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THE SECURITIES REFERENCED IN THIS DOCUMENT MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" AS DEFINED IN, AND IN ACCORDANCE WITH, REGULATION S ("REGULATION S") UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

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The Joint Lead Managers are acting exclusively for the Issuer, TCS and Egidaco and no one else in connection with the offer. They will not regard any other person (whether or not a recipient of this document) as their client in relation to the offer and will not be responsible to anyone other than the Issuer, TCS and Egidaco for providing the protections afforded to their clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

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# US$175,000,000 11.5 PER CENT.
# LOAN PARTICIPATION NOTES DUE 2014
## to be issued by, but with limited recourse to,
## TCS Finance Limited,
## for the purpose of financing a loan to
## Closed Joint Stock Company "Tinkoff Credit Systems" Bank
## Guaranteed on an unconditional basis by Egidaco Investments PLC
## Issue Price: 100 per cent.

TCS Finance Limited (the "**Issuer**"), incorporated as a limited liability company under the laws of Ireland, is offering (the "**Offering**") US$175,000,000 aggregate principal amount of loan participation notes due 2014 (the "**Notes**") for the sole purpose of financing a loan (the "**Loan**") to Closed Joint Stock Company "Tinkoff Credit Systems" Bank ("**TCS**"), a closed joint stock company established under the laws of the Russian Federation, subject to and in accordance with a loan agreement dated 19 April 2011 (the "**Loan Agreement**") among the Issuer, TCS and Egidaco Investments PLC (the "**Parent Guarantor**" or "**Egidaco**"). The Parent Guarantor will guarantee the obligations of TCS under the Loan Agreement and the due and punctual payment of all amounts payable under the Loan, including principal, interest and additional amounts (if any) payable under the Loan. The notes will have the terms and conditions (the "**Conditions**") set out under "*Terms and Conditions of the Notes*" and will be constituted by and in all respects subject to the provisions of a trust deed dated 21 April 2011 (as the same may be amended, restated or supplemented from time to time, the "**Trust Deed**") between the Issuer and BNY Mellon Corporate Trustee Services Limited as trustee (the "**Trustee"** which expression shall include all trustees appointed from time to time in accordance with the Trust Deed). Pursuant to the Trust Deed, the Issuer will charge in favour of the Trustee, for the benefit of the Trustee and the Noteholders (as defined in the Conditions), by way of a first fixed charge, as security for its payment obligations in respect of the Notes and under the Trust Deed certain of its rights and interests in and under the loan agreement and an account (the "**Account**") of the Issuer into which payments will be made pursuant to the Loan Agreement, in each case, other than in respect of the Reserved Rights (as defined below), all as more fully described under "*Description of the Transaction*". The Issuer will also assign certain of its administrative rights under the Loan Agreement to the Trustee.

The Notes are secured limited recourse obligations of the Issuer. In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Loan Agreement excluding, however, any amounts paid in respect of Reserved Rights (as defined below). The Issuer will have no other financial obligation under the Notes. Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of TCS and the Parent Guarantor in respect of the financial servicing of the Notes.

Interest on the Notes will be payable at the rate of 11.5 per cent. per annum semi-annually in arrear on 21 April and 21 October in each year commencing on 21 October 2011 as described in the Conditions. The Notes will mature on 21 April 2014. Save as otherwise expressly provided in this Prospectus (the "**Prospectus**") and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to TCS except through action by the Trustee under any of the Security Interests (as defined in the Conditions).

**AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 23.**

**THE NOTES AND THE LOAN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-US PERSONS IN RELIANCE ON REGULATION S ("REGULATION S") UNDER THE SECURITIES ACT. FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF THE NOTES AND THE DISTRIBUTION OF THIS PROSPECTUS, SEE "SUBSCRIPTION AND SALE".**

The Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange (the "**Irish Stock Exchange**") for the Notes to be admitted to the official list (the "**Official List**") and trading on its regulated market (the "**Market**"). The Market is a regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**"). Admission to the Official List, together with admission to trading on the Market, constitutes official listing on a stock exchange.

The Notes will be issued in registered form in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof, without interest coupons attached. The Notes will initially be represented by a global certificate (the "**Global Certificate**"), without interest coupons, registered in the name of a nominee of, and deposited with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), on or about 21 April 2011. The Global Certificate will only be exchangeable for definitive certificates ("**Definitive Certificates**") in the limited circumstances described under "*Summary of the Provisions relating to the Notes in Global Form*".

*Lead Managers*

**Citi** **Goldman Sachs International**

19 April 2011

## IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

**This Prospectus (including the financial statements and the Appendix attached hereto) comprises a Prospectus for the purposes of the Prospectus Directive as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "Prospectus Regulations") for the purpose of giving information with respect to TCS, the Parent Guarantor, the Issuer, the Loan and the Notes, which according to the particular nature of TCS, the Parent Guarantor, the Issuer, the Loan and the Notes is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of TCS, the Parent Guarantor and the Issuer. Each of TCS, the Parent Guarantor and the Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of TCS, the Parent Guarantor and the Issuer (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.**

Information contained in this Prospectus relating to the Russian banking and credit card sectors and the competitors of TCS (which may include estimates and approximations) was derived from publicly available information, including press releases and filings under various banking and securities laws. Each of TCS, the Parent Guarantor and the Issuer accepts responsibility for accurately reproducing such information and data, and as far as each of TCS, the Parent Guarantor and the Issuer is aware and is able to ascertain from information published by such parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, TCS, the Parent Guarantor and the Issuer have relied on the accuracy of such information without carrying out an independent verification. In addition, TCS, the Parent Guarantor and the Issuer have derived some of the information contained in this Prospectus from official data published by Russian government agencies, such as the Central Bank of the Russian Federation (the "**CBR**"). Each of TCS, the Parent Guarantor and the Issuer accepts responsibility for accurately reproducing such information and data, and, as far as each of TCS, the Parent Guarantor and the Issuer is aware and is able to ascertain from information published by such Russian government agencies, no facts have been omitted that would render the reproduced information inaccurate or misleading. However, none of TCS, the Parent Guarantor and the Issuer accepts responsibility for the accuracy of such information. Official data published by Russian federal, regional and local governments can be substantially less complete or researched than data published by governmental agencies of Western countries. Official statistics may also be compiled on different bases than those used in Western countries. Any discussion of matters relating to the Russian Federation in this Prospectus may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian federal, regional or local governments may be questionable. See "*Risk Factors—Risks related to the Russian Federation—The official data upon which prospective investors may base their investment decision may not be as reliable as equivalent data from official sources in the OECD countries*".

This Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a further prospectus for offers of the Notes. Accordingly any person making or intending to make an offer of the Notes may only do so in circumstances in which no obligation arises for the Issuer, TCS, the Parent Guarantor or any Joint Lead Manager (as defined in "*Subscription and Sale*") to publish a further prospectus pursuant to Article 3 of the Prospectus Directive or supplement this Prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. None of the Issuer, TCS, the Parent guarantor and the Managers has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances. In this paragraph, the expression "**Prospectus Directive**" means Directive 2003/71/EC.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, TCS, the Parent Guarantor or the Joint Lead Managers to subscribe for or purchase any Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by TCS, the Parent Guarantor, the Issuer and the Managers to inform themselves about and to observe any such restrictions. Neither the Issuer nor TCS intends to provide any post-issuance transaction information regarding the Notes or the performance of the Loan.

No person is authorised to provide any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of TCS, the Parent Guarantor, the Issuer, the Trustee or the Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of TCS, the Parent Guarantor or the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of TCS, the Parent Guarantor or the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the issue of the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. Without limiting the generality of the foregoing, the contents of TCS's website as at the date hereof or as at any other date do not form any part of this Prospectus (and, in particular, are not incorporated by reference herein).

The Notes have not been and will not be registered under the Securities Act. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold outside the United States to non-US persons in reliance on Regulation S. For a description of the restrictions on offers, sales and transfers of the Notes and distribution of this Prospectus, see "*Subscription and Sale*".

This Prospectus has been filed with and approved by the Central Bank as required by the Prospectus Regulations. The Prospectus approved by the Central Bank will be filed with the Irish Companies Registration Office in accordance with Regulation 38(1)(b) of the Prospectus Regulations.

Any investment in Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank. The Issuer is not and will not be regulated by the Central Bank as a result of issuing the Notes.

In connection with the issue of the Notes, Citigroup Global Markets Limited (the "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager in accordance with all applicable laws and rules.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE MANAGERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS PROSPECTUS, AND NOTHING CONTAINED IN THIS PROSPECTUS IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE MANAGERS ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF TCS, THE PARENT GUARANTOR AND THE ISSUER AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE, AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

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# PRESENTATION OF FINANCIAL AND OTHER DATA

**Presentation of Financial Information**

The financial information set forth herein has, unless otherwise indicated, been derived from the audited consolidated financial statements of the Egidaco Investments PLC and its subsidiaries (TCS, OOO "T-Finance" and OOO "TCS") (the "**Group**"), as of and for the year ended 31 December 2010 ("**2010 Financial Statements**") and as of and for the year ended 31 December 2009 ("**2009 Financial Statements"**). The 2010 Financial Statements and 2009 Financial Statements are herein referred to as the "**Group's Financial Statements**". The Group's Financial Statements are prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

The Group's Financial Statements, together with the respective independent auditors' reports, are set out on pages F-2 to F-119 of this Prospectus.

As of 31 December 2010, total assets of TCS represented approximately 97 per cent. of the Group's total assets and references in this Prospectus to TCS financial information are also to the financial information of the Group and vice versa.

The Group's Financial Statements have been audited by PricewaterhouseCoopers Limited ("**PwC**"), of Julia House, 3 Themistocles Dervis Street, CY-1066 Nicosia, Cyprus, PO Box 21612, CY-1591 Nicosia, Cyprus, independent auditors, as stated in their reports appearing herein. PWC is a member of the Institute of Certified Public Accountants of Cyprus.

The historical financial data as of and for the years ended 31 December 2010 and 2009 was derived from the Group's 2010 Financial Statements. The historical financial data as of and for the year ended 31 December 2008 was derived from the Group's 2009 Financial Statements, subject to certain adjustments and changes in presentation as described below.

***Restatement of 2009 Financial Statements***

During 2010, the management of the Group performed a detailed review of the 2009 Financial Statements and the Group's accounting policies and identified an error in the application of the Group's effective interest rate accounting policy that resulted in a grossed up presentation of non-recoverable accrued interest income and corresponding provision for loan impairment in the amount of US$ 18,677 thousand and US$ 6,080 thousand for the years ended 31 December 2009 and 2008, respectively. As a result, adjustments were made in the 2010 Financial Statements in accordance with IAS 8, *Accounting policies, changes in accounting estimates and errors*.

The 2009 Financial Statements, including comparative information for 2008, included in this Prospectus have not been restated to take into account the adjustments described above. In order to present financial information for the year ended 31 December 2008 included in this Prospectus on a basis comparable with the information for the years ended 31 December 2009 and 2010, the amounts of the interest income, net interest income and provision for loan impairment for the year ended 31 December 2008 were adjusted as presented below.

The effect of restatement on comprehensive income for the year ended 31 December 2008 is as follows:

| | As originally recorded | Adjustments | Restated |
|---|---|---|---|
| | *(In thousands of US dollars)* | | |
| Interest income | 71,514 | (6,080) | 65,434 |
| **Net interest income** | **46,638** | **(6,080)** | **40,558** |
| Provision for loan impairment | (30,333) | 6,080 | (24,253) |
| **Net interest income after provision for loan impairment** | **16,305** | **—** | **16,305** |
| **Loss for the year** | **(44,747)** | **—** | **(44,747)** |

The effect of restatement on financial information for the year ended 31 December 2008:

| | As originally recorded | Adjustments | Restated |
|---|---|---|---|
| | *(In thousands of US dollars)* | | |
| **Interest income** | | | |
| **Loans and advances to customers:** | | | |
| Credit card loans | 67,340 | (6,080) | 61,260 |

The effect of restatement on financial information as of 31 December 2008:

| | As originally recorded | Adjustments | Restated |
|---|---|---|---|
| | *(In thousands of US dollars)* | | |
| **Loans to individuals:** | **160,776** | **(6,080)** | **154,696** |
| Credit card loans | 160,541 | (6,080) | 154,461 |
| **Total loans and advances to customers before impairment** | **173,205** | **(6,080)** | **167,125** |
| **Provision for loan impairment** | **(33,093)** | **6,080** | **(27,013)** |
| **Loans to individuals:** | | | |
| Credit card loans | (20,854) | 6,080 | (14,774) |

These adjustments did not lead to changes in the Group's equity as of 31 December 2009 and 2008 in the consolidated statement of financial position as of 31 December 2009, or profit for the year 2009 and loss for the year 2008 or comprehensive income for the year 2009 and comprehensive loss for the year 2008 in the consolidated statement of comprehensive income for the year ended 31 December 2009.

***Changes in Presentation***

During 2010, the Group made changes in presentation to provide more detailed information about the effects of transactions, other events and conditions on the Group's financial position and financial performance. In order to present financial information as of and for the year ended 31 December 2008 included in this Prospectus on a basis comparable with the information as of and for the years ended 31 December 2009 and 2010, the balances and transactions as of and for the year ended 31 December 2008 were adjusted as presented below.

The effect of the changes in presentation on consolidated statement of financial position as of 31 December 2008 is as follows:

| | As originally presented | Reclassifications | As presented |
|---|---|---|---|
| | *(In thousands of US dollars)* | | |
| MasterCard guarantee deposit | — | 3,754 | 3,754 |
| Other financial assets | 6,400 | (3,754) | 2,646 |

The effect of the changes in presentation on the consolidated statement of comprehensive income for the year ended 31 December 2008 is as follows:

| | As originally presented | Reclassifications | As presented |
|---|---|---|---|
| | *(In thousands of US dollars)* | | |
| Charge of provision for tax risk | — | (4,411) | (4,411) |
| Administrative and other operating expenses | (35,346) | 4,411 | (30,935) |

***Changes in accounting estimates***

In 2010, the Group moved from a six-month statistics horizon to a twelve-month statistics horizon in determining the estimation of its provision for credit card loans, as starting from 1 January 2010 the Group achieved sufficient year-to-year statistical information on credit card losses. The management of the Group considers that using a twelve-month statistics horizon in estimating its provision for loan impairment eliminates the impact of monthly fluctuations in its loan loss provision and provides better information for analysis and monitoring of credit cards losses. The change in this accounting estimate in 2010 resulted in an increase in the provision for loan impairment in the amount of US$ 6,845 thousand for the year ended 31 December 2010. The comparative information for 2009 in the 2010 Financial Statements and the financial information for 2009 and 2008 included in this Prospectus have not been adjusted to take into account the changes described above that were effected in 2010 in accordance with IAS 8, *Accounting policies and changes in accounting estimates and errors*. Accordingly, the presentation of 2010 financial information is not comparable in all respects to the presentation of the 2009 and 2008 financial information included in this Prospectus.

**Currency**

In this Prospectus, the following currency terms are used:

- "**US dollar**", "**Dollar**", or "**US$**" means the lawful currency of the United States;
- "**RUB**" or "**Rouble**" means the lawful currency of the Russian Federation; and
- "**EUR**" or "**Euro**" means the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

**Exchange Rates**

The US dollar is the presentation currency for the Group's Financial Statements. The functional currency of the Group's consolidated entities (TCS, OOO "T-Finance" and OOO "TCS") is the Rouble.

The following table sets forth, for the periods indicated, the high, low, average and year end official rates set by the CBR in each case for the purchase of US dollars, all expressed in Rouble. Fluctuations in the exchange rate between the Rouble and the US dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

| | High | Low | Average(1) | Period End |
|---|---|---|---|---|
| | | *(RUB per US$)* | | |
| 2011 (1 January – 31 March 2011)........................ | 30.63 | 28.16 | 29.27 | 28.43 |
| 2010 ...................................................................... | 31.78 | 28.93 | 30.37 | 30.48 |
| 2009 ...................................................................... | 36.43 | 28.67 | 31.72 | 30.24 |
| 2008 ...................................................................... | 29.38 | 23.13 | 24.86 | 29.38 |

(1) The average of the exchange rates on the each business day for the relevant period.

Due to the sharp depreciation of the Rouble against the US dollar during the second half of 2008 and 2009, some trends observed in financial information presented in Rouble were not observed in consolidated financial statements presented in US dollars. In order to give investors a better understanding of TCS's performance, TCS's management decided to show certain of the Group's consolidated historical financial information and average balances in the *"Management Discussions and Analysis of Financial Condition and Operating Results"* section of this Prospectus both in US dollars and Roubles based on the following:

- Outstanding balances as of reporting date have been translated at official exchange rate of the CBR at the end of the respective reporting period (at the official rate of the CBR which was RUB 30.4769 to US$ 1 as of 31 December 2010, RUB 30.2442 to US$ 1 as of December 2009 and RUB 29.3804 to US$ 1 as of 31 December 2008); and
- Income and expenses for the reporting period have been translated at the average rate for the respective reporting period (at the average conversion rate which is RUB 30.3692 to US$ 1 for the year ended 31 December 2010, RUB 31.2621 to US$ 1 for the year ended 31 December 2009 and RUB 24.8553 to US$ 1 for the year ended 31 December 2008).

Average balances for the years ended 31 December 2010, 2009 and 2008 in Roubles have been determined as an average of relative opening and closing balances which have been translated in Roubles at the official rate of the CBR on the respective reporting date (at the official rate of the CBR which was RUB 30.4769 to US$ 1 as of 31 December 2010, RUB 30.2442 to US$ 1 as of December 2009, RUB 29.3804 to US$ 1 as of 31 December 2008 and RUB 24.5462 to US$ 1 as of 31 December 2007).

The Group's consolidated historical financial information in Roubles has not been audited or reviewed. These translations should not be construed as representations that Rouble amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated as of any of the dates mentioned in this Prospectus or at all.

### TCS Market Share Information

TCS has calculated its market share information set out in this Prospectus on the basis of market research prepared by the FRG based on information obtained from banks in the Russian market.

### Average Balances, Average Interest Rates and Effective Interest Rates

This Prospectus includes information on the average balances of interest-earning assets and interest-bearing liabilities of the Group for the years ended 31 December 2010, 2009 and 2008 as well as the average rate of interest income or expense for such assets and liabilities. The average balances for interest-earning assets and interest-bearing liabilities are calculated as sum of the 31 December balances of the most recent reporting year to the 31 December balances of the prior reporting year, divided by two. These average balances would likely be different if alternative or more frequent averaging methods were used and such differences could be material.

The average interest rates disclosed in this Prospectus are calculated by dividing aggregate interest income or expense for the relevant line item by the average balance for the same item for the applicable year. Average interest rates are distinct from the effective interest rates presented in the Group's Financial Statements and referred to elsewhere in this Prospectus. The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. See "*Notes to the Consolidated Financial Statements – Summary of Significant Accounting Policies*" in the 2010 Financial Statements.

IFRS requires that effective interest rates be used in the preparation of IFRS compliant consolidated financial statements. TSC utilises both the effective interest rate and the average interest rate for its management's monitoring of operational results and effectiveness.

