2 to 30 days: fair values at the balance sheet date, of			
EUR receivable on settlement (+)	-	110 723	110 723
USD payable on settlement (-)	-	(110 920)	(110 920)
Term contracts on purchase of shares with settlement dates up to 2 days: fair value at the balance sheet date, of			
Long position in shares (+)	-	8 961	8 961
RR payable on settlement (-)	-	(8 979)	(8 979)
Total net fair value	**1 498 703**	**(8 188 185)**	**(6 689 482)**

15 Derivative Financial Instruments (Continued)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2007 and covers the contracts with settlement dates after the respective balance sheet date:

In thousands of Russian Roubles	Contracts with positive fair value	Contracts with negative fair value	Total
Foreign exchange swaps with settlement dates of more than 30 days: fair values at the balance sheet date, of			
USD receivable on settlement (+)	15 600 874	99 763 440	115 364 314
RR payable on settlement (-)	(15 446 384)	(103 226 020)	(118 672 404)
Euros receivable on settlement (+)	2 731 247	-	2 731 247
RR payable on settlement (-)	(2 608 941)	-	(2 608 941)
CHF receivable on settlement (+)	-	8 516 779	8 516 779
RR payable on settlement (-)	-	(8 599 707)	(8 599 707)
Foreign exchange forwards with settlement dates from 2 to 30 days: fair values at the balance sheet date, of			
USD receivable on settlement (+)	-	355 989	355 989
Euros payable on settlement (-)	-	(359 928)	(359 928)
Futures on shares: fair value at the balance sheet date, of			
RR receivable on settlement (+)	3 480	79 708	83 188
Short position in shares (-)	(3 470)	(90 220)	(93 690)
Total net fair value	**276 806**	**(3 559 959)**	**(3 283 153)**

Some foreign exchange swaps at 31 December 2007 are valued using the model assuming nil fair value at inception of the respective contracts. Currently, the Russian long-term swap market is not active, and market participants often have substandard credit ratings and volume of transactions is insignificant. Based on the above considerations, the management believes that standard market yield curves for respective swap currencies should be adjusted to account for the credit risk and other implied factors in initial pricing of the Group as a Russian counterparty. The Group monitors change of credit spreads and takes it into consideration at determining fair value of currency swaps on each reporting date. In this context, the Group considers that they do not need to adjust standard market yield curves for the contracts at 30 June 2008.

As at 30 June 2008 receivables and payables on settlement of foreign exchange swaps included the balances with one foreign bank in the amount of RR 85 342 526 thousand and RR 88 048 846 thousand, respectively, or 47% of total receivables or payables on settlement of foreign exchange swaps (31 December 2007: RR 52 561 376 thousand and RR 54 304 243 thousand, or 42% of total receivables or payables on settlement on foreign exchange swaps).

16 Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. The Bank’s only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property. Refer to Note 1.

Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgment is applied by the Management in identification of related parties to be disclosed in the condensed interim consolidated financial information.

16 Related Party Transactions (Continued)

At 30 June 2008, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**30 June 2008 (unaudited)**	**31 December 2007**
Cash and cash equivalents		
Cash balances with the CBRF (other than mandatory reserve deposits)	21 743 539	19 685 479
Mandatory cash balances with the Central Bank of the Russian Federation	4 231 081	2 441 967
Nostro accounts and interbank loans maturing within 30 days with state-controlled banks (contractual interest rate: 2%-10% p.a. (31 December 2007: 2%-11%))	7 929 379	3 875 712
Loans and advances at the period end		
State-owned companies:		
- lending for food interventions (contractual interest rate: 7% for both periods)	565 251	3 189 928
- other companies (prevalent contractual interest rate: 12%-16% p.a. (31 December 2007: 12%-15% p.a.))	7 473 002	6 317 174
Key managers and their family members (contractual interest rate: 5% for both periods)	35 124	5 876
Provision for loan impairment at the period end		
State-owned companies	(147 470)	(93 414)
Trading securities (contractual interest rate: 6%-11% p.a. (31 December 2007: 6%-10% p.a.))		
Federal loan bonds (OFZ)	4 140 651	3 080 494
Municipal bonds	1 608 625	1 106 034
Corporate bonds	3 521 173	2 981 346
Corporate shares	30 946	111 877
Securities available for sale (contractual interest rate: 7%-9% p.a. for both periods)		
Municipal Eurobonds	-	1 001 500
Corporate Eurobonds	221 524	102 115
Current income tax prepayment		
Federal budget	383 042	51 518
Due to other banks		
Current term placements (contractual interest rate: 2% - 9% p.a. (31 December 2007: 1%-9% p.a.))	10 171 049	3 009 247
Term deposits and current/settlement accounts as at the period end		
State-owned companies (contractual interest rate for term deposits: 4%-11% p.a. (31 December 2007: 5%-9% p.a.))	28 923 944	11 235 285
Key managers and their family members (contractual interest rate for term deposits: 3%-11% p.a. for both periods)	255 864	184 299
Other liabilities		
Dividends payable	178 368	-
Revaluation reserve for available for sale securities	(14 220)	(1 275)
Credit related commitments		
Guarantees issued	16 338	37 096
Undrawn credit lines	30 000	30 000