These average interest rate measures are not defined under IFRS or other generally accepted accounting principles, nor should they be considered as substitutes for the information contained in the Group's Financial Statements.

### Other Non-IFRS Measures

The Group also presents net interest spread, net interest income, net interest margin, credit card portfolio growth rate, return on assets, return on equity, equity to total assets and debt to equity ratios which are not specifically defined under IFRS. These measures may not be comparable to other similarly titled measures of other banks and are not measurements under IFRS or other generally accepted accounting principles, and they should not be considered as substitutes for the information contained in the Group's Financial Statements.

### Rounding

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

# CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus, as well as written and oral statements that TCS or any of their officers make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, are not historical facts and are "forward-looking". Forward-looking statements appear in various locations in this Prospectus, including, without limitation, under the headings "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Operating Results*" and "*Business*". TCS may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. In addition, this Prospectus includes forward-looking information that has been extracted from third-party sources. Forward-looking statements include statements concerning TCS's plans, expectations, projections, objectives, targets, goals, strategies, future events, future operating revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, business strategy, and the trends TCS anticipates in the industries and the political and legal environments in which TCS operates and other information that is not historical information.

Words such as "believe", "anticipate", "estimate", "target", "potential", "expect", "intend", "predict", "project", "could", "should", "may", "will", "plan", "aim", "seek" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

The forward-looking statements contained in this Prospectus are largely based on expectations, which reflect estimates and assumptions made by the management of TCS. These estimates and assumptions reflect the best judgement of TCS based on currently known market conditions and other factors, some of which are discussed below. Although TCS believes such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond its control. In addition, management's assumptions about future events may prove to be inaccurate. TCS and the Parent Guarantor caution all prospective investors that the forward-looking statements contained in this Prospectus are not guarantees of future performance, and TCS cannot assure any reader that such statements will be realised or the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are beyond the control of TCS, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "*Risk Factors*", as well as those included elsewhere in this Prospectus. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- inflation, interest rate fluctuations and exchange rate fluctuations in the Russian Federation;
- prices for securities issued by Russian entities;
- the health of the Russian economy, including the Russian banking sector;
- the effects of, and changes in, the policy of the federal government of Russia and regulations promulgated by the CBR;
- the effects of competition in the geographic and business areas in which TCS conducts its operations;
- the effects of changes in laws, regulations and taxation or accounting standards or practices in the jurisdictions where TCS conducts its operations;
- TCS's ability to maintain or increase market share for its products and services and control expenses;
- the management of the rapid growth of TCS's business and assets;
- acquisitions or divestitures;
- technological changes; and
- TCS's success in identifying other risks to its business and managing such risks and the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environments in which TCS operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, none of the Issuer, TCS or the Parent Guarantor undertakes any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. None of the Issuer, TCS or the Parent Guarantor makes any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

# ENFORCEABILITY OF JUDGMENTS

TCS is a closed joint stock company established under the laws of the Russian Federation. Most of TCS's directors and executive officers named in this Prospectus resides in the Russian Federation. Moreover, all or a substantial portion of the assets of TCS and of such persons are located outside the United Kingdom. As a result, it may not be possible for the Trustee, acting on behalf of the Noteholders, to effect service of process within the United Kingdom upon TCS, although, under the Loan Agreement, TCS has appointed an agent for service of process in the United Kingdom, and/or to enforce against TCS or any such person court judgments obtained in the United Kingdom courts. No Noteholder will have any entitlement to enforce any provision of the Loan Agreement, or have direct recourse to TCS or the Parent Guarantor. The Trustee will not be required to enter into proceedings to enforce payment from TCS or the Parent Guarantor under the Loan Agreement, unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses, which it may incur in connection therewith.

Furthermore, the Trustee may not be able to enforce a judgement of an English court in the Russian Federation against TCS or its directors or executive officers. Judgments rendered by a court in any jurisdiction outside the Russian Federation will generally be recognised and enforced by courts in the Russian Federation only if there is (i) an international treaty in effect providing for the recognition and enforcement of judgments in civil cases between the Russian Federation and the jurisdiction where such judgment is rendered, and/or (ii) a federal law of the Russian Federation providing for the recognition and enforcement of foreign court judgments.

TCS is not aware of any federal law, treaty or convention directly providing for the recognition and enforcement of judgments in civil and commercial matters between the United Kingdom and the Russian Federation.

In the absence of an applicable treaty, a final judgment rendered by a foreign court may still be recognised and enforced by a Russian court on the basis of reciprocity, if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. While Russian courts have recently recognised and enforced English court judgment on these grounds, the existence of reciprocity must be established in each case at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognise and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court.

In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above may significantly limit or delay the enforcement of such judgment, or completely deprive the Noteholders or the Trustee of effective legal recourse for claims under the Notes relating to the Loan.

The Loan Agreement is governed by English law and provides that if any dispute or difference arises from or in connection with the Loan Agreement the Issuer may elect, by notice in writing to TCS, to settle the claim by arbitration in accordance with the Rules of the London Court of International Arbitration (the "**LCIA**"). The seat of any arbitration will be London, England. The United Kingdom and Russian Federation are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation). However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the inability of Russian courts to enforce such awards.

Although the Russian Arbitrazh Procedural Code adopted in 2002 is generally in conformity with the New York Convention and thus has not introduced substantial changes in the grounds for refusal of recognition of foreign arbitral awards and court judgments that may be issued, in the event that Russian procedural legislation is further changed it may introduce new grounds preventing foreign court judgments and arbitral awards from being recognised and enforced in Russia. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign court judgment or arbitral award in the Russian Federation. The possible need to re-litigate in the Russian Federation a judgment obtained in a foreign court on the merits may also significantly delay the enforcement of such judgment. Under Russian law, certain amounts may be payable by the claimant upon the initiation of any action or proceeding in any Russian court. These amounts in many instances depend on the amount of the relevant claim.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the Rules of the LCIA and the application of English law to the Loan Agreement may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies and credit organisations in particular.

# OVERVIEW

*The following summary information should be read as an introduction to the more detailed information appearing elsewhere in this Prospectus, including the Group's Financial Statements and accompanying notes. Any decision to invest in the Notes should be based on consideration of this Prospectus as a whole, including the information discussed in "Cautionary Note Regarding Forward-looking Statements" and "Risk Factors", and not solely on this summarised information.*

## Overview

TCS is a Russian bank organised as a closed joint stock company under the laws of the Russian Federation with its registered office located at Pervy Volokolamskiy proezd, 10, building 1, 123060 Moscow, Russian Federation. TCS is registered with the Unified State Register of Legal Entities of the Russian Federation with the Principal State Registration Number 1027739642281. The telephone number of TCS's registered office is +7 495 648 1000.

Mr. Oleg Tinkov is the principal shareholder of TCS, indirectly holding 68.17 per cent. of TCS's share capital. Vostok Komi (Cyprus) Ltd. ("**Vostok Nafta**"), a wholly owned subsidiary of Vostok Nafta Investment Ltd., a Swedish investment fund focusing on the countries of the former Soviet Union, and ELQ Investors Limited ("**Goldman Sachs**"), an indirect wholly owned subsidiary of The Goldman Sachs Group, Inc., are TCS's minority shareholders, indirectly holding 17.08 per cent. and 14.75 per cent. of TCS's share capital respectively.

TCS's principal business activity is providing consumer banking products and services to customers in the Russian Federation, primarily credit card loans and retail deposits.

According to Frank Research Group (the "**FRG**"), as of 28 February 2011, TCS had the sixth largest credit card loan portfolio in the Russian Federation amounting to RUB 11,400 million (approximately US$ 400,999 thousand). TCS's management believes that it has one of the fastest growing credit card portfolios in the Russian Federation and, according to FRG, as of 28 February 2011, TCS's market share in the Russian credit card loan segment amounted to 4.5 per cent. based on non-delinquent receivables. Retail deposits for individuals were offered first in four regions starting in mid-2009 and launched in Moscow and Saint-Petersburg in February 2010. TCS's portfolio of retail deposits increased from RUB 255,352 thousand (US$ 8,443 thousand) as of 31 December 2009 to RUB 5,167 million (US$ 169,526 thousand) as of 31 December 2010.

TCS's primarily monoline business model is based on that of Capital One, the US credit card issuer and other leading credit card lenders such as MBNA, and adapted for the Russian market and operating environment. TCS's management believes that low penetration, relatively high margins, and high response rates along with certain barriers for entry for TCS's competitors make the monoline business model attractive in Russia. In particular, the direct mail and online credit card business model used by TCS is successful in Russia due to the following reasons:

- consumer finance products, including installment loans at points-of-sale and credit cards, work successfully in Russia and have a relatively long and established track record;
- despite well-established consumer lending in Russia, credit card penetration remains relatively low, which combined with high response rates, allows for significant growth and supports high margins;
- unlike in the point-of-sale environment, there is less competition in the Russian credit card market, which results in decreased competition leading to decreased price pressure and higher margins in the credit card segment. Direct mail and the Internet require special data-management and analytical skills and focus not typically found in universal retail banks, as well as significant investment in direct mail techniques and in supporting IT and business intelligence infrastructure; and
- consumer finance banks (such as OTP, Russian Standard Bank, Renaissance Credit and Home Credit & Finance Bank) already have access to other channels, including point-of-sale networks and branches, and it is difficult for them to make the investment necessary to make either direct mail or the Internet work. Moreover, because these consumer finance banks already have branch coverage, they therefore have less incentive to start competing in TCS's acquisition channels.

TCS targets its credit card offers through a number of distribution channels. The primary distribution channel is direct mail. TCS management believes that personalised direct mail offers are one of the most efficient ways to reach new customers in Russia, particularly in the under-served parts of the country where TCS operates. In addition to direct mail, TCS uses the Internet (both for online credit card applications and the acquisition of retail deposit customers), direct sales agents, partnerships (including co-branding), credit brokers and other channels. TCS acquires credit card customers by entering into commercial arrangements with a wide variety of partners including retailers, mail order companies, airlines, insurance companies, associations and loyalty management companies. These partners have customer lists to which TCS selectively mails credit card offers.

TCS's target credit card customers are mass-market, predominantly regional, retail borrowers. TCS's direct mail customer monthly income breakdown is as follows: income of 38 per cent. of TCS's direct mail customers is less than RUB 15,000 (approximately US$ 528), income of 41 per cent. of TCS's direct mail customers is between RUB 15,000 (approximately US$ 528) and RUB 30,000 (approximately US$ 1,055), income of 14 per cent. of TCS's direct mail customers is between RUB 30,000 (approximately US$ 1,055) and RUB 50,000 (approximately US$ 1,759) and income of 7 per cent. of TCS's direct mail customers is more than RUB 50,000 (approximately US$ 1,759). Approximately 68 per cent. of TCS's direct mail customers are female, which is explained by the use of mail order databases in which females tend to constitute a higher proportion of customers, as well the fact that women are generally more responsive than men. The average age of TCS's direct mail credit card customers is approximately 42 years.

TCS's Internet credit card customer monthly income breakdown is as follows: income of 13 per cent. of TCS's Internet customers is less than RUB 15,000 (approximately US$ 528), income of 39 per cent. of TCS's Internet customers is between RUB 15,000 (approximately US$ 528) and RUB 30,000 (approximately US$ 1,055), income of 27 per cent. of TCS's Internet customers is between RUB 30,000 (approximately US$ 1,055) and RUB 50,000 (approximately US$ 1,759) and income of 21 per cent. of TCS's Internet customers is more than RUB 50,000 (approximately US$ 1,759). Approximately 55 per cent. of TCS's Internet customers are male. The average age of TCS's Internet credit card customers is approximately 35 years.

As well as using a non-branch-based acquisition model through direct marketing channels and the Internet, TCS operates a remote-service bank primarily through its Call Centre, SMS and Internet banking platforms, third-party electronic payments networks (such as the Russian Federal Post Office, Elecsnet and QIWI, the money transfer system CONTACT and international card schemes). The branchless model is a core feature of operations that affords flexibility and allows TCS to adjust its business according to external factors, such as funding and seasonality, as well as providing a low fixed cost-base. It has also enabled TCS to attract credit card customers in all of Russia's regions. Moreover, TCS acquires and services customers in towns and cities irrespective of size and, unlike other retail banks, it is not restricted to the larger cities by the economics of opening branches. This results in a diversification of TCS's credit portfolio geography throughout Russia and limits the concentration of credit risk in specific industrial clusters, i.e. "mono-cities" where the majority of the population is employed by a single enterprise or regions. Currently, based on the number of customers, no region accounts for more than 5 per cent. of TCS's credit card customer base. Moscow and Saint-Petersburg have approximately 3 per cent. and 4 per cent. of TCS's credit card customer base, respectively.

TCS is a principal member of the MasterCard International Payment System.

As of the date of this Prospectus, TCS operates under a full banking licence (No. 2673) covering a wide range of banking activities received from the CBR. This licence was issued on 8 December 2006. TCS's licence allows it to conduct banking operations which include but are not limited to operations in Roubles and foreign currencies, deposits from individuals and legal entities in Roubles and foreign currencies, opening and maintaining bank accounts of individuals and legal entities, wire transfer and settlements. TCS has been a member of the Russian mandatory deposit insurance system (for retail deposits) registered under No. 696 since February 2005.

For the year ended 31 December 2010, TCS generated net interest income after provision for loan impairment of US$ 67,618 thousand as compared to US$ 55,393 thousand for the year ended 31 December 2009 and US$ 16,305 thousand for the year ended 31 December 2008. For the year ended 31 December 2010, TCS's profit before tax totalled US$ 12,939 thousand as compared to US$ 27,058 thousand for the year ended 31 December 2009 and US$ 44,054 thousand loss before tax for the year ended 31 December 2008. For the year ended 31 December 2010, TCS's profit for the year totalled US$ 9,125 thousand as compared to US$ 18,222 thousand for the year ended 31 December 2009 and US$ 44,747 thousand loss for the year ended 31 December 2008.

As of 31 December 2010, TCS had total assets of US$ 405,136 thousand as compared to US$ 211,614 thousand as of 31 December 2009 and US$ 193,942 thousand as of 31 December 2008.

As of the date of this Prospectus, TCS has a "B" credit rating from Fitch with a stable outlook assigned to TCS in May 2010 and a "B3" credit rating from Moody's with stable outlook assigned to TCS in May 2010. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

**Strategy**

TCS's strategic goal is to continue to expand its credit card lending business via a branchless and online model supported by diversified long-term funding and high-quality customer service and based on a data-driven, "test and learn" approach.

TCS's strategy can be characterised as follows:

- Target mass-market regional customers in under-served parts of Russia using direct mail and the Internet as the primary customer acquisition channels;
- Offer innovative premium-brand products with strong customer value proposition;
- Retain primary focus on providing the highest quality of services to attract and retain customers;
- Manage credit risk through advanced data mining, credit processes and analytical systems;
- Support the business by operating a sophisticated IT and operating platform with functions outsourced where possible for maximum efficiency; and
- Diversify risk.

The platform for implementation of the TCS strategy consists of the following:

- Innovative product development;
- Constant improvement of operating efficiency, business processes, information technology and customer service;
- Enhancement of credit risk management and collection systems; and
- Diversifying the funding base.

**Competitive Strengths**

Despite the likelihood of increased competition in the coming years, TCS believes that it has a number of specific advantages over its competitors, including:

- Branchless model;
- Risk diversification;
- Data expertise;
- Thorough credit approval and risk management procedures;
- Established debt collection and fraud prevention;
- Operational flexibility;
- Support from shareholders;
- Experienced senior management and employees; and
- Brand recognition.

See "*Business*" for more information.

# OVERVIEW OF THE OFFERING

*The overview below describes the principal terms of the Notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The "Terms and Conditions of the Notes" section of this Prospectus contains a more detailed description of the terms and conditions of the Notes, including definitions of certain terms used in this overview. Terms used in this overview and not otherwise defined herein have the meanings given to them in "Terms and Conditions of the Notes".*

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| **Issuer** | TCS Finance Limited, a private limited liability company incorporated under the laws of Ireland, with its registered office at 5 Harbourmaster Place, IFSC, Dublin 1, Ireland, and registered with the Irish Companies Registration Office with registration number 482626. |
| **Borrower** | Closed Joint Stock Company "Tinkoff Credit Systems" Bank, a closed joint stock company established under the laws of the Russian Federation, with its registered office at Perviy Volokolamskiy proezd, 10, building 1, 123060 Moscow, Russian Federation, with registration number 1027739642281. |
| **Parent Guarantor:** | Egidaco Investments PLC, a public limited company established under the laws of Cyprus, with its registered office at G. Pavlides Court, 5th Floor, 2, Arch. Kyprianou & Ayiou Andreou Street, 3036 Limassol, Cyprus, Mail: P.O. Box 50734, 3609, Limassol, Cyprus with corporate number 107963. |
| **Notes Offered** | US$175,000,000 aggregate principal amount of 11.5 per cent. loan participation notes due 2014. |
| **Trustee** | BNY Mellon Corporate Trustee Services Limited. |
| **Principal Paying Agent and Transfer Agent** | The Bank of New York Mellon, acting through its London Branch. |
| **Registrar** | The Bank of New York Mellon (Luxembourg) S.A. |
| **Issue Price** | US$100 per cent. |
| **Issue Date:** | 21 April 2011. |
| **Maturity Date** | 21 April 2014. |
| **Interest:** | On each Interest Payment Date (being 21 April 2011 and 21 October in each year commencing on 21 October 2011 and ending on 21 April 2014), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement. Pursuant to the Loan Agreement, TCS will be required to pay interest on the Loan one New York business day prior to each Interest Payment Date at the rate of 11.5 per cent. per annum. |
| **Risk factors:** | An investment in the Notes involves a high degree of risk. See "*Risk Factors*". |
| **Use of Proceeds:** | The net proceeds of the Notes will be used by the Issuer for the sole purpose of financing the Loan to TCS. In connection with the receipt of the Loan, TCS will pay a facility fee to the Issuer. TCS will use the proceeds of the Loan for general corporate purposes. See "*Use of Proceeds*". |
| **Status of the Notes:** | The Notes constitute secured limited recourse obligations of the Issuer. The Notes are secured in the manner described in the Trust Deed and shall at all times rank *pari passu* and without preference amongst themselves. |
| **Status of the Loan:** | The Loan and all payment obligations expressed to be assumed by TCS thereunder constitute direct, general, unconditional, unsecured and unsubordinated obligations of TCS which will at all times rank at least *pari passu* with all its other unsecured and |

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| | unsubordinated indebtedness, save for such indebtedness as may be preferred by provisions of law that are both mandatory and of general application. |
| **Guarantee:** | Under the Loan Agreement, the Parent Guarantor will guarantee (the "**Guarantee**") the obligations of TCS under the Loan Agreement and the due and punctual payment of all amounts payable under the Loan, including principal, interest and additional amount (if any) payable under the Loan. The Guarantee is in place since the Group's Financial Statements are prepared at the level of the Parent Guarantor, rather than at the Borrower's level. |
| **Status of the Guarantee:** | The Guarantee constitutes a direct, general, unconditional, unsecured and unsubordinated obligation of the Parent Guarantor which will at all times rank at least *pari passu* with all its other unsecured and unsubordinated indebtedness, save for such indebtedness as may be preferred by provisions of law that are both mandatory and of general application. |
| **Reflection of the Guarantee in the accounts** | The Guarantee will not be reflected in the Group's Financial Statements but will be reflected in the Parent's stand alone Financial Statements. |
| **Limited recourse:** | The Notes will constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for the purpose of financing the Loan to TCS pursuant to the terms of the Loan Agreement. The Issuer will only account to the Noteholders for all amounts equivalent to those (if any) received under the Loan Agreement or the Guarantee, as the case may be, or held on deposit in the Account less amounts in respect of the Reserved Rights, all as more fully described in the Conditions. |
| **Security Interests:** | The Issuer's payment obligations under and in respect of the Notes will be secured by a first fixed charge in favour of the Trustee for the benefit of itself and the Noteholders of (i) certain of the Issuer's rights and interests as lender under the Loan Agreement, and (ii) the Issuer's rights, title and interest in, and all sums held on deposit in, the Account (in each case, other than the Reserved Rights and any amounts in respect thereof), all as more fully described in the Conditions. In addition, the Issuer with full title guarantee will assign absolutely certain administrative rights under the Loan Agreement (save for the rights charged or excluded as described above) to the Trustee for the benefit of itself and the Noteholders, as more fully described in the Conditions. |
| **Form of Notes:** | The Notes will be issued in registered form. The Notes will be in denominations of US$ 200,000 and integral multiples of US$ 1,000 in excess thereof. The Notes will be represented by interests in the Global Certificate, without interest coupons registered in the name of a nominee of, and deposited with a common depositary for, Euroclear and Clearstream, Luxembourg on or about 21 April 2011. The Global Certificate will be exchangeable for Definitive Certificates only in the limited circumstances described under "*Summary of the Provisions Relating to the Notes in Global Form*". |
| **Scheduled redemption:** | Subject to receipt by the Issuer of the amounts due under the Loan Agreement, the Notes will be redeemed at par on 21 April 2014.<br><br>Unless previously prepaid or repaid, TCS will be required to repay the Loan on its due date as provided in the Loan Agreement and, subject to such repayment, all the Notes outstanding will be redeemed at their principal amount on 21 April 2014, subject to the requirement to present and surrender the relevant Certificate as provided in Condition 7 (*Payments*). |

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| **Early redemption:** | The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time upon giving notice to the Noteholders, at their outstanding principal amount together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof in the event that TCS elects to prepay the Loan for tax reasons or in the event that it becomes unlawful for the Issuer to fund the Loan or to allow the Loan or the Notes to remain outstanding under the Loan Agreement. See Condition 6.2 (*Redemption by the Issuer*) and Clauses 5.2 and 5.3 of the Loan Agreement. |
| **Redemption following a change of control:** | Upon the occurrence of a Change of Control (as defined in the Loan Agreement), the holder of each Note will have the option to require the Issuer to redeem such Note at its principal amount, together with accrued interest, if any, to the date for such redemption and a premium of 1 per cent. of the principal amount of the relevant Note, all as more fully described in Condition 6.6 and Clause 5.6 of the Loan Agreement. |
| **Amendments/waiver:** | As long as any of the Notes remains outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. |
| **Withholding taxes:** | All payments in respect of interest and principal on the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of Ireland, save as required by law. If any such taxes, duties, assessments or governmental charges are payable, the Issuer shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such deduction or withholding been required. The sole obligation of the Issuer in this respect will be to account to the Noteholders for the sums equivalent to the sums received pursuant to the Loan Agreement from TCS or, as the case may be, the Parent Guarantor. See Condition 8 (*Taxation*). In such circumstances, TCS or, as the case may be, the Parent Guarantor will be required to increase the sum payable under the Loan Agreement to the extent necessary to ensure that the Issuer receives a net sum sufficient to pay to the Noteholders such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such deduction or withholding been made or required to be made.<br><br>All payments in respect of interest and principal to be made by TCS or, as the case may be, the Parent Guarantor under the Loan Agreement will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of the Russian Federation, Cyprus or Ireland, save as required by law. If any such taxes, duties, assessments or governmental charges are payable, TCS or, as the case may be, the Parent Guarantor will be required (subject to certain exceptions) to pay such additional amounts as will result in the receipt by the Issuer of such amounts as would have been received by it had no such deduction or withholding been required. |
| **Certain Covenants of TCS and the Parent Guarantor:** | The Loan Agreement contains certain covenants made by TCS and the Parent Guarantor, including a negative pledge, restrictions on mergers, disposals and transactions with affiliates, requirements to |

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| | maintain certain authorisations and property and to provide certain information to the Lender, as well as certain financial and other covenants, all as described in Clause 12 of the Loan Agreement. |
| **Issuer's Covenants:** | So long as any Note remains outstanding, the Issuer will not, without the consent of the Trustee, *inter alia*, incur any other indebtedness for borrowed moneys (other than issuing further loan participation notes on a limited recourse basis for the sole purpose of making further loans to TCS), engage in any business (other than granting security interests substantially similar to the Security Interests in connection with the issue of any further loan participation notes as mentioned above and performing any act incidental to or necessary in connection with any such issue), declare any dividends or have any subsidiaries or employees. |
| **Events of Default/Relevant Events:** | If an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the Trust Deed) shall have occurred and be continuing, the Trustee may, subject as provided in the Trust Deed, (i) in the case of an Event of Default, require the Issuer to declare all amounts payable under the Loan Agreement by TCS to be due and payable and do all such other acts in connection therewith as the Trustee may direct or (ii) in the case of a Relevant Event, enforce any rights under the security created in the Trust Deed in favour of the Noteholders.<br><br>Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for such redemption and any additional amounts due and thereupon shall cease to be outstanding, all as more particularly described in the Conditions. |
| **Selling Restrictions:** | The Notes have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction and are subject to certain restrictions on transfer and resale. The Notes may not be offered or sold in the United States or to, or for the account or benefit of, US persons. The Notes may be sold in other jurisdictions (including, without limitation, the United Kingdom, Ireland and the Russian Federation) only in compliance with all applicable laws and regulations. See "*Subscription and Sale*". |
| **Further issues:** | The Issuer may from time to time issue further Notes on the same terms as existing Notes and such further Notes shall be consolidated and become fungible with the existing Notes. In the event of such further issuance, the Loan will be correspondingly increased. See Condition 14 (*Further Issues*). |
| **Substitution of the Issuer:** | The Trust Deed will contain provisions under which the Issuer may, without the consent of the Noteholders, transfer its obligations as principal debtor under the Trust Deed and the Notes and as lender under the Loan Agreement to a third party provided that certain conditions specified in the Trust Deed are fulfilled. See Condition 12.3 (*Substitution*). |
| **Listing:** | Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Market. The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive. |
| **Ratings:** | It is expected that the Notes will be rated B2 by Moody's and B by Fitch, subject to confirmation at closing. A credit rating is not a recommendation to buy, sell or hold the Notes. There can be no assurances that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn by the relevant rating agency if, in its judgment, circumstances in the future so warrant. In the event that a rating initially assigned to the Notes is |

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| | subsequently lowered for any reason, no person or entity is obliged to provide any additional support or credit enhancement with respect to the Notes, and the market value of the Notes is likely to be adversely affected.<br>As of the date of this Prospectus, each of Moody's Investors Service, Fitch Ratings and Standard & Poors is established in the European Union and has applied for registration under Regulation (EC) No 1060/2009 (the "**CRA Regulation**"), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. |
| **Governing Law:** | The Notes, the Trust Deed and the Loan Agreement and any non-contractual obligations arising from or in connection with them will be governed by the laws of England and Wales. |
| **Clearing Systems:** | Euroclear and Clearstream, Luxembourg. |
| **Security Codes:** | ISIN: XS0619845349<br>Common Code: 061984534 |

# DESCRIPTION OF THE TRANSACTION

*The following summary contains basic information about the Notes, the Loan and the Guarantee and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "The Loan Agreement" and "Terms and Conditions of the Notes" appearing elsewhere in this Prospectus.*

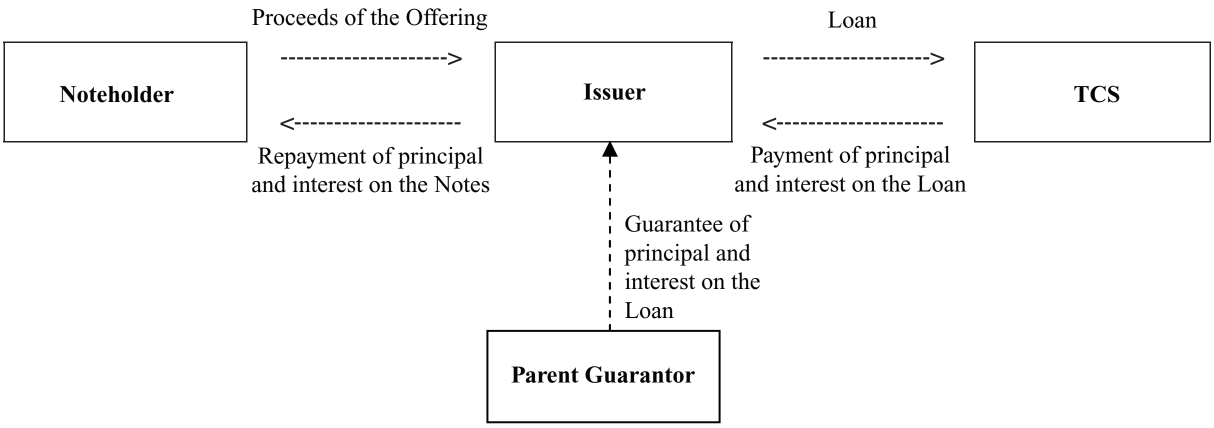
The transaction will be structured as a loan to be made pursuant to and on the terms of the Loan Agreement from the Issuer as lender to TCS as borrower. The Parent Guarantor will, in the Loan Agreement, guarantee the obligations of TCS under the Loan Agreement and the due and punctual payment of all amounts payable by TCS under the Loan Agreement, including principal, interest and additional amounts (if any) payable under the Loan. The purpose of the Guarantee is, among other things, to protect the interests of the Noteholders in the event of a restructuring, if any, of any of the Parent Guarantor's indebtedness. Also the Guarantee is in place since the Group's Financial Statements are prepared at the level of the Parent Guarantor, rather than at the Borrower's level.

The Issuer will issue the Notes, which will be secured limited recourse loan participation notes issued for the sole purpose of funding the Loan to TCS. The Notes are limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to the Noteholders for payment of principal, interest and additional amounts (if any) received and retained (net of tax) by it under the Loan. In the event that the amount due and payable by the Issuer under such Notes exceeds the sums so received or recovered and retained (net of tax), the right of any person to claim payment of any amount exceeding such sums from the Issuer shall be extinguished, and Noteholders may take no further action against the Issuer to recover such amounts.

The Notes will have the benefit of, and be constituted by, the Trust Deed. As provided in the Trust Deed, the Issuer will charge in favour of the Trustee for the benefit of itself and the Noteholders as security for its payment obligations in respect of the Notes (a) its rights to all principal, interest and additional amounts (if any) payable by TCS or the Parent Guarantor under the Loan Agreement, (b) its right to receive all sums which may be or become payable by TCS or, as the case may be, the Parent Guarantor under any claim award or judgment relating to the Loan Agreement and (c) its rights, title and interest in and to all sums of money now or in the future deposited in an account with the Principal Paying Agent in the name of the Issuer, together with the debt represented thereby (the "**Account**") (collectively, the "**Charged Property**"), in each case other than the Reserved Rights (as defined in the Conditions) and amounts relating thereto. The Issuer will also assign absolutely certain administrative rights under the Loan Agreement to the Trustee for the benefit of itself and the Noteholders.

TCS will be obliged to make payments under the Loan to the Issuer in accordance with the terms of the Loan Agreement to the Account or as otherwise instructed by the Trustee following a Relevant Event. The Issuer will agree in the Trust Deed not to make or consent to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement unless the Trustee has given its prior written consent. The Issuer will further agree to act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement. Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 15 (*Notices*) and shall be binding on the Noteholders. Formal notice of the security interests created by the Trust Deed will be given to the Principal Paying Agent, TCS and the Parent Guarantor.

The Notes are limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to the Noteholders for payment of principal and interest received by it pursuant to the Loan Agreement. The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as further described in the "*Terms and Conditions of the Notes*". Set out below is a diagrammatic representation of the structure:



# RISK FACTORS

*Investment in the Notes involves a high degree of risk. Prospective investors should carefully review this entire Prospectus and, in particular, should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. These risk factors, individually or together, could have a material adverse effect on the Issuer's, the Parent Guarantor's, TCS's and/or the Group's business, financial condition, results of operations and prospects and/or the rights of Noteholders under the Notes.*

*Prospective investors should note that the risks described below are not the only risks the Issuer, TCS, the Parent Guarantor and the Group face. These are the risks that the Issuer, TCS and the Parent Guarantor consider material. There may be additional risks that the Issuer, TCS or the Parent Guarantor currently consider immaterial or of which the Issuer, TCS and the Parent Guarantor are currently unaware, and any of these risks could have similar effects to those set forth above.*

## Risks Related to Investments in Emerging Markets

Investments in emerging markets are subject to certain risks relating to the nature of such markets.

Generally, investments in emerging markets are only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as the economy of the Russian Federation are subject to rapid changes of landscape and that the information set out herein may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity and debt markets of all emerging market countries as investors tend to move their money to more stable, developed markets in such circumstances. For instance, recent events in Tunisia, Libya and, especially, Egypt, where street protest and acts of civil disobedience led to the resignation of Egyptian President Mr. Hosni Mubarak, were accompanied by bank holidays, suspension of trading on stock exchanges, investment outflow and the evacuation of foreign citizens, all of which had an adverse impact on the economies of those countries. In addition, during times of financial turmoil companies, that operate in emerging markets can face severe liquidity constraints as foreign funding sources become more limited.

As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could decrease foreign investment in Russia and also otherwise adversely affect the Russian economy. Accordingly, investors should exercise particular care in evaluating the risks involved in investing in an emerging market such as Russia and must decide for themselves whether, in light of those risks, their investment is appropriate.

## Risks relating to TCS's Business and the Russian Banking Sector

### *TCS's performance depends on personal consumption and income levels, which are beyond TCS's control*

Performance in, and development of the consumer banking market in the Russian Federation are highly dependent on economic growth as well as levels of disposable income and consumer spending, making TCS dependent on those factors as well. Any future significant deterioration in the performance of the Russian economy or a reduction in levels of personal income, individual purchasing power or consumer confidence, either generally or specifically in respect of the Russian banking sector, may have a material adverse effect on TCS's business, financial condition, results of operations and prospects.

### *Increased competition in the Russian consumer finance market may result in a decline in TCS's market share*

The Russian market for financial and banking services, while relatively new and still undeveloped, is highly competitive. According to the CBR, as of 1 March 2011, 1,010 banks and non-banking credit organisations were operating in the Russian Federation. As the Russian market for banking and financial services matures, the markets in which TCS operates have become increasingly competitive as a result of both local competitors and global financial institutions. This competition has impacted net interest margins and funding costs, among other things. For example, competition for deposits may make banks offer higher interest rates for new deposits, and increased competition for high-quality customer loans may force TCS to offer lower interest rates on credit card loans. In addition, potential consolidation in the Russian banking industry is expected to further increase competition. In the Russian credit card market, TCS competes primarily with consumer lending leaders, such as Russian Standard Bank, Home Credit and Finance Bank, Renaissance Credit and OTP Bank and retail banks including Sberbank, VTB24, Citibank and Alfa-Bank. In addition, in the retail deposit market, TCS competes with Sberbank, VTB24, Bank of Moscow, Rosbank, Alfa Bank and other leading retail banks, as well as regional banks. Furthermore, TCS management is aware of plans on the part of Svyaznoy, one of the leading Russian mobile phone and electronics retailers, to offer through its chain of outlets consumer loans from a bank specially acquired for that purpose. As such, TCS's market share and results of operations are subject to competitive pressures both from the possible introduction of new credit card programmes and from existing credit card programmes.

***TCS is dependent on its credit card retail lending being its principal product***

TCS specialises in credit card lending to retail customers and is not planning to develop other consumer lending products in the medium term nor does it offer corporate lending or other banking services to corporate customers (except for legacy loans left over from Khimmashbank that TCS still carries on its balance). Due to its specialisation, TCS's revenues depend on the success of its credit card retail lending. Should TCS be unsuccessful in pursuing its strategy of developing its credit card business or demand for credit cards decreases, or should credit card lending be disrupted for any reason, in the absence of another major source of income, TCS revenues could dramatically decrease which may have a material adverse effect on TCS's business, financial condition, results of operations and prospects.

***The interests of TCS's major shareholders may conflict with those of Noteholders***

Mr. Oleg Tinkov indirectly controls approximately 68.17 per cent. of Egidaco, a company incorporated under the laws of Cyprus, which holds 100 per cent. of TCS's shares. Vostok Nafta, a wholly owned subsidiary of Vostok Nafta Investments Ltd., a Swedish investment fund, and Goldman Sachs, own indirectly approximately 17.08 per cent. and 14.75 per cent. of TCS's shares, respectively. Mr. Tinkov, Vostok Nafta and Goldman Sachs are, therefore, able to determine the outcome of all matters connected with TCS's business to the extent allowed by its covenants and contractual obligations. Furthermore, the interests of TCS's shareholders and management may, in some circumstances, conflict with the interests of the Noteholders, which may have a material adverse effect on the Noteholders' investment in the Notes.

***Unpredictability in the economic conditions in Russia and abroad may result in increased non-performing loans despite risk management strategies***

The turmoil in the global and Russian credit markets in 2008 and 2009, the decrease in world market prices for Russia's key export commodities and a real decline of Russia's GDP resulted in increased unemployment in Russia, decreased personal disposable income, reduced corporate liquidity and profitability, increased corporate and personal insolvencies and generally higher interest rates. As the price of oil, gas and other commodities collapsed, with oil price falling from over US$ 146 per barrel in July 2008 to less than US$ 37 per barrel in December 2008, the Russian economy, whose performance depends critically on export revenues from oil, gas and other commodities, fell into a severe recession, and the tightening global credit and capital markets left many highly leveraged Russian financial institutions and corporations unable to borrow or raise equity in the capital markets. Although the market price of most commodities, including oil, has recovered significantly since March 2009, there can be no assurance that current market prices will persist, especially if deteriorating government fiscal stability were to prevent developed economies from continuing the cyclical upturn they began to experience in the second half of 2009.

Customers of TCS were affected by the deterioration in economic conditions in the second half of 2008 and in 2009, which impacted the ability of many of them to repay their loans. For example, the proportion of non-performing credit card loans as a percentage of TCS' gross credit card loans increased to 7.1 per cent. as at 31 December 2009 as compared to 5.0 per cent. as at 31 December 2008, and decreased to 3.3 per cent. as at 31 December 2010. If the Russian economy deteriorates, there is a significant risk that TCS's existing loan portfolio would also deteriorate and TCS could face increased loan losses, which could have a material adverse effect on TCS's business, financial condition, results of operations and prospects.