16 Related Party Transactions (Continued)

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

In thousands of Russian Roubles	**Six months ended 30 June 2008 (unaudited)**	**Six months ended 30 June 2007 (unaudited)**
Interest income on cash and cash equivalents		
The Central Bank of the Russian Federation	31 141	40 187
Transactions with state-owned banks	68 430	42 694
Interest income on trading securities		
Government securities	201 635	93 068
State-controlled companies	133 238	26 191
Results from operations with trading securities		
Government securities	(175 304)	(5 246)
Securities of state-controlled companies	(52 971)	(1 926)
Interest income on available for sale securities		
Government securities	41 500	-
State-controlled companies	5 717	-
Interest income on loans and advances to customers		
State-controlled companies	519 217	452 643
Key managers and their family members	521	246
Provision for loan impairment on loans and advances to customers		
State-owned companies	(54 056)	(95 766)
Interest expense on due to other banks		
The Central Bank of the Russian Federation	(2 302)	-
Transactions with state-controlled banks	(230 664)	(9 294)
Interest expense on customer accounts		
State-controlled companies	(129 207)	(69 985)
Key managers and their family members	(12 225)	(6 175)
Other operating income	376	1 932
Current income tax expense	(709 470)	(269 039)

In the six months period ended 30 June 2008 total remuneration of members of the Management Board amounted to RR 109 297 thousand (the six months ended 30 June 2007: RR 95 789 thousand).

17 Subsequent events

In August 2008 the Extraordinary General Shareholders' meeting approved an increase of Group's share capital in the amount of RR 31 495 000 thousand; the shares was fully paid up on 29 August 2008.

In October 2008 the Group bonds holders executed a put option in the amount of RR 6 049 133 thousand. Refer to Note 10.

In October 2008 the Group redeemed on time first tranche (tranche A) of syndicated loan in the amount of USD 270 000 thousand. Refer to Note 10.

As discussed in Note 7 the Bank has a Credit Linked Note issued by one OECD bank, with the embedded Credit Default Swap (CDS) linked to another Russian state-owned bank. In accordance with the respective agreement, the Issuer has the option to accelerate the Note in full as the result of a trigger event occurring on or prior to the maturity date. The trigger event is described as an event when CDS spread on the above state-owned bank becomes greater than specified rates, and in such case the Group has an option to place surety deposit with this OECD bank. To prevent the occurrence of early redemption of the Note, the Group placed deposits with OECD bank in the total amount of USD 334 000 thousand in three tranches in September-October 2008; they mature in April 2011 and pay daily coupon rate equal to Overnight Deposit Rate published by Federal Reserve System. The Group will have an option to withdraw the deposit with accrued interest at the maturity date or at any date when CDS spread on the reference state-owned bank is less than specified rates.

In October 2008 changes to the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003 were made. From 1 October 2008 the State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

In October 2008, the President of the Russian Federation signed the Federal Law #173-FZ "About supplementary measures to support financial system of the Russian Federation", according to which Vnesheconombank will provide a subordinated loan to the Bank in the total amount of RR 25 000 million with maturity up to 31 December 2019 and interest rate of 8% p.a.