There can be no guarantee that TCS's risk management strategies will protect TCS from increased levels of non-performing loans in the future. The scoring techniques and checks used by TCS as to the creditworthiness of applicants for its credit cards, as well as TCS's marketing strategy, based on offering its services to consumer lists from databases purchased or rented from partners, may not always present a complete and accurate picture of each customer's financial condition. As such, TCS may not always be able to correctly evaluate the current financial condition of each prospective customer and accurately determine the ability of its customers to repay their loans.

Furthermore, there can be no assurance that TCS's total collection rate for loans 0-90 days overdue, which was 90.59 per cent. for the year ended 31 December 2010, can be maintained in the future. There can also be no assurance that TCS's policies for dealing with non-performing loans (loans that are more than 90 days overdue and subject to "hard" collection procedures, enforcement in the courts or sale by TCS) will result in recovery of all or any of the amounts due on these loans. Failure by TCS to accurately assess consumer credit risk could have a material adverse effect on TCS's business, financial condition, results of operations and prospects.

In addition, TCS takes no security for credit card loans. As a result, in the event of defaults by a significant number of borrowers, TCS may be unable to recover all or a portion of the balance of such loans, which may have a material adverse effect on its business, financial condition, results of operations and prospects.

***TCS's business relies on outsourcing relationships with partners, and there can be no guarantee that TCS will be able to maintain these relationships in the future***

TCS's business model involves extensive outsourcing of various customer service and operating functions, which helps retain focus on and develop its core competences with respect to TCS's main operations, to economise on capital expenditures and to ensure a flexible cost base. This makes TCS dependent on its outsourcing partners and exposes TCS to the risk that existing partners will fail to adequately perform these outsourcing services, as well as the risk that it will be unable to find new outsourcing partners if any existing partners terminate their relationship with TCS. TCS has established relationships with providers of payment acceptance services, including ZAO "OSMP" (which manages payment terminal networks operating under the QIWI brand), "SDM-BANK" (which operates the Platforma system), Russlavbank (which operates the CONTACT system), Alt Telecom (which operates the Giperkassa payment system), OAO "Elecsnet" and Sistema "Gorod". In 2009-2010, TCS cooperated with the Russian Federal Post Office and attracted credit card customers through its branches. TCS also outsources various business functions, such as personalisation of credit cards, mailing of monthly payment statements and the core of "hard" collection of overdue loans.

Although TCS expects that it will maintain its relationship with its outsourcing partners, these outsourcing agreements may be terminated by service providers at any time, subject to compensation for damages. As such, there can be no guarantee that TCS's partners will continue to provide their respective services to TCS.

In particular, should arrangements with providers of payment acceptance services be terminated, TCS's ability to collect amounts due on its credit card loans may be adversely affected. Additionally, should any such agreement be terminated, TCS's customers would have to pay amounts due on their credit card loans through other venues, such as banks, which may impose higher charges, while management would also have to divert its time and other resources to implement a solution to this situation.

***Lack of clear consumer protection laws in the Russian Federation may adversely affect TCS's business***

The Russian Federation does not have legislation specifically regulating consumer lending or loan collection. In the absence of such laws, Russian courts have extended the scope of Federal Law No. 2300-1 "On Consumer Protection" dated 7 February 1992, as amended (the "**Consumer Protection Law**"), which provides general protection for consumers, to consumer loans. If legislation specifically regulating consumer lending or loan collection is adopted in the future, such legislation could make the collection of defaulted loans or penalties more difficult, as well as place limitations on the terms and pricing of loans generally that may adversely affect TCS's business, financial condition, results of operations and prospects.

***TCS's exposure to exchange rate risk may increase, particularly as it continues to access international capital markets***

TCS's loans to customers and all of its liabilities are currently denominated in Roubles. However, the receipt of the Loan and issuance of any other financial instruments denominated in foreign currency in the future will expose TCS to foreign exchange risk. Although TCS sets limits and performs certain other measures aimed at reducing exchange rate risk, including, but not limited to, entering into foreign exchange derivative contracts, fluctuations in exchange rates may have an adverse effect on TCS's business, financial condition, results of operations and prospects.

TCS plans to continue to access the international capital markets for its funding needs, which subjects it to currency risks related to currency mismatches between its assets and liabilities. Although TCS seeks to minimise such risks by entering into foreign currency derivative contracts, there is no guarantee that these measures will be available or, if such measures are available, will be effectively implemented or that they will allow TCS to minimise the impact of currency volatility.

If TCS's risk management procedures and limits do not sufficiently reduce the impact of exchange rate risk on TCS, its business, financial condition, results of operations and prospects may be materially adversely affected.

***Interest rate risks inherent in TCS's business cannot be eliminated completely***

Like other Russian banks, TCS is exposed to interest rate risk resulting from mismatches of its interest-bearing liabilities and interest-earning assets as well as from lending and making advances to customers and other banks at fixed interest rates and in amounts and for periods which might differ from TCS's funding sources (being customer deposits, borrowings and debt securities issued). While TCS endeavours to minimise this risk by adjusting the interest rates on its loans and deposits and matching its interest rate positions to minimise interest rate risk, any material adverse interest rate movements may have a material adverse effect on TCS's business, financial conditions, results of operations and prospects.

***TCS's banking business entails operational risks***

TCS is exposed to operational risk, including the risk of fraud by employees or outsiders, mismanagement, unauthorised transactions by employees and operational errors. In addition, TCS's ability to operate its business depends on its ability to protect the computer systems, networks and databases that it operates and uses from unauthorised intrusions of third parties. Although TCS believes that its computer systems, networks and databases are sufficiently protected from unauthorised access through a range of both physical and software security measures, given that potential attackers may be able to deploy sufficient technical and financial resources to overcome these security measures, there can be no assurance that its computer systems, networks and databases will not suffer from security breaches in the future.

For example, in March 2009, there was a fraud attack against TCS resulting from the compromise of track and PIN data in ATMs infected by malicious software. This fraud attack hit the majority of Central Europe, Middle East, Eastern Europe and Asia ("**CEMEA**") issuers simultaneously. As a result, 101 TCS cards were compromised and 17 were used by fraudsters during a Russian bank holiday weekend. The total losses incurred by TCS amounted to RUB 264,000 (approximately US$ 8,445).

Furthermore, throughout 2010, TCS suffered from a number of fraudulent actions. In 2010, fraudsters successfully replicated information recorded on the magnetic stripes of credit cards (with or without PIN) using skimming devices in ATMs and merchant's payment network. As a result, 24 TCS cards were compromised and the total loss incurred by TCS amounted to RUB 314,410 (approximately US$ 10,349). Another fraud attack against TCS's customers involved malicious attacks on various internet sites and payment platforms which allowed fraudsters to obtain credit card details (such as card numbers, CVV2 and cardholders' names). As a result, 20 cards were compromised leading to RUB 240,633 (approximately US$ 7,921) of losses. TCS was, however, able to dispute (call back) some of the operations, recouping a total of RUB 55,921 (approximately US$ 1,841). Finally, during 2010, a total of 183 TCS cards were blocked as a result of the compromised card security.

TCS maintains a system of controls designed to keep operational risk at appropriate levels. However, there can be no assurance that it will not suffer losses from any failure of these controls to detect or contain any operational risk in the future. TCS plans to further develop its existing IT systems and may also implement new IT systems. Such development and implementation may take longer than planned, may cost more than initially expected or result in unexpected disruption to TCS's system operations, any of which could have a material adverse effect on TCS's business, financial condition, results of operations and prospects.

***TCS's inability to access domestic and international markets or receive funding from its cash flow and retail deposits may adversely affect its business, financial condition, results of operations and prospects***

TCS is exposed to liquidity risk arising out of mismatches between the maturities of TCS's assets and liabilities, which may result in TCS being unable to meet its obligations in a timely manner. See "*Risk Management—Liquidity Risk*".

TCS's funding has been sourced from retail deposits, domestic and international capital markets through the issuance of Rouble-denominated domestic and Euro-denominated bonds, and syndicated loans, including funding from its shareholders, including Mr. Tinkov, Vostok Nafta and Goldman Sachs. TCS's ability to continue to access international and domestic capital markets and lenders to satisfy its funding needs, including the refinancing of outstanding debt falling due, may be adversely affected by a number of factors, including Russian and international economic conditions and the state of the Russian financial system. Any dislocation in the international financial markets and tightening of credit conditions could restrict TCS's access to funding in the international and domestic credit markets or significantly increase its borrowing costs.

TCS's ability to access the Russian interbank loan market and/or international capital markets, as well as a potential increase in TCS's borrowing costs, or maturity mismatches between TCS's assets and liabilities may, in combination or separately, have a material adverse effect on TCS's net interest margin, or, more generally, on TCS's business, financial condition, results of operations and prospects.

Since the second quarter of 2010, a significant portion of TCS's funding consists of retail deposits. The proportion of TCS's funding base represented by customer accounts substantially increased in 2010 from 7.1 per cent. as of 31 December 2009 to 48.2 per cent. as of 31 December 2010. The volume of TCS's funding base represented by retail deposits substantially increased in 2010 from RUB 255,352 thousand (US$ 8,443 thousand) as of 31 December 2009 to RUB 5,167 million (US$ 169,526 thousand) as of 31 December 2010. Withdrawals of deposits by individuals, who are entitled under Russian legislation to withdraw such deposits at any time could lead to liquidity gaps that TCS would have to cover, if it were able to do so, thus incurring additional expenses. Currently, TCS is endeavouring to reduce the proportion of its funding from this relatively more untested funding source by decreasing interest rates. TCS's policy is to maintain the share of retail deposits within the range of 25 to 35 per cent. of its total liabilities. In addition, in terms of the maturity of customer deposits, a significant proportion of such deposits (over 80 per cent. as at 31 December 2010) were short-term in nature, which increases the volatility of TCS's funding base. Should a large portion of TCS customers simultaneously withdraw their deposits, this may have a material adverse effect on TCS's business, financial condition, results of operations and prospects.

Any insufficiency in TCS's access to funding from repayments under its credit card portfolio and deposit programme or impediment to TCS's ability to access international or domestic capital markets and/or the Russian interbank loan market to refinance outstanding debt as it falls due may, in combination or separately, have a material adverse effect on TCS's ability to repay its indebtedness scheduled to be repaid between 2011 and 2013, or, more generally, on TCS's business, financial condition, results of operations and prospects.

***TCS may not be able to properly manage its growth***

There can be no assurance that TCS will achieve positive returns on any investment that it makes in the development of its business or that it will be able to expand and diversify its distribution network.

TCS's business requires the maintenance of TCS's financial, IT and information management control systems, the continued training of its personnel, the supervision and maintenance of its customer services operations and the recruitment of additional employees. Should TCS fail to properly manage its growth, such failure could have a material adverse effect on its business, financial condition, results of operations and prospects.

***There can be no assurance that key members of senior management will remain at TCS or that TCS will be able to retain or recruit experienced and/or qualified personnel***

TCS is dependent on its senior management for the implementation of its strategy and the operation of its day-to-day activities. In addition, certain business relationships of members of senior management are important to the conduct of TCS's business. There can be no assurance that key members of senior management will remain at TCS or that such business relationships will endure.

TCS also depends on highly-qualified employees, who are difficult to attract and retain. Competition for personnel with relevant expertise, is noticeable due to the relatively small number of available qualified individuals. The continued growth of TCS's existing operations and its ability to execute its strategy depends on TCS's ability to retain existing employees and to identify and recruit additional individuals who are not only familiar with the local customs and market, but who also have the necessary qualifications and level of experience in retail banking. The pool of individuals with the required set of skills in the Russian Federation is much smaller than in most Western European countries or in the United States. Increasing competition from international financial institutions in the Russian Federation who have significant capital resources may also continue to make it more difficult for TCS to pay competitive salaries and to attract and retain qualified employees and may lead to rising labour costs in the future. If TCS is unable to attract, train and retain sufficiently qualified individuals or if competition for qualified employees increases its labour costs, this may have a material adverse effect on TCS's business, financial condition, results of operations and prospects, and may impair TCS's ability to achieve its strategic objectives.

***TCS operates in a highly regulated environment, and an inability to maintain its banking licence or a breach of any of its terms or of other applicable banking regulation could have a material adverse effect on TCS's business, financial condition, results of operations and prospects***

All banking and various related operations in the Russian Federation require licences from the CBR. TCS has obtained such licences in connection with its banking operations and for banking operations involving foreign currencies. Although TCS has been successful in obtaining CBR licences, there is no assurance that it will be able to obtain, maintain or renew such licences in the future. In the event that TCS loses a CBR licence, applying for a new CBR licence would be costly and time consuming. The CBR may, at its discretion, impose additional requirements or deny any request by TCS for licences, which could have a material adverse effect on TCS's business, financial condition, results of operations and prospects. The CBR also periodically inspects TCS to ensure compliance with anti-money laundering laws and other regulatory requirements and has in the past identified instances of non-compliance with such laws, including a failure to file reports in connection with certain transactions with TCS affiliates and in the interbank market. TCS regards these violations as minor and technical in nature and, following the most recent inspection, the CBR has not indicated that it intends to impose any fines in relation to this. However, the CBR does have wide discretion to impose fines and penalties on TCS or to take other regulatory action.

Furthermore, in order to offer retail deposit services to its customers, TCS must maintain its membership in the mandatory Russian retail deposit insurance system. The loss of a CBR licence, breach of the terms of a CBR licence by TCS, any delay or failure to obtain or renew any CBR licence in the future or the discontinuation of its membership in the Russian mandatory system of insurance of retail deposits, could result in TCS being unable to continue some or all of its banking activities. Penalties may also be imposed on TCS by the CBR for breaches of the terms of its licences. Any such failure could, in turn, affect TCS's ability to fulfil its payment obligations, either generally or under the Loan Agreement, and could have a material adverse effect on TCS's business, financial condition, results of operations and prospects.

In addition, the CBR recommends that in setting the rates paid on deposits, Russian banks do not exceed the average market interest rate on deposits by more than 1.5 per cent., whereas interest rates on deposits offered by TCS have been typically higher. In the past, TCS has had to reduce its interest rates on deposits on a regular basis to stay in line with the CBR's recommendations. A further reduction of TCS's interest rates on deposits could result in a decrease in the volumes of collected deposits.

On 2 March 2010, the Presidium of the Supreme Arbitrazh Court of the Russian Federation issued a regulation declaring illegal a unilateral interest rate increase by Russian banks under consumer lending agreements. Although court decisions do not have binding effect as precedent on the decisions of other courts in Russia, the Arbitrazh courts generally follow decisions of the Supreme Arbitrazh Court of the Russian Federation. If Russian courts were to follow the precedent of the Supreme Arbitrazh Court, any claim by a TCS's customer in relation to changes in interest rates and tariffs may have an adverse effect on TCS's credit lending strategy and force it to review its principles of dealing with customers.

In addition, such Russian authorities as the CBR, the Consumer Protection Agency ("**Rospotrebnadzor**") and the Federal Antimonopoly Service could apply statutory sanctions to TCS in respect of a lack of transparent disclosure of fees and interest on credit card products to customers as have been applied to some Russian banks in the past for hidden fees. Since TCS transparently discloses this information in full, there is a low probability of such statutory sanctions. Moreover, TCS monitors customer complaints daily at senior management level to ensure that management receives feedback from customers and takes action accordingly. TCS has a policy of satisfying customer complaints, where appropriate, by refunding disputed fees which has the effect of increasing customer satisfaction, and therefore retention rates, but has little impact on TCS's income. However, if in spite of TCS's best effort to comply with regulatory bodies' requirements any of the CBR, Rospotrebnadzor or the Federal Antimonopoly Service applies statutory sanctions to TCS, this could have a material adverse effect on TCS's image, business, financial condition, results of operations and prospects.

***TCS's inability to comply with capital adequacy requirements imposed by the CBR may have a negative effect on TCS's business, financial condition, results of operations and prospects and lead to a need for additional capital***

TCS's business depends on the availability of adequate capital, both for compliance with applicable capital adequacy requirements and for the effective conduct of its business. As of 1 January 2011, TCS's N1 capital adequacy ratio calculated in accordance with the CBR requirements was 13.55 per cent., a decrease from 28.6 per cent. as of 1 January 2010 and 13.6 per cent. as of 1 January 2009. Under the CBR requirements, which apply a methodology based on accounting records prepared in accordance with Russian accounting standards ("**RAS**"), TCS's N1 capital adequacy ratio must be at least 10 per cent. If TCS's capital adequacy ratio were to fall below 10 per cent., the CBR could impose various sanctions or, in the event of repeated violations, revoke TCS's banking licence. See "*Appendix A—Overview of the Banking Sector and Banking Regulation in the Russian Federation—Management of the CBR—Capital Requirements*".

Growth in TCS's loan portfolio may require further equity capital to strengthen TCS's capital base. From the beginning of 2010, TCS accelerated the growth of its credit card loan portfolio, resulting in 82 per cent. growth as compared to 2009, and TCS management believes that the strong growth of its credit card loan portfolio will continue in 2011. Increased levels of debt financing from financial institutions and capital markets, including the offering of the Notes, may also require TCS to raise additional capital to meet the required capital adequacy levels. Failure to increase or maintain its capital levels in order to comply with the CBR requirements may have a material adverse effect on TCS's business, financial condition, results of operations and prospects.

***Any disruption or failure on the part of TCS, to maintain the IT and/or automated scoring system on which TCS relies could have a material adverse effect on TCS's business***

TCS's financial performance and its ability to meet its strategic objectives will depend to a significant extent upon the functionality of its IT systems and its ability to increase their capacity. TCS's IT system is based on SOA principles and includes Oracle's Siebel for Customer Relationship Management ("**CRM**") and collections, TSYS CTL Prime and Online for card management and transaction processing, Va-Bank XL for core banking and CBR accounting, Avaya Call Centre Elite and NICE Perform for contract-center management and voice recording and SAS Banking Intelligent Solution for data warehousing, analytics, campaign management and decision making support. For the purposes of communication with its customers, TCS uses an intelligent character recognition system as well as a call centre (the "**Call Centre**") with interactive voice response ("**IVR**"), skill based routing, predictive dialing, over-the-phone PIN and Internet Banking capabilities.

Furthermore, for integrating IT systems together, optimising business processes, improving decision engine and e-banking TCS uses IBM Websphere family middleware solutions. IBM Lombardi Business Process Management system ("**BPMS**") is used to optimise business performance by discovering, documenting, automating, and continuously improving business processes to increase efficiency. IBM ILOG Business Rule Management system ("**BRMS**") enables TCS policies - and the operational decisions associated with those policies, such as claim approvals, cross-sell offer selection, pricing calculations and eligibility determinations - to be defined, deployed, monitored and maintained separately from application code. ILOG BRMS provides the ability for non-technical business users to be directly involved in business rules management, enabling flexible decision automation for applications and processes that are subject to complex, variable and evolving business rules. IBM Enterprise Service Bus ("**ESB**") helps TCS to enable fast and flexible application integration with reduced cost and bridging to next-generation interconnectivity which decouple complex integration logic from each application with a central, integration solution eliminating point-to-point connectivity programming.

Any disruption (even short-term) to the functionality of TCS's IT systems, or delay or failure to maintain or increase the capacity of the IT systems, may have a material adverse effect on TCS's business, financial condition, results of operations and prospects.

***Negative publicity of Mr. Tinkov's former projects may have a material adverse effect on TCS's business***

Before getting involved in the banking business, Mr. Tinkov had successfully launched a number of businesses and brands, such as "TechnoShock" and "MusicShock" electronic retail chains, "Darya" packaged meals, "Tinkoff" beer and "Tinkoff Restaurants" which became popular in many regions of Russia. Mr. Tinkov sold these brands together with related production facilities and currently has no connection with them. However, the disposal by Mr. Tinkov of those businesses has not been broadly disclosed, and therefore consumers may still associate the "Tinkoff Credit Systems" brand used by TCS with Mr. Tinkov's former projects. Therefore, any adverse publicity with respect to "Tinkoff" beer, "Tinkoff Restaurants" or other former brands of Mr. Tinkov could result in negative perception of "Tinkoff Credit Systems" brand which could have a material adverse effect on TCS's business, financial condition, results of operations and prospects.

**Risks Related to the Russian Federation**

TCS is a Russian bank, and all of its assets are located in the Russian Federation. There are certain risks associated with an investment linked to a business operating in the Russian Federation.

**Political Risks**

***Political instability in the Russian Federation may have a material adverse effect on TCS's business, financial condition, results of operations and prospects***

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst executive, legislative and judicial authorities, which negatively impacted the business and investment climate in the Russian Federation. Over the past two decades the course of political and other reforms has in some respects been uneven and the composition of the Russian Government has at times been unstable.

Mr. Vladimir Putin, former President of the Russian Federation is generally credited with having increased governmental stability. The most recent elections of the State Duma, the lower house of the Russian Parliament, took place on 2 December 2007 and presidential elections took place on 2 March 2008. Although the political forces in the State Duma remained substantially the same, Mr. Dmitry Medvedev was elected as the new President and on 8 May 2008, he appointed Mr. Vladimir Putin to the position of Prime Minister of the Russian Federation. While the Russian political system and the relationship between the President, the Russian Government and the Russian parliament currently appear to be stable, the potential for political instability resulting from the worsening economic situation in Russia and deteriorating standards of living should not be underestimated. Any such instability could negatively affect the economic and political environment, particularly in the short-term.

Furthermore, upcoming elections to the State Duma, the lower chamber of the Russian parliament, in 2011 and Russian presidential elections in 2012 may result in political and social instability. If the current political establishment remains in place, growing frustration with crime, corruption and the political domination (at all levels) of the governing party United Russia (*Yedinaya Rossiya*) led by Vladimir Putin may lead to street demonstrations, marches, rallies and acts of civil disobedience.

Shifts in governmental policy and regulation in the Russian Federation are less predictable than in many Western democracies and could disrupt or reverse political, economic and regulatory reforms. Any significant change in the Government's programme of reform in Russia could lead to a deterioration in Russia's investment climate that might limit the ability of TCS to obtain financing in the international capital markets or otherwise have a material adverse effect on its business, financial condition, results of operations and prospects.

In addition, actions of the Russian legislative, executive and judicial authorities can affect the Russian securities market. In particular, the events surrounding claims brought by the Russian authorities against several major Russian and foreign companies have led to questions being raised regarding the progress of market and political reforms in Russia and have resulted in significant fluctuations in the market price of Russian securities and a negative impact on foreign direct and portfolio investment in the Russian economy. Any further similar actions by Russian authorities that result in a negative effect on investor confidence in Russia's business or legal environment could have a material adverse effect on the Russian securities market and prices of Russian securities or securities issued or backed by Russian entities, including the Notes.

***Lack of consensus between federal and regional authorities and other internal conflicts or conflicts with other countries create an uncertain operating environment that could hinder TCS's long-term planning ability***

The Russian Federation is a federation of 83 political units, which include republics, territories, regions, cities of federal importance, autonomous regions and autonomous districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the Russian Government is, in many instances, unclear and sometimes remains contested. In the past, lack of consensus between the federal government and regional or local authorities resulted in the enactment of conflicting legislation at various levels and led to political instability. In particular, in the past, conflicting laws were enacted in the areas of privatisation, securities, corporate legislation, regulation of land use and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in Russian courts and such challenges may occur in the future. This lack of consensus could hinder TCS's long-term planning efforts and could create uncertainties in its operating environment, either of which may prevent TCS from effectively and efficiently carrying out its business strategy.

Emerging markets such as Russia are also subject to heightened volatility based on economic, military and political conflicts. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia resulted in significant overall price declines on the Russian stock exchanges. The emergence of any new or escalation of existing tensions in the region may negatively affect the economy of Russia and other countries that are involved and lead to a deterioration of the investment environment. Such tensions or conflicts may lead to reduced liquidity, trading volatility and significant reductions in the price of listed Russian securities, with a resulting negative effect on the liquidity and trading prices of the Notes and on TCS's ability to raise debt or equity capital in the international capital markets.

***Military conflicts, acts of terrorism or natural disasters could have an adverse effect on the global or Russian financial markets and economy***

Military conflicts, international terrorist activity and natural disasters have historically had a significant effect on international financial and commodity markets. Any future military conflicts, acts of terrorism or natural disasters could have an adverse effect on Russia's political stability, as well as the international financial and commodities markets and the global economy. Russian legislation provides that a state of emergency in Russia or in any part or region thereof may be declared under certain circumstances; this could adversely affect the investment climate. As the Russian Federation produces and exports large amounts of crude oil and gas, any acts of terrorism or armed conflicts that disrupt Russian oil and gas exports could negatively affect the Russian economy and thereby adversely affect TCS's business, results of operations, financial condition and prospects.

Various acts of terrorism have been committed not only in the regions of Ingushetia and Dagestan neighbouring Chechnya, but also in major population centres within other regions of the Russian Federation, where TCS maintains a presence.

In particular, on 29 March 2010, there was a series of suicide bombings in the Moscow underground system, which temporarily paralysed operations and business activity in Moscow. Most recently, in January 2011, Domodedovo international airport in Moscow suffered from another suicide attack, which resulted in many casualties and the cancellation of flights. Any further terrorist attacks could have significant political consequences, including the imposition of a state of emergency in some parts of, or throughout the whole of, the Russian Federation and could materially and adversely affect the investment environment and overall consumer confidence in the Russian Federation, which in turn could have a material adverse effect on TCS's business, financial condition, results of operations and prospects.

***TCS's assets may be nationalised or expropriated despite existing legislation to protect against nationalisation and expropriation***

Although the Russian government has enacted legislation to protect property against expropriation and nationalisation and to provide fair compensation to be paid if such events were to occur, there can be no certainty that such protections will be enforced. This uncertainty is due to several factors, including the lack of state budgetary resources, the lack of an independent judicial system and the lack of sufficient mechanisms to enforce judgments.

The concept of property rights is not well established in the Russian Federation and there is not a great deal of experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, TCS may not be able to obtain proper redress in the courts, and may not receive adequate compensation if in the future the Russian Government decides to nationalise or expropriate some or all of TCS's assets. The expropriation or nationalisation of any of TCS's or their respective shareholders' assets without fair compensation may have a material adverse effect on TCS's business, financial condition, results of operations and prospects.

**Economic Risks**

***Economic instability in the Russian Federation could adversely affect TCS's business***

The Russian Federation has experienced and/or is currently experiencing:

- significant declines in gross domestic product;
- hyperinflation or high levels of inflation;
- an unstable currency;
- high levels of state or corporate debt relative to gross domestic product;
- crises in the banking sector limiting the ability of banks to provide liquidity to Russian corporate and individual borrowers;
- a large number of loss-making enterprises that continue to operate due to the lack of effective bankruptcy procedures;
- widespread tax evasion;
- growth of "black" and "grey" market economies;
- capital flight;
- high levels of corruption and penetration of organised crime into the economy;
- political and social instability;
- lack of consensus between federal and local governments;
- dependence of the economy on export of commodities;
- declines and volatility in the stock market;
- increases in unemployment and underemployment;
- the impoverishment of a large portion of the Russian population; and
- outdated and deteriorating physical infrastructure.

The Russian economy has been subject to abrupt downturns. For example, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian Government defaulted on its Rouble-denominated securities, the CBR stopped its support of the Rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate devaluation of the Rouble, a sharp increase in the rate of inflation, a decline in the prices of Russian debt and equity securities, and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by a near collapse of the Russian banking sector in connection with the same events. This further impaired the ability of the banking sector to act as a reliable source of liquidity to Russian companies and resulted in the widespread loss of bank deposits.

As Russia produces and exports large quantities of crude oil, natural gas and other commodities, the Russian economy is particularly vulnerable to fluctuations in the prices of these and other commodities on the world market, which prices reached record high levels in the first half of 2008 and have since experienced high levels of volatility, including significant declines. During the financial crisis, the Russian economy was characterised by extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in GDP. However, in 2010 the GDP of Russia grew by 3.8 per cent. Although market prices of most commodities, including oil, have recovered since March 2009 and Russian equity markets rebounded in 2009 and 2010, there can be no assurance that current market prices will persist, especially if deteriorating government fiscal positions were to prevent the cyclical upturn that developed economies began to experience in the second half of 2009 from continuing.

Moreover, there can be no assurance that this economic crisis, or a future economic crisis, will not have a negative effect on investors' confidence in the Russian Federation's markets or economy or the ability of Russian entities to raise capital in the international capital markets, any of which, in turn, could have a material adverse effect on the Russian Federation's economy and/or TCS's business, results of operations, financial condition and prospects.

The positive trends in the Russian economy in recent years, such as increases in gross domestic product, have begun to reverse as a consequence of the current global financial and economic crisis, and if this reversal continues, it could adversely affect TCS's business, financial condition, results of operations and prospects.

***Instability of global financial markets impacts the Russian economy and banking sector***

The financial markets, both globally and in Russia, have faced significant volatility, dislocation and liquidity constraints since the onset of the financial crisis in the autumn of 2007. As a result of these developments, there was increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced, and in some cases, ceased to provide, funding to borrowers, including other financial institutions, which has significantly reduced the liquidity in the global financial system.

Since March 2009, international private credit markets have started to improve. However, significant government borrowing to finance recapitalisation of financial and other institutions, as well as substantial fiscal stimulus packages, have led to a deterioration of sovereign credit. As a result, global credit and capital markets continue to be fragile and suffer from occasional crises of confidence, and there can be no assurance that the disruptions in the global capital and credit markets such as, in particular, the Dubai real estate crisis that commenced in November 2009, the Greek fiscal crisis that started in April 2010, the Irish fiscal crisis that started in October 2010 and questions regarding the financial stability of other EU nations, could not be amplified or replicated elsewhere on a more significant scale in the near future.

Russia's economy has been adversely affected by the financial crisis and could be adversely affected by market downturns and economic crises or slowdowns elsewhere in the world in the future. In particular, the disruptions in the global financial markets have had a severe impact on the liquidity of Russian banks and other financial institutions, as well as the availability of credit and the terms and cost of domestic and external funding for Russian banks. Russian banks, including TCS, have experienced increased costs, and reduced availability when they sought financing in the short-term interbank funding market, as well as in the longer-term capital markets and through bank finance instruments. The Russian securitisation market has also been largely inaccessible as a result of the financial crisis.

These developments, as well as adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment, or a decline in the prices of oil, gas or other commodities (such as, for example, steel or precious metals) could slow or disrupt the Russian economy and adversely affect TCS's access to capital and, more generally, TCS's business, financial condition, results of operations and prospects.

***Exchange rate fluctuations and inflation may adversely impact TCS's business***

While the Rouble appreciated against the US dollar each year during the 2001 to 2007 period, it has experienced significant depreciation against the US dollar in 2008 and in the beginning of 2009, largely as a result of the global financial and economic crisis and the significant fall in prices of oil and other commodities that are principal generators of Russia's export earnings. For example, as of 1 October 2007, the Rouble/US dollar exchange rate was RUB 24.9493 per US$ 1 compared to RUB 29.3804 per US$ 1 as of 31 December 2008 and RUB 30.2442 per US$ 1 as of 31 December 2009 and as of 31 December 2010 RUB 30.4769 per US$ 1. The ability of the Russian Government and the CBR to prevent further depreciation of the Rouble against the major currencies depends on many political and economic factors, including their ability to control inflation and the availability of foreign currency reserves. While, as at the date of this Prospectus, the value of the Rouble has stabilised, it is uncertain whether this stability will be maintained going forward. A depreciation of the Rouble against the US dollar and other major currencies could negatively affect TCS in a number of ways, including, among other things, by increasing the actual cost to TCS of financing its foreign currency-denominated liabilities and by making it more difficult for TCS to service its foreign currency-denominated loans, which could have a material adverse effect on TCS's business, financial condition, results of operations and prospects, particularly in the light of TCS's plans to continue to use international capital markets for funding.

According to Russian Government estimates, inflation in the Russian Federation was 11.7 per cent. in 2004, 10.9 per cent. in 2005, 9.0 per cent. in 2006, 11.9 per cent. in 2007, 13.3 per cent. in 2008, 8.8 per cent. in 2009 and 8.8 per cent. in 2010. Any return to high and sustained inflation of the kind that Russia experienced in the early 1990s could lead to market instability, reductions in consumer purchasing power and an erosion of consumer confidence. Any one of these events could lead to decreased demand for TCS's products and services, which in turn may have a material adverse effect on TCS's business, financial condition and results of operations.

***The official data upon which prospective investors may base their investment decision may not be as reliable as equivalent data from official sources in the OECD countries***

Official statistics and other data published by the CBR, Russian federal, regional and local governments, and federal agencies may be substantially less complete or researched and, consequently, less reliable than those published by comparable bodies in other jurisdictions. Accordingly, TCS cannot assure prospective investors that the official sources from which TCS has drawn some of the information set out herein are reliable or complete. Russian state entities may produce official statistics based on methodologies different from those used by comparable bodies in other jurisdictions. Any discussion of matters relating to the Russian Federation herein may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

***Russia's physical infrastructure is in poor condition, which could disrupt normal business activity***

Russia's physical infrastructure is in relatively poor condition and largely dates back to Soviet times. It has not been adequately funded and maintained over the past decade and may cause disruptions in normal business activities. Particularly affected are pipeline, rail and road networks, power generation and transmission systems and communication systems. With a view to increasing capital inflows and private investment into Russia's physical infrastructure, the Government has launched a number of infrastructure modernisation programmes such as a large-scale reform of the electricity sector. However, there is uncertainty in the current economic environment as to the extent to which such programmes will be realised. Such reforms, if realised, are likely to result in increased charges and tariffs, but may fail to generate the anticipated capital investment needed to repair, maintain and improve these systems. The continued deterioration of Russia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in the Russian Federation and may interrupt business operations, any of which could have a material adverse effect on TCS's business, financial condition, results of operations and prospects.

**Social Risks**

***Crime, corruption and social instability could disrupt TCS's ability to conduct business and could materially adversely affect its business, financial condition, results of operations and prospects***

Levels of organised criminal activity continue to be significant in Russia. The Russian and international press have reported high levels of corruption in the Russian Federation, including the bribing of officials for the purpose of initiating investigations by government agencies. Additionally, published reports indicate that a significant number of Russian media regularly publish biased articles in exchange for payment. Illegal activities, corruption or claims implicating TCS in illegal activities could have a material adverse effect on TCS's business, financial condition, results of operation and prospects and the value of the Notes.

Social instability in the Russian Federation, coupled with difficult economic conditions and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past to labour and social unrest (principally in urban areas). The rising level of unemployment and deteriorating standards of living in Russia that were principally caused by the global financial and economic crisis could make labour and social unrest more likely in the future. Such labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, including restrictions on foreign involvement in the Russian economy and increased violence. Any of these could have a material adverse effect on TCS's business, financial condition, results of operations and prospects.

## Risks Relating to the Russian Legal System and Legislation

***Weaknesses related to the Russian legal system and Russian legislation could have a material adverse effect on TCS's business, financial condition, results of operations and prospects***

The Russian Federation is still developing an adequate legal framework to facilitate the proper functioning of a market economy. Several fundamental Russian laws have only recently become effective and are constantly being amended. The recent nature of much of Russian legislation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt, resulting in ambiguities and inconsistencies in their application. The following aspects of Russia's legal system, many of which do not exist in countries with more developed legal systems, create uncertainty with respect to many of the legal and business decisions that TCS's management make:

- since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Russian Federal Constitution, the Russian Civil Code and by other federal laws, and by decrees, orders and regulations issued by the President, the Russian Government and federal ministries which are, in turn, complemented by regional and local rules and regulations. There may be inconsistencies between such laws, presidential decrees, state resolutions and ministerial orders, and between local, regional and federal legislation and regulations;
- in the absence of a sufficiently clear constitutional or legislative basis, decrees, resolutions and regulations may be adopted by state authorities and agencies with a high degree of discretion, which could make them controversial and less predictable. There is a risk that state authorities may arbitrarily nullify or terminate contracts, withdraw licences, conduct sudden and unexpected tax audits, initiate criminal prosecutions and civil actions and use common defects in accounting or share issues and registration as pretexts for court claims and other demands to liquidate companies or invalidate such issues and registrations and/or to void transactions;
- substantial gaps in the regulatory structure may be created by the delay or absence of regulations implementing certain legislation;
- there is a lack of judicial and administrative guidance on interpreting applicable rules and judicial decisions have limited or no precedent value;
- the Russian Federation has a judiciary with limited experience in interpreting and applying market oriented legislation that is vulnerable to economic and political influence;
- bankruptcy procedures are not well developed and often subject to abuse; and
- the Russian Federation has weak enforcement procedures for court judgments and there is no guarantee that a foreign investor would be able to obtain effective redress in a Russian court.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in the Russian Federation remains largely untested. The court system is understaffed and underfunded. Judges and courts in the Russian Federation are generally inexperienced in business and corporate law. In addition, most court decisions are not readily available to the public. Enforcement of court judgments can, in practice, be very difficult in the Russian Federation. All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Court claims are often used to further political aims. TCS may be subject to such claims and may not be able to receive a fair hearing. In addition, court judgments are not always enforced or followed by law enforcement agencies.

***Unlawful or arbitrary government actions***

State authorities have a high degree of discretion in Russia and at times exercise such discretion arbitrarily, without conducting a hearing or giving prior notice, and sometimes they illegally go beyond the limits of their discretion. Moreover, the state also has the power, in certain circumstances, by regulation or act, to interfere with the performance of, or to nullify or terminate contracts. Unlawful or arbitrary state actions have included withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government agencies have also used common defects in matters surrounding the documentation of financing activities as pretexts for court claims and other demands to invalidate such activities and/or to void transactions, often for political purposes. Unlawful or arbitrary state action, if directed at TCS, could have a material adverse effect on TCS's business, financial condition, results of operations and prospects.

***The responsibilities of management under Russian corporate governance laws to which TCS is subject may differ significantly from those applicable to comparable listed companies in other jurisdictions***

TCS's corporate affairs are governed by its charter, its internal regulations, by laws governing Russian banks and by laws governing companies incorporated in Russia. Standards of corporate governance are considerably less developed in Russia than in the United States and Western Europe. In particular, shareholder rights, disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and fiduciary duties are relatively new concepts in Russia and are unfamiliar to many Russian companies and managers. Furthermore, the rights of shareholders and responsibilities of members of TCS's Board of Directors and Management Board under Russian law are different from, and may be subject to certain requirements not generally applicable to, companies organised in the United Kingdom or other jurisdictions. See "*Management*".

Despite recent initiatives to improve corporate transparency in Russia, there is still less publicly available information about TCS than there is available for comparable banks in, for example, the United Kingdom. The relatively less transparent nature of corporate governance in Russia, as well as violations of disclosure and reporting requirements or breaches of fiduciary duties, could have a material adverse effect on TCS's business, prospects, financial condition and results of operations and/or on the value of the Notes.

***Difficulty in enforcing TCS's rights in Russia may have an adverse effect on TCS's financial condition, results of operations and prospects***

The current status of the Russian legal system makes it uncertain whether TCS would be able to enforce its rights in disputes with any of its contractual counterparties. Furthermore, the dispersion of regulatory power among a number of state agencies in the Russian Federation has resulted in inconsistent or contradictory regulations and unpredictable enforcement. The Russian Government has rapidly introduced laws and regulations in an effort to make the Russian economy more market-oriented, resulting in considerable legal confusion. No assurance can be given that local laws and regulations will become stable in the future. TCS's ability to operate in the Russian Federation could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to local laws and regulations. Further, its ability to protect and enforce such rights is dependent on the Russian courts which are underdeveloped, inefficient and, in places, corrupt. Judicial precedents generally have no binding effect on subsequent decisions. Enforcement of court orders can in practice be very difficult in the Russian Federation. Additionally, court orders are not always enforced or followed by law enforcement agencies.

***Russia's banking and financial regulations are subject to relatively frequent change and it is unclear how these changes could impact on TCS's business***

Like most of Russia's legislation on business activities, Russia's laws on banks and banking activity are subject to relatively frequent change. In addition to Federal Law No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)" dated 10 July 2002, as amended (the "**CBR Law**") and Federal Law No. 395-I "On Banks and Banking Activity" dated 2 December 1990, as amended (the "**Banking Law**"), Russia has adopted and continues to develop new banking legislation.

In December 2003, President Putin signed into law Federal Law No. 177-FZ "On Insurance of Deposits Placed by Individuals with Banks in the Russian Federation" dated 23 December 2003, as amended (the "**Retail Deposit Insurance Law**"), which mandates protection of bank deposits of individuals. The Retail Deposit Insurance Law establishes a deposit insurance scheme in which all Russian banks must participate or lose their ability to accept retail deposits and open bank accounts for individuals. The enactment of the Retail Deposit Insurance Law has increased competition in the retail deposit market as all Russian banks that choose to participate in the deposit insurance scheme will have the ability to offer protected deposits.

In addition, the CBR requires banks to comply with certain regulatory requirements on a daily basis. CBR regulations are subject to frequent changes, some of which are new and untested requirements the application of which lead to uncertainties.

The recent changes in the Russian banking and financial regulation are aimed at bringing the regime more in line with that of more developed countries. However, due to these changes in the regulatory system, banks operate in a new and relatively unclear regulatory environment. It is difficult to forecast how the changes in the banking and financial regulation will affect the Russian banking system and no assurance can be given that the regulatory system will not change in a way that will impair TCS's ability to provide its banking services, including as to greater regulation of the pricing of consumer finance products, or to compete effectively, thus adversely affecting TCS's business, financial condition, results of operations and prospects.

***Foreign judgments and arbitral awards may not be enforceable against TCS***

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in Russia only if (i) an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered, and/or (ii) a federal law of the Russian Federation providing for the recognition and enforcement of foreign court judgments is adopted. No such federal law has been passed and no such treaty exists between the United Kingdom or the United States and the Russian Federation for the reciprocal enforcement of foreign court judgments.

In the absence of an applicable treaty, a final judgment rendered by a foreign court may still be recognised and enforced by a Russian court on the basis of reciprocity, if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. While Russian courts have recently recognised and enforced English court judgment on these grounds, the existence of reciprocity must be established in each case at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognise and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court.

The Loan Agreement is governed by English law and provides that if any dispute or difference arises from or in connection with the Loan Agreement the Issuer may elect, by notice in writing to TCS, to settle the claim by arbitration in accordance with the Rules of the London Court of International Arbitration (the "**LCIA**"). The seat of any arbitration will be London, England. The United Kingdom and Russian Federation are parties to the New York Convention. Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation). However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the inability of Russian courts to enforce such awards.

Although the Russian Arbitrazh Procedural Code adopted in 2002 is generally in conformity with the New York Convention and thus has not introduced substantial changes in the grounds for refusal of recognition of foreign arbitral awards and court judgments that may be issued, in the event that Russian procedural legislation is further changed it may introduce new grounds preventing foreign court judgments and arbitral awards from being recognised and enforced in Russia. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign court judgment or arbitral award in the Russian Federation. The possible need to re-litigate in the Russian Federation a judgment obtained in a foreign court on the merits may also significantly delay the enforcement of such judgment. Under Russian law, certain amounts may be payable by the claimant upon the initiation of any action or proceeding in any Russian court. These amounts in many instances depend on the amount of the relevant claim.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the Rules of the LCIA and the application of English law to the Loan Agreement may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies and credit organisations in particular.

***The Russian tax system is relatively underdeveloped***

TCS is subject to a broad range of taxes and other compulsory payments imposed at the federal, regional and local levels, including, but not limited to, profit tax, value added tax, property taxes and other taxes.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. Historically, the system of tax collection has been relatively ineffective, resulting in the imposition of new taxes in an attempt to increase government revenues. The existing Russian tax legislation, including the Tax Code of Russia (the "**Tax Code**"), has been in force for a short period of time relative to tax laws in more developed market economies. Implementation of existing tax laws by the governmental authorities is often unclear or inconsistent. Accordingly, few precedents with regard to the interpretation of these laws have been established. In addition, in some past instances, although it may be viewed as contradictory to Russian constitutional law, Russian tax authorities have applied certain tax laws retroactively, issued tax claims for periods for which the statute of limitations had expired and reviewed the same tax period multiple times. In practice, the Russian tax authorities generally interpret the tax laws in ways that do not favour taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Furthermore, in the absence of binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. For example, tax laws are unclear with respect to deductibility of certain expenses. Despite TCS's best efforts to comply with applicable tax laws, these uncertainties could possibly expose TCS to significant fines and penalties and to potentially severe enforcement measures, and could result in a greater than expected tax burden and could have a material adverse effect on TCS's business, financial condition, results of operations or prospects.

On 12 October 2006, the Plenum of the Supreme Arbitrazh Court of the Russian Federation (the "**Supreme Arbitrazh Court**") issued Resolution No. 53, formulating a concept of "unjustified tax benefit", which is described in the Resolution by reference to circumstances such as the absence of a business purpose or transactions where the form does not match the substance, and which could lead to the disallowance of tax benefits resulting from the re-characterisation for tax purposes. There has been very little further guidance on the interpretation of this concept by the tax authorities or courts, but it is likely that the tax authorities will actively seek to apply this concept when challenging tax positions are taken by taxpayers in Russian courts. Although the intention of this resolution was to combat tax law abuses, in practice there can be no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitrazh Court.

Transfer pricing legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs), if the transaction price differs upwards or downwards from the market price by more than 20 per cent. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e., if the price of such transactions differs from the prices of similar transactions by more than 20 per cent. within a short period of time). Special transfer pricing provisions are established for operations with securities and derivatives. The transfer pricing rules are vaguely drafted, generally leaving wide scope of interpretation to the tax authorities and courts, and there has been very little formal guidance (although some court practice is already available) as to how these rules should be applied. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse impact on TCS's business, financial condition, results of operations or prospects.

Moreover, in the event that a transfer pricing adjustment is assessed by the Russian tax authorities, the Russian transfer pricing rules do not provide for a correlative adjustment to be made for the counterparty in the transaction that is subject to adjustment. Although such an adjustment can be made for cross-border transactions in accordance with the mutual agreement procedure set forth in most of the double taxation agreements entered into between Russia and other countries, to date this procedure has not been used in practice. In addition to the usual tax burden imposed on Russian taxpayers, these conditions and uncertainties complicate tax planning and related business decisions.

Currently new Russian transfer pricing rules are in the process of being adopted by the State Duma of the Russian Federation. They may come into force in the year 2011 or at some later date. The implementation of these amendments should help to align domestic rules with the principles used in the OECD countries. The amendments are expected to considerably toughen the existing law, by, among other things, effectively shifting the burden of proving market prices from the tax authorities to the taxpayer and obliging the taxpayer to keep specific documentation. In addition, the amendments:

- introduce the "arm's length" principle as a fundamental principle of the transfer pricing rules;

- establish a new list of controlled transactions (which would cover cross-border transactions with certain commodities, cross-border transactions with related parties and tax haven residents, and certain intra-Russian transactions with related parties);
- extend the list of related parties;
- extend the list of transfer pricing methods (including the Transactional Net Margin Method and the Profit Split method) with the choice of method depending on the allocation of functions performed, risks assumed and assets employed by the parties to a transaction (instead of a rigid priority of methods under current legislation);
- replace the existing permitted deviation threshold with the ''arm's length'' range of market prices (profitability);
- introduce correlative adjustments in relation to domestic transactions; and
- introduce special transfer pricing audits by federal tax authorities and specific transfer pricing penalties (more severe that in case of other, non-transfer pricing related, tax assessments).

The introduction of the new transfer pricing rules may increase the risk of transfer pricing adjustments being made by the tax authorities and, therefore, may have a material adverse impact on TCS's business and the results of operations or prospects. It will also require TCS to ensure compliance with the new transfer pricing documentation requirements proposed in such rules.

Despite the Russian Government's taking steps to reduce the overall tax burden in recent years in line with its objectives, Russia's largely ineffective tax collection system and continuing budgetary funding requirements increase the likelihood that the Russian Government will impose arbitrary and/ or onerous taxes and penalties in the future, which could have a material adverse effect on TCS's business, financial condition, results of operations or prospects. Additionally, tax has been utilised as a tool for significant state intervention in certain key industries.

A large number of changes have been introduced to the Tax Code since its adoption. One of these amendments was introduced to decrease deductibility limits applicable to taxpayers' interest expenses for obligations denominated in foreign currency. The amendment decreasing deductibility limits was introduced as a temporary measure to be in effect for a time period specified in the law, and according to the current wording of the law this period expires on 31 December 2012. These amendments may result in additional tax costs for TCS.

It is expected that Russian tax legislation will become more sophisticated, which may result in the introduction of additional revenue raising measures. Although it is unclear how any new measures would operate, the introduction of such measures may affect TCS's overall tax efficiency and may result in significant additional taxes becoming payable. TCS cannot offer prospective investors any assurance that additional tax exposures will not arise while the Notes are outstanding. Additional tax exposures could have a material adverse effect on TCS's business, financial condition, results of operations or prospects.

In addition to the usual tax burden imposed on Russian tax payers, these conditions create tax risks in the Russian Federation that are more significant than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. These tax risks may impose additional burdens and costs on TCS's operations, including management resources. Further, these risks and uncertainties complicate TCS's tax planning and related business decisions, potentially exposing TCS to significant fines, penalties and enforcement measures, and could materially adversely affect TCS's business, results of operations and financial condition.

As of 31 December 2010, TCS recorded provisions in the amount of US$ 4,747 (in the amount of US$ 6,850 thousand as of 31 December 2009 and US$ 5,711 thousand as of 31 December 2008) thousand in respect of uncertain taxes including related penalties and interest, primarily relating to administrative expenses. In addition to the recorder provision, management estimates that as of 31 December 2010 TCS has other possible obligations from exposure to other than remote tax risks in the amount of US$ 3,375 (in the amount of US$ 4,701 as of 31 December 2009 and US$ 7,004 as of 31 December 2008) thousand primarily relating to operating expenses and to acquisition of intangible assets.

By recording provisions on the full amount of potential tax exposure and, consequently, booking it as an incurred expense, TCS believes it is taking a prudent approach to its exposure to these tax risks.

TCS's parent company Egidaco is incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that Egidaco is not subject to Russian profits tax because it does not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of Egidaco in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity, and therefore the Group.

***Tax law enforcement and the interpretation of related legislation in the Russian Federation are unstable, not well developed and may be unpredictable and selective***

The fiscal deficit that Russia is facing after the global crisis has not only led to an increase of the overall tax burden, but has also encouraged Russian tax authorities to be more persistent in their efforts to raise additional tax revenues. In the absence in most cases of clear enforcement regulations and with frequent changes in the regulator's (the Russian Ministry of Finance) interpretation of legislation, additional tax assessments and groundless claims by the tax authorities are not rare. The absence of effective out-of-court dispute resolution procedures has resulted in additional costs and administrative burdens for taxpayers forced to file claims with the courts in most cases when a dispute with the authorities arises.

Court decisions do not form the rule of law in Russia. Although, during recent years the highest courts gradually tried to regulate court practice in the sphere of taxation and develop unified approaches to deciding particular types of cases, there are still no clear rules for distinguishing between lawful tax optimisation and tax evasion. The courts tried to develop some anti-avoidance approaches such as the concept of ''a taxpayer acting in bad faith'' and the concept of an ''unjustified tax benefit'' thus moving towards a substance-over-form approach and limiting the ability of taxpayers to rely on a literal interpretation of the law. These concepts, however, are formulated quite broadly, are open to different interpretations and their status in the Russian legal system is unclear. The positions of the highest courts are also not stable and may change within a relatively short period of time.

All of the above creates uncertainty about TCS's tax position and renders the outcome of any potential disputes with the Russian tax authorities unpredictable.

***Repeated tax audits and extension of liability beyond the limitation period may result in additional tax assessments***

Tax returns in Russia remain open and subject to inspection by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a particular year has been reviewed by the tax authorities does not mean that any tax return applicable to that year will not be subject to further review by a superior tax authority during the three-year limitation period. On 14 July 2005, the Constitutional Court of Russia issued a decision that allows the statute of limitations for tax penalties to be extended beyond a three-year term set forth in the Tax Code if a court determines that a taxpayer has obstructed or hindered a field tax audit. Moreover, amendments introduced to the Tax Code, which came into effect on 1 January 2007, provide for the extension of the three year statute of limitations if the actions of a taxpayer create insurmountable obstacles for a tax audit. Because none of the relevant terms is defined in Russian law, the tax authorities may have broad discretion to argue that a taxpayer has ''obstructed'' or ''hindered'' or ''created insurmountable obstacles'' in respect of an inspection and to ultimately seek review and possibly apply penalties beyond the three-year term.

Tax audits may result in additional costs to TCS if the relevant tax authorities conclude that TCS did not satisfy its tax obligations in any given year. Such audits may also impose additional burdens on TCS by diverting the attention of management resources. The outcome of these audits could have a material adverse effect on TCS's business, financial condition, results of operations and prospects.

**Risks Related to the Issuer, the Parent Guarantor, the Notes and the Trading Market**

***Payments under the Notes are limited to the amount of certain payments received by the Issuer in respect of the Loan***

In each case where amounts of principal, interest and additional amounts, if any, under the Terms and Conditions of the Notes or the Trust Deed are to be paid by the Issuer in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts, if any, are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts, if any, actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Loan Agreement less any amounts in respect of the Reserved Rights. Consequently, the failure of (a) TCS to generate sufficient cash and meet its payment obligations under the Loan in full and (b) the Parent Guarantor to meet its obligations under the Guarantee would result in the Noteholders receiving less than the scheduled amount of principal or interest or other amounts, if any, on the relevant due date.

***No direct recourse of the Noteholders to TCS or the Parent Guarantor***

At maturity, TCS may not have the funds to fulfil its obligations under the Loan and it may not be able to arrange for additional financing. Moreover, the Parent Guarantor may not have funds to fulfil its obligations under the Guarantee. Except as otherwise disclosed in the "*Terms and Conditions of the Notes*" and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Therefore, subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreement or have direct recourse to TCS or the Parent Guarantor, except through action by the Trustee to enforce the security under the Trust Deed. As further described in, and subject to the provisions of, the Trust Deed, neither the Issuer nor the Trustee, pursuant to the assignment of the Assigned Rights (as defined in the Trust Deed), shall be required to enter into proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or prefunded and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

***Prepayment of the Loan***

Under the terms of the Loan Agreement, TCS may, subject to certain conditions, prepay the Loan if TCS is required to increase its payments for tax reasons, regardless of whether the increased payment obligations result from any change in applicable tax laws or treaties or from the change in application of existing tax laws or treaties or from enforcement of the security provided for in connection with the Notes. In the event that it becomes unlawful for the Issuer to allow the Loan to remain outstanding under the Loan Agreement, to maintain or give effect to any of its obligations under the Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Loan, TCS may be required by the Issuer to repay the Loan in full. In case of any such prepayment, all outstanding Notes would be redeemable at par with accrued interest.

***Uncertainty of public market for the Notes***

The Issuer has applied for the Notes to be admitted to the Official List and trading on the Market. However, an active trading market in the Notes may not develop or be maintained after the Notes have been admitted to trading. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes. In addition, stock markets in recent years and, in particular, in recent months, have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities were traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

***Payments on the Loan and on the Notes may be subject to Russian withholding tax***

In general, interest payments on borrowed funds made by a Russian legal entity to a non-resident are subject to Russian withholding tax at a rate of 20 per cent. for legal entities or organisations and 30 per cent. in respect of individuals, unless such withholding is reduced or eliminated pursuant to the terms of an applicable double tax treaty. Based on professional advice it has received, TCS believes that interest payments on the Loan made to the Issuer should not be subject to withholding tax under the terms of the applicable double tax treaty between the Russian Federation and Ireland. However, there can be no assurance that such double tax treaty relief will be obtained in practice and/or will continue to be available throughout the term of the Loan.

In this respect it should also be noted that the President of the Russian Federation in his budget message of 25 May 2009 expressed a goal of introducing legal mechanisms to restrict the use of international double tax treaties for the purpose of minimising taxes where the ultimate beneficiaries are not residents of the country being a party to the relevant double tax treaty. It is unclear what form such legal mechanisms may take, how they may be applied or when they may be introduced;

however, we are aware of the fact that relevant amendments to the Russian Tax Code have already been drafted. Depending upon the form of amendments, if and when enacted, such amendments may result in the inability for the Issuer to claim benefits under a double tax treaty between the Russian Federation and Ireland. Furthermore, the Resolution of the Government of the Russian Federation on entering into international double tax treaties and the prevention of tax evasion No. 84, dated 24 February 2010, which introduces, *inter alia*, limitations on the benefits provision, and which is intended to be used by the Russian authorities as a guideline when negotiating new double tax treaties and/or renegotiating existing treaties, is indicative of a trend towards introducing such legal mechanisms in order to restrict the use of double tax treaties for the purpose of minimising taxes. Briefly, the new Resolution limits the use of treaty benefits by persons or entities if the granting of such benefits to such persons or entities in the opinion of the Russian tax authorities would lead to abuse of the purposes of the treaty, or by entities that are owned as to more than 50 per cent. of their shares/units by an entity that is not a resident of a contracting state. However, it is unclear at the moment whether the provisions of this Resolution will be implemented with existing treaty partners by protocols or by entering into new treaties, or whether the new initiative will be implemented at all.

If any payments under the Loan are subject to any Russian or Irish withholding tax, TCS will be obliged to increase the amounts payable as may be necessary to ensure that the recipient receives a net amount equal to the amount it would have received in the absence of such withholding taxes. In addition, payments in respect of the Notes will, except in certain limited circumstances, be made without deduction or withholding for or on account of Irish taxes except as required by law. Based on professional advice, TCS believes that payments in respect of the Notes will only be subject to deduction or withholding for or on account of Irish taxes as described in "*Tax Considerations—Ireland*". In the event of such a deduction or withholding, the Issuer will only be required to increase payments to the extent that it receives corresponding amounts from TCS under the Loan Agreement. While the Loan Agreement provides for TCS to pay such corresponding amounts in these circumstances, there are some doubts as to whether a tax gross up clause such as that contained in the Loan Agreement is enforceable under Russian law. Due to the limited recourse nature of the Notes, if TCS fails to pay any such gross-up amounts, the amount payable by the Issuer under the Notes will be correspondingly reduced. Any failure by TCS to increase such payments would constitute an Event of Default under the Loan Agreement. In certain circumstances (including following enforcement of the security upon the occurrence of a Relevant Event as defined in the Trust Deed), in the event that TCS is obliged to increase the amounts payable, it may prepay the principal amount of the Loan together with accrued interest and/or additional amounts payable (if any) thereon, and all outstanding Notes would be redeemed by the Issuer (to the extent that it has actually received the relevant funds from TCS).

The Issuer will grant security over certain of its rights under the Loan Agreement to the Trustee in respect of its obligations under the Notes. The security under the Trust Deed will become enforceable upon the occurrence of an Event of Default or a Relevant Event, as defined in the Loan Agreement and the Trust Deed. In these circumstances, payments under the Loan Agreement (other than in respect of Reserved Rights) would be required to be made to, or to the order of, the Trustee. Under Russian tax law, payments of interest and other payments made by TCS to the Trustee will in general be subject to Russian income tax withholding at a rate of 20 per cent. (or potentially, 30 per cent. in respect of non-resident individual Noteholders). It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty. In addition, while it may be possible for some Noteholders who are eligible for an exemption from Russian withholding tax under double taxation treaties to claim a refund of tax withheld, there would be considerable practical difficulties in obtaining any such refund.

Under the Russian thin capitalisation rules there is a risk that, in certain circumstances, a portion of interest to be paid by TCS under the Loan could be reclassified as dividends for Russian tax purposes. This would occur if the amount of the indebtedness of TCS under the Loan exceeded the capital of TCS, calculated in accordance with the requirements of the Russian Tax Code, by more than 12.5 times. Interest on the amount of such excess would be reclassified as dividends for Russian tax purposes. Such reclassification of the portion of the interest as dividends could potentially lead to the imposition of Russian withholding tax on such reclassified interest at the rate of 15 per cent., subject to possible exemption under the double tax treaty between the Russian Federation and Ireland, and the non-deductibility of such interest for Russian profits tax purposes by TCS.

If, during the life of the Notes, the Issuer ceases to be resident for tax purposes in Ireland and becomes resident for tax purposes in another jurisdiction, in the event that such jurisdiction requires the Issuer to effect deduction for or on account of any taxes (other than taxes of Ireland or the Russian Federation) in respect of payments which the Issuer is obliged to make under or in respect of the Notes, under the terms of the Loan Agreement TCS will be under no obligation to increase payments to the Issuer under the Loan Agreement in respect of such withholding or deduction for or on account of any taxes (other than taxes of Ireland or the Russian Federation). In such circumstances, the Noteholders will receive payments under the Notes net of such withholding or deduction and will have no right to require that their Notes be repaid.

As indicated above, it is currently unclear whether the provisions obliging TCS to gross-up payments will be enforceable in the Russian Federation. If, in the case of litigation in the Russian Federation, a Russian court does not rule in favour of the Issuer or the Trustee and Noteholders, there is a risk that the tax gross-up for withholding tax will not take place and that payments made by TCS under the Loan Agreement will be reduced by Russian income tax withheld by TCS at a rate of 20 per cent. (or, potentially, 30 per cent. in respect of individual Noteholders).

***Tax might be withheld on dispositions of the Notes in the Russian Federation, reducing their value***

If a non-resident Noteholder that is a legal person or organisation, which in each case is not organised under Russian law and which holds and disposes of the Notes otherwise than through a permanent establishment in Russia, sells Notes and receives proceeds from a source within the Russian Federation, there is a risk that any part of the payment that represents accrued interest may be subject to a 20 per cent. Russian withholding tax (even if disposal is made at a loss), unless relief is available under an applicable double tax treaty.

Where proceeds from a disposal of the Notes are received from a source within the Russian Federation by a non-resident Noteholder that is an individual, there is a risk that Russian withholding tax would be charged at a rate of 30 per cent. on gross proceeds from such disposal of the Notes less any available cost deduction. There is no assurance that advance double tax treaty relief would be granted to an individual, and obtaining a refund can involve considerable practical difficulties. The imposition or risk of imposition of this withholding tax could adversely affect the value of the Notes. See "*Tax Considerations—Russian Federation*".

***The Issuer is subject to certain legal risks, including the location of its centre of main interest ("COMI"), the appointment of an examiner in the event the Issuer experiences financial difficulties, the claims of examiners, preferred creditors under Irish law and floating charges***

*Centre of main interest*

As the Issuer has its registered office in Ireland, there is a rebuttable presumption that its COMI is in Ireland and consequently that any main insolvency proceedings applicable to it would be governed by Irish law. In the decision by the European Court of Justice ("**ECJ**") in relation to Eurofood IFSC Limited, the ECJ restated the presumption in Council Regulation (EC) No. 1346/2000 of 29 May 2000 on Insolvency Proceedings that the place of a company's registered office is presumed to be the company's COMI and stated that the presumption can only be rebutted if "factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect". As the Issuer has its registered office in Ireland, has Irish directors, is registered for tax in Ireland and has an Irish corporate services provider, the Issuer does not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it was asked to make that decision. If the Issuer's COMI is not located in Ireland, and is held to be in a different jurisdiction within the European Union, main insolvency proceedings may not be opened in Ireland.

*Examinership*

Examinership is a court procedure available under the Irish Companies (Amendment) Act 1990, as amended (the "**1990 Act**") to facilitate the survival of Irish companies in financial difficulties.

The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions, by or on behalf of the company after his appointment and, in certain circumstances, negative pledges given by the company prior to his appointment will not be binding on the company.

Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the Irish High Court when a minimum of one class of creditors, whose interests are impaired under the proposals, has voted in favour of the proposals and the Irish High Court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and whose interests would be impaired by implementation of the scheme of arrangement and the proposals are not unfairly prejudicial to any interested party.

The fact that the Issuer is a special-purpose entity and that all its liabilities are of a limited recourse nature means that it is unlikely that an examiner would be appointed to the Issuer. If, however, for any reason, an examiner was appointed while any amounts due by the Issuer under any Notes were unpaid, the primary risks to the holders of such Notes would be as follows:

- the Trustee, acting on behalf of the Noteholders, would not be able to enforce rights against the Issuer during the period of examinership; and
- a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views.

*Preferred creditors*

If the Issuer becomes subject to an insolvency proceeding and the Issuer has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular:

- under the terms of the Trust Deed, the Notes will be secured in favour of the Trustee for the benefit of itself and the Noteholders by security over the Loan Agreement and sums held in the related account with the Principal Paying Agent. Under Irish law, the claims of creditors holding fixed charges may rank behind other creditors (namely fees, costs and expenses of any examiner appointed and certain capital gains tax liabilities) and, in the case of fixed charges over book debts, may rank behind claims of the Irish Revenue Commissioners for PAYE and VAT;
- under Irish law, for a charge to be characterised as a fixed charge, the charge holder is required to exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets including any bank account into which such proceeds are paid. There is a risk therefore that even a charge which purports to be taken as a fixed charge may take effect as a floating charge if a court deems that the requisite level of control was not exercised; and
- in an insolvency of the Issuer, the claims of certain other creditors (including the Irish Revenue Commissioners for certain unpaid taxes), as well as those of creditors mentioned above, will rank in priority to claims of unsecured creditors and claims of creditors holding floating charges.

***The Parent Guarantor is purely a holding company***

The Parent Guarantor is purely a holding company of the Group and does not conduct any of its own business operations, other than certain financing activities which it undertakes on behalf of the Group. Furthermore, the Parent Guarantor has no material subsidiaries other than TCS. Consequently, the Parent Guarantor is dependent on its subsidiaries and, in particular, TCS in order to make any payments under the Guarantee.

***Enforcement under the Guarantee***

The Parent Guarantor is organised in Cyprus, and all of its assets are located outside the United Kingdom, and all members of the Parent Guarantor's board of directors are resident outside of the United Kingdom. As a result, an arbitral award or a court decision taken against the Parent Guarantor under the Guarantee, if any, may have to be enforced in Cyprus which may be a time consuming and costly procedure.

# USE OF PROCEEDS

The net proceeds of the Notes will be used by the Issuer for the sole purpose of financing the Loan to TCS. In connection with the receipt of the Loan, TCS will pay a facility fee to the Issuer. TCS will use the proceeds of the Loan for general corporate purposes.

# CAPITALISATION

The table below sets out the Group's consolidated capitalisation, which the Group considers to be equal to total equity and liabilities, as of 31 December 2010 on an actual basis and as adjusted for the gross proceeds of the Offering.

This information should be read in conjunction with *"Use of Proceeds"*, *"Management's Discussion and Analysis of Financial Condition and Operating Results"* and Group's Financial Statements included elsewhere in this Prospectus.

| | As of 31 December 2010 | |
|---|---|---|
| | **Actual** | **As adjusted[1] (unaudited)** |
| | *(In thousands of US dollars)* | |
| **Liabilities** | | |
| Customer accounts | 174,149 | 174,149 |
| Debt securities in issue | 143,591 | 318,591 |
| Syndicated loan | 31,378 | 31,378 |
| Provisions for liabilities and charges | 4,747 | 4,747 |
| Other financial liabilities | 6,424 | 6,424 |
| Other non-financial liabilities | 982 | 982 |
| **Total liabilities** | **361,271** | **536,271** |
| **Equity** | | |
| Share capital | 6,283 | 6,283 |
| Share premium | 66,641 | 66,641 |
| Accumulated deficit | (20,380) | (20,380) |
| Translation reserve | (8,679) | (8,679) |
| **Total equity** | **43,865** | **43,865** |
| **Total liabilities and equity** | **405,136** | **580,136** |

(1) The increase in debt securities in issue reflects the receipt of the gross proceeds of the Offering in the amount of US$ 175,000,000. Net proceeds of the Offering will be calculated as the gross proceeds of the Offering less management and underwriting commission of the Lead Managers and less other costs and expenses incurred in connection with the Offering, which together will not exceed US$ 4,000,000.

Since 31 December 2010, there have been no material changes in the Group's consolidated capitalisation other than as set out below.

On 28 February 2011, Egidaco's Board of Directors approved an additional issue of 9,999 ordinary shares with a nominal value of US$ 1 per share, ranked equally and carrying one vote each for the approximate amount of US$ 15,000 thousand. Proceeds from the additional issue of shares will be accumulated at Egidaco's level. As of the date of this Prospectus, a part of these proceeds has been already contributed to Egidaco, and TCS management believes that the remaining proceeds will be received by mid-April 2011. The main purpose of the additional share issue is to increase the Group's share capital to enhance further growth of TCS's operations.

In February 2011, the Group acquired a 100 per cent. stake in OOO TCS, an entity previously controlled by Egidaco and consolidated within the Group.

In February 2011, TCS issued Rouble-denominated domestic bonds with a nominal value of RUB 1,500 million (approximately US$ 51,831 thousand) at a 14 per cent. coupon maturing in February 2014 and with a put option exercisable in August 2012. Egidaco purchased a part of these Rouble-denominated domestic bonds in the total amount of RUB 300 million (approximately US$ 10,366 thousand).

In March 2011, an outstanding portion of the RUB 1.5 Billion Facility in the amount of RUB 606 million was repaid in full.

See "*Management's Discussion and Analysis of Financial Condition and Operating Results—Liquidity and Capital Resources—Funding*".

# SELECTED FINANCIAL AND OTHER DATA

The following tables present selected consolidated financial information of TCS which has been derived from, and should be read in conjunction with, the Group's Financial Statements and the notes thereto included elsewhere in this Prospectus, as well as the sections entitled "*Presentation of Financial and Other Data*", "*Risk Factors*", "*Capitalisation*" and "*Management's Discussion and Analysis of Financial Condition and Operating Results*".

### Consolidated Statement of Comprehensive Income Data

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| | *(In thousands of US dollars)* | | |
| Interest income | 138,693 | 105,341 | 65,434 |
| Interest expense | (43,110) | (31,606) | (24,876) |
| **Net interest income** | **95,583** | **73,735** | **40,558** |
| Provision for loan impairment | (27,965) | (18,342) | (24,253) |
| **Net interest income after provision for loan impairment** | **67,618** | **55,393** | **16,305** |
| (Losses)/gains on repurchase of debt securities in issue | (359) | 4,872 | — |
| Customer acquisition expense | (17,121) | (3,359) | (13,379) |
| Foreign exchange translation gains less losses/(losses less gains) | 7,993 | (3,906) | (13,062) |
| Losses less gains from financial derivatives(1) | (1,849) | (1,442) | — |
| Release/(charge) of provision for tax risks | 1,786 | (1,302) | (4,411) |
| Fee and commission expense | (2,726) | (1,631) | (970) |
| Gain from sale of bad debts(2) | 2,268 | 1,406 | — |
| Other operating income(3) | 283 | 583 | 894 |
| Remeasurement of net assets attributable to minority participant | — | 199 | 1,504 |
| Administrative and other operating expenses | (44,954) | (23,755) | (30,935) |
| **Profit/(loss) before tax** | **12,939** | **27,058** | **(44,054)** |
| Income tax expense | (3,814) | (8,836) | (693) |
| **Profit/(loss) for the year** | **9,125** | **18,222** | **(44,747)** |
| Other comprehensive (loss)/income: | | | |
| Exchange differences on translation to presentation currency | (300) | 350 | (9,845) |
| **Other comprehensive (loss)/income for the year** | **(300)** | **350** | **(9,845)** |
| **Total comprehensive income/(loss) for the year** | **8,825** | **18,572** | **(54,592)** |

(1) This line item is referred to as losses less gains from derivative revaluation in respect of consolidated statement of comprehensive income for the year ended 31 December 2009.

(2) This line item is referred to as income from sale of bad debts in respect of consolidated statement of comprehensive income for the year ended 31 December 2009.

(3) Represents sum of gains less losses from trading in foreign currencies and other operating income line items in consolidated statement of comprehensive income for the year ended 31 December 2009.

## Consolidated Statement of Financial Position Data

| | As of 31 December | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (In thousands of US dollars) | | |
| **ASSETS**: | | | |
| Cash and cash equivalents | 50,892 | 18,946 | 30,907 |
| Mandatory cash balances with the CBRF | 2,463 | 1,182 | 276 |
| Loans and advances to customers | 316,418 | 173,735 | 140,112 |
| Financial derivatives(1) | — | 2,361 | — |
| Current income tax assets | 409 | — | — |
| Deferred income tax assets | 529 | — | 4,349 |
| MasterCard guarantee deposit | 12,555 | 2,004 | 3,754 |
| Other financial assets(2) | 10,501 | 3,633 | 2,646 |
| Other non-financial assets | 2,296 | 1,862 | 2,652 |
| Fixed assets | 4,427 | 3,864 | 4,618 |
| Intangible assets | 4,646 | 4,027 | 4,628 |
| **TOTAL ASSETS** | **405,136** | **211,614** | **193,942** |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities:** | | | |
| Due to banks(3) | — | 4,977 | — |
| Customer accounts | 174,149 | 12,621 | 8,436 |
| Debt securities in issue | 143,591 | 86,632 | 105,710 |
| Syndicated loan | 31,378 | 60,402 | 50,236 |
| Provisions for liabilities and charges. | 4,747 | 6,850 | 5,711 |
| Current income tax liability | — | 1,723 | 1,562 |
| Deferred tax liability | — | 257 | — |
| Other financial liabilities | 6,424 | 2,253 | 3,832 |
| Other non-financial liabilities | 982 | 859 | 1,781 |
| Net assets attributable to participant | — | — | 206 |
| **TOTAL LIABILITIES** | **361,271** | **176,574** | **177,474** |
| **Equity**: | | | |
| Share capital | 6,283 | 5,905 | 5,905 |
| Share premium | 66,641 | 65,148 | 65,148 |
| Obligation under warrants | — | 1,871 | 1,871 |
| Accumulated deficit | (20,380) | (29,505) | (47,727) |
| Translation reserve | (8,679) | (8,379) | (8,729) |
| **TOTAL EQUITY** | **43,865** | **35,040** | **16,468** |
| **TOTAL LIABILITIES AND EQUITY** | **405,136** | **211,614** | **193,942** |

(1) This line item is referred to as derivates in respect of consolidated statement of financial position as of 31 December 2009.
(2) Other financial assets include primarily settlement of operations with plastic cards and trade and other receivables.
(3) As of 31 December 2009, due to banks includes loans from the CBR in the amount of US$ 4,977 thousand bearing an interest of 12 per cent. per annum. These loans were repaid in January 2010 at a maturity.

## Other Financial Data

| **Overall ratios of financial position** | **As of and for the year ended 31 December** | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| | *Unaudited* | | |
| Credit card portfolio growth rate(1) | 80.2% | 22.0% | 477.4% |
| Return on assets(2) | 3.0% | 9.0% | (30.2%) |
| Return on equity(3) | 23.1.% | 70.8% | (187.8%) |
| Equity to total assets(4) | 10.8% | 16.6% | 8.5% |
| Debt to equity ratio(5) | 7.96 | 4.70 | 9.98 |

(1) Credit card portfolio growth rate is defined as change between credit card portfolio closing and opening balances of the respective reporting year divided by credit card portfolio opening balance of the respective reporting year.

(2) Return on assets is defined as profit/(loss) for the reporting year divided by average total assets. Average total assets has been calculated using the related opening and closing balances of the respective reporting year.

(3) Return on equity is defined as profit/(loss) for the year divided by average total equity. Average total equity has been calculated using the related opening and closing balances of the respective reporting year.

(4) Equity to total assets is defined as closing balance of total equity divided by closing balance of total assets of the respective reporting year.

(5) Debt to equity ratio is defined as closing balance of total debt (sum of due to banks, customer accounts, debt securities in issue, syndicated loan) divided by closing balance of total equity of the respective reporting year.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATING RESULTS

*The following discussion and analysis of the consolidated financial position and operating result of TCS cover the years ended 31 December 2010, 2009, and 2008. Unless otherwise specified, the financial information presented in this discussion has been extracted or derived from the Group's Financial Statements. This section should be read in conjunction with the Group's Financial Statements and the notes thereto and the other financial information included elsewhere in this Prospectus, as well as the section entitled "Presentation of Financial and Other Data". Certain information contained in the discussion and analysis set forth below and elsewhere in this Prospectus includes "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the section entitled "Cautionary Note Regarding Forward-Looking Statements".*

*TCS's operational currency is the Rouble, but the Group's Financial Statements are presented in US dollars. Due to the sharp depreciation of the Rouble against the US dollar during the second half of 2008 and 2009, some trends observable in the financial information presented in Roubles were not observable in the consolidated financial statements presented in US dollars. In order to give investors a better understanding of TCS's performance, TCS's management decided to show some financial results in the "Management Discussions and Analysis of Financial Condition and Operating Results" section of this Prospectus in both US dollars and Roubles.*

**Overview**

TCS's principal business activity is providing consumer banking products and services to customers in the Russian Federation, primarily credit card loans and, more recently, retail deposits.

According to FRG, as of 28 February 2011, TCS had the sixth largest credit card loan portfolio in the Russian Federation amounting to RUB 11,400 million (approximately US$ 400,999 thousand). TCS's management believes that it has one of the fastest growing credit card portfolios in the Russian Federation and, according to FRG, as of 28 February 2011, TCS's market share in the Russian credit card loan segment amounted to 4.5 per cent. based on non-delinquent receivables. Since retail deposits were first offered in Moscow and Saint-Petersburg in February 2010, TCS's portfolio of retail deposits increased from RUB 255,352 thousand (US$ 8,443 thousand) as of 31 December 2009 to RUB 5,167 million (US$ 169,526 thousand) as of 31 December 2010.

TCS targets its credit card offers through a number of distribution channels. Currently, the primary distribution channel is direct mail. TCS management believes that personalised direct mail offers are one of the most efficient ways to reach new customers in Russia, particularly in the under-served parts of the country where TCS operates. In addition to direct mail, TCS uses the Internet, direct sales agents, commercial partnerships (including co-branding), the Russian Federal Post Office branches, credit brokers and other channels. TCS management expects that over time customer acquisition over the Internet will become the core part of the channel mix as Internet (and broadband) penetration rapidly expands in Russia. TCS acquires credit card customers by entering into commercial arrangements with a wide variety of partners including retailers, mail order companies, airlines, insurance companies, associations and loyalty management companies. These partners have customer lists to which TCS selectively mails credit card offers. See "*Business—Distribution of Credit Cards*".

The total number of credit card applications received by TCS increased in 2010 by 108 per cent. from 884 thousand as of 31 December 2009 to 1,839 thousand as of 31 December 2010. In 2009, the total number of credit card applications increased by 34 per cent. from 661 thousand as of 31 December 2008.

The total number of credit cards issued by TCS in 2010 increased by 100 per cent. from 429 thousand as of 31 December 2009 to 859 thousand as of 31 December 2010. In 2009, the total number of credit cards issued increased by 41 per cent. from 305 thousand as of 31 December 2008.

The volume of transactions (cash withdrawals and POS-operations) made by TCS's customers increased by 144 per cent. from RUB 4,100 million for the year ended 31 December 2009 to RUB 10,000 million for the year ended 31 December 2010. In 2009, the volume of transactions decreased by 21 per cent. from RUB 5,200 million for the year ended 31 December 2008.

TCS's portfolio of credit card loans increased in 2010 by 80.2 per cent. from US$ 188,375 thousand (RUB 5,697 million) as of 31 December 2009 to US$ 339,385 thousand (RUB 10,343 million) as of

31 December 2010. In 2009, the portfolio of credit cards increased by 22.0 per cent. from US$ 154,461 (RUB 4,538 million) as of 31 December 2008.

For the year ended 31 December 2010, TCS generated net interest income after provision for loan impairment of US$ 67,618 thousand as compared to US$ 55,393 thousand for the year ended 31 December 2009 and US$ 16,305 thousand for the year ended 31 December 2008. For the year ended 31 December 2010, TCS's profit before tax totaled US$ 12,939 thousand as compared to US$ 27,058 thousand profit before tax for the year ended 31 December 2009 and US$ 44,054 thousand loss before tax for the year ended 31 December 2008. For the year ended 31 December 2010, TCS's profit for the year totaled US$ 9,125 thousand as compared to US$ 18,222 thousand profit for the year ended 31 December 2009 and a US$ 44,747 thousand loss for the year ended 31 December 2008.

As of 31 December 2010, TCS had total assets of US$ 405,136 thousand as compared to US$ 211,614 thousand for the year ended 31 December 2009 and US$ 193,942 thousand as of 31 December 2008.

## Significant Factors Affecting Results of Operations

### *TCS's business environment*

*Product portfolio growth dynamics*

TCS's lending strategy focuses on increasing its share of the Russian credit card market through growth of its credit card loan portfolio. Even during the 2008-2009 financial crisis, when the debt capital markets remained closed for TCS, TCS was able to grow its credit card loan portfolio organically by approximately 20 per cent. by reinvesting cash flows from the existing portfolio. After the successful launch of an online deposit programme in February 2010 and renewed access to the domestic debt capital markets beginning in April 2010, TCS recommenced investing in growth in the second quarter of 2010. This comprised three key initiatives:

(a) Intensified customer acquisition through existing channels (mainly direct mail);

(b) Increased credit limits for existing customers based on their credit profile and behavioral scoring; and

(c) Launch of online customer acquisition through the Internet.

As a result, in 2010, TCS's credit card loan portfolio grew by 80.2 per cent. According to TCS management, there is a five- to seven-months lag between the time when investments in growth are made and the time when the newly acquired assets are reflected in portfolio performance. As a result, expenses incurred in the second and third quarters of 2010 led to loan portfolio growth in the third and fourth quarters of 2010, respectively, while there was a noticeable positive impact on profit observed in the fourth quarter of 2010 and this trend has continued in the first quarter of 2011.

Key indicators of financial position also closely correlate with portfolio growth dynamics. In the portfolio growth phase, returns and capitalisation tend to come down. However, TCS's 2010 return on equity exceeded 20 per cent. despite 80.2 per cent. portfolio growth.

| **Overall ratios of financial position** | **As of and for the year ended 31 December** | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| | | **Unaudited** | |
| Credit card portfolio growth rate(1) | 80.2% | 22.0% | 477.4% |
| Return on assets(2) | 3.0% | 9.0% | (30.2%) |
| Return on equity(3) | 23.1% | 70.8% | (187.8%) |
| Equity to total assets(4) | 10.8% | 16.6% | 8.5% |
| Debt to equity ratio(5) | 7.96 | 4.70 | 9.98 |

(1) Credit card portfolio growth rate is defined as change between credit card portfolio closing and opening balances of the respective reporting year divided by credit card portfolio opening balance of the respective reporting year.

(2) Return on assets is defined as profit/(loss) for the reporting year divided by average total assets. Average total assets has been calculated using the related opening and closing balances of the respective reporting year.

(3) Return on equity is defined as profit/(loss) for the year divided by average total equity. Average total equity has been calculated using the related opening and closing balances of the respective reporting year.

(4) Equity to total assets is defined as closing balance of total equity divided by closing balance of total assets of the respective reporting year.

(5) Debt to equity ratio is defined as closing balance of total debt (sum of due to banks, customer accounts, debt securities in issue, syndicated loan) divided by closing balance of total equity of the respective reporting year.

In 2009, when investments in portfolio growth were limited, TCS experienced the highest rates of return on assets and return on equity of the periods under review. Moreover, due to rapid growth of the portfolio and the somewhat delayed growth in equity, the ratio of equity to total assets in 2008 and 2010 was lower as compared to 2009. The same reasoning explains the difference in the debt to equity ratio.

TCS believes that its use of enhanced credit screening technologies and techniques to identify customers with better than average credit histories gives it an advantage in managing credit risks relative to some competitors who do not use these techniques. TCS's portfolio is spread throughout the Russian Federation and no Russian region accounts for more than 5 per cent. of TCS's customer base. Moscow and Saint-Petersburg represent approximately 3 and 4 per cent. of the total TCS customer base, respectively. Customers in smaller cities, frequently underserved by traditional banks, generally show greater interest in TCS's offerings and generate higher response rates to TCS's solicitations than customers in larger cities. For example, the postal payments under credit card loans are widely distributed across the Russian Federation and 31 per cent. of such payments are collected in towns with a population of less than 50 thousand people. The exposure of TCS to riskier "mono-cities" (cities where the majority of the population is employed by a single major enterprise) is immaterial. With four years of operating experience and extensive risk and behavioural data, TCS has started to expand its credit card business in Moscow and Saint-Petersburg through its new online acquisition platform in addition to acquisition channels which were used before.

TCS recognises that the credit risk profile and behavioral pattern of potential customers targeted through new acquisition channels, notably the Internet, may differ from those demonstrated by direct mail customers. On this basis, TCS uses stricter credit screening technologies for online credit card applicants and TCS's approval rates for this category of potential customers are lower as compared to those acquired through the direct mail channel.

*Interest rates*

Yields on credit cards issued by TCS are relatively high, but since credit limits are relatively low card interest and fee charges are also relatively low in absolute terms so customer sensitivity to paying such charges is also relatively low. Customers who repay their balances in full during the grace period pay zero interest and only those who use their cards to withdraw cash or do not repay within the grace period pay interest.

Although TCS continues to benefit from relatively high interest rates on credit card loans, in the future, increased competition in the consumer banking market, as well as new regulations, may result in reductions in interest rates charged by TCS. TCS's credit card loan rates may also come down gradually over time as the cost of risk and cost of funding come down and rates are reduced for existing, long-standing customers in order to retain them. Also, TCS management expects its customers to gradually become more disciplined over time which should help TCS to improve its portfolio risk profile, while exerting downward pressure on the effective interest rates and margins. Such expectations are based on TCS's management's belief that as the customers in Russia gain more experience in using different financial products, their financial awareness and credit discipline will increase.

TCS's management believes, that in the future, the cost of risk will tend to decrease primarily due to the improving macroeconomic situation in Russia, rising efficiency of TCS's scoring policy and acquisition of more customers in premium segments looking for quality service, rather than merely additional borrowing capacity.

*Credit card market development*

Credit card penetration per capita and as a percentage of GDP in Russia is still very low compared to developed markets. According to the CBR, Bank for International Settlements and European Central Bank data, in 2009, credit card penetration in the United States was 4.2 credit cards per person and the volume of credit card transactions amounted to 14.9 per cent. of GDP, as compared to 1.1 credit cards per person and 7.9 per cent. of GDP in the UK and 0.1 credit card per person and 0.2 per cent. of GDP in Russia. Growth of the Russian credit card market slowed during the recent financial crisis due to lack of funding in non-state-owned commercial and consumer lending banks, but it resumed in 2010 as consumer confidence rebounded and the capital markets revived.

Unlike its competitors using branches and points-of-sale as their main distribution channels, TCS's branchless, remote-service model allows it to target customers in all of Russia's towns and cities, irrespective of the region and the size of the population centre. By distributing credit card offers through post offices of Russian Federal Post and its partners, TCS can bring consumer credit to under-served parts of Russia where competition is lower, demand for retail credit is not as adequately served as it is in bigger cities, and risks tend to be lower (due to lower levels of fraud) than in Moscow and Saint-Petersburg, the two largest markets in the country. At the same time, card acceptance infrastructure is growing and consumer awareness of credit cards is improving and with them, the potential TCS customer base is expanding.

In the Russian credit card market, TCS competes primarily with consumer lending specialists, such as Russian Standard Bank, Home Credit and Finance Bank, Renaissance Credit and OTP Bank and retail banks including Sberbank, VTB24, Citibank and Alfa-Bank. In the retail deposit market, TCS competes with Sberbank, VTB24, Bank of Moscow, Rosbank, Alfa-Bank and other leading retail banks, as well as banks based in particular regions.

*Funding diversification strategy and retail deposits market development*

TCS seeks to maintain a balanced mix of wholesale and retail funding. In 2010, TCS rebalanced its liabilities structure by implementing a retail deposit programme and by successfully re-entering the debt capital market. In 2010, TCS placed three Rouble-denominated domestic bonds totaling RUB 4,500 million (approximately US$ 148,124 thousand), representing approximately 40 per cent. of total liabilities as of 31 December 2010. In February 2011, TCS placed another RUB 1,500 million (approximately US$ 51,831 thousand) Rouble-denominated domestic bond of which RUB 300 million (approximately US$ 10,366 thousand) was purchased by Egidaco. Following the launch of the online deposit programme in February 2010, TCS's retail deposit accounts grew to RUB 5,167 million (US$ 169,526 thousand) (representing approximately 47 per cent. of its total liabilities) as of 31 December 2010 from RUB 255,352 thousand (US$ 8,443 thousand) as of 31 December 2009. TCS's policy is to maintain the share of retail deposits in the long run within the range of 25-35 per cent. of its total liabilities.

In February 2010, an online deposit programme was successfully rolled out. Initially, TCS's value proposition consisted of the convenience of opening a deposit account without having to go to a branch coupled with competitive deposit rate offers. Deposit interest rates have been coming down over the past 18 months, thereby reducing the cost of funds from this source. For example, TCS was able to decrease its rates on long-term retail deposits from 22 per cent. per annum in June 2009, to 9 per cent. per annum in March 2011, with minimal customer erosion. At the very beginning of the retail deposit programme, the rates offered by TCS were much higher than the average for the market, but upon achieving the planned level of deposits in its funding base, TCS gradually lowered the rates (in line with the CBR's recommendations to Russian banks) in order to slow down the speed of new customer acquisition and as a response to improved market conditions and positive changes in customers' perception of TCS's services. TCS believes that the stability, diversification and lower costs of funding afforded by its retail deposit programme make it a viable source of funding going forward. The retail programme is regarded by TCS's management as a tool for diversifying its funding base, decreasing interest expense and increasing net interest margins in the future. TCS management believes that the significant growth in the retail deposit base in 2009-2010 and successful launch of TCS's online deposit programme in 2010 can be explained by the competitive interest rates offered by TCS and the growing public trust in the Russian banking sector supported by the introduction of a state deposit insurance scheme in 2004, which covers the majority of funds on TCS's retail deposit accounts.

In the future, subject to market conditions, TCS also intends to continue to access domestic and international debt capital markets, obtain bilateral and syndicated unsecured loans and, to a certain extent, asset-backed financing both from major Russian and foreign banks as well as arrange for the securitisation of credit card receivables.

***Russian macroeconomic environment***

*General market conditions and operating environment*

The Russian Federation displays characteristics of an emerging market, including relatively high inflation and high interest rates. Despite strong economic growth in recent years, the financial situation in the Russian financial and corporate sectors significantly deteriorated during the global financial crisis in 2008-2009 (however, clear signs of recovery were observed throughout 2010):

- Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted during 2009 by 7.9 per cent., but rebounded in 2010 with 3.8 per cent. GDP growth.

- The depreciation of the Rouble against leading world currencies in 2008-2009 (despite slight recovery during 2010) increased the burden of foreign currency corporate debt, which has risen considerably in recent years:
  - RUB 30.4769 for US$ 1 and RUB 40.3331 for EUR 1 as of 31 December 2010;
  - RUB 30.2442 for US$ 1 and RUB 43.3883 for EUR 1 as of 31 December 2009;
  - RUB 29.3804 for US$ 1 and RUB 41.4411 for EUR 1 as of 31 December 2008; and
  - RUB 25.3718 for US$ 1 and RUB 36.4999 for EUR 1 as of 1 October 2008.

Management is unable to predict all developments which could have an impact on the banking sector and the wider economy and consequently what effect, if any, such developments could have on the future financial position of TCS.

In 2009, TCS's credit card customers were adversely affected by the financial and economic environment, which in turn had an impact on their ability to repay the amounts owed. For example, the unemployment level increased from 6.4 per cent. to 8.4 per cent. in 2009 and private consumption dropped by 8 per cent. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments. However, in 2010, the Russian economy resumed its growth which resulted in lower unemployment rates and in a return of disposable income growth. This positive trend was a key factor that enhanced the quality of TCS's credit card portfolio and stabilised its risk characteristics at a level below that observed before the onset of the global financial crisis.

The volume of wholesale financing available, domestically and internationally, has significantly increased in 2010, as investor confidence started to strengthen. In 2010, taking advantage of these dynamics, TCS raised RUB 4,500 million (approximately US$ 148, 124 thousand) through its Rouble-denominated domestic bonds. In February 2011, TCS placed another RUB 1,500 million (approximately US$ 51,831 thousand) Rouble-denominated domestic bond of which RUB 300 million was purchased by Egidaco. However, there is no assurance that TCS will be able to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

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

*Inflation*

The Russian Federation has in the past few years experienced a significant decrease in inflation. In 2009, inflation reached the lowest levels since 2006 and achieved single digits. According to the CBR, the inflation rate, as measured by the consumer price index, was 8.8 per cent. in both 2009 and 2010 as compared to 13.3 per cent. in 2008 and 11.9 per cent. in 2007. Despite the decrease in the inflation rate in 2009-2010, its high level relative to other economies (in spite of 7.9 per cent. decline in GDP in 2009) reflects structurally high inflation expectations in Russia. Any return to high and sustained inflation of the kind that Russia experienced in the early 1990s could lead to market instability, reductions in consumer purchasing power and an erosion of consumer confidence. Any one of these events could lead to decreased demand for TCS's products and services.

A lower rate of inflation, absent other changes such as income or wage growth, increases the purchasing power (in Roubles) of TCS's customers. Such an increase in purchasing power would be expected to have a positive effect on consumer confidence resulting in higher demand for TCS's credit cards. At the same time the Rouble is recovering in nominal and real terms relative to other currencies such as the Euro and the US dollar, so discretionary spending should increase, and this could also translate into a higher volume of credit card loans.

*Russian legislation and highly regulated environment*

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.

Such Russian authorities as the CBR, Rospotrebnadzor and the Federal Antimonopoly Service could apply statutory sanctions to TCS in respect of a lack of transparent disclosure of fees and interest on credit card products to customers as have been applied to some Russian banks for hidden fees. Since TCS transparently discloses this information in full, there is a low probability of such statutory sanctions. Moreover, TCS monitors customer complaints daily at senior management level to ensure that management receives feedback from customers and takes action accordingly. TCS has a policy of satisfying customers' complaints, where appropriate, by refunding disputed fees which has the effect of increasing customers' satisfaction, and therefore retention rates, but has little impact on TCS's income.

***Risk management***

Management of risks arising from financial assets is fundamental to TCS's business and is an essential element of TCS's operations. See "*Assets, Liability and Risk Management*".

The major risks faced by TCS are those related to credit exposures, liquidity, movements in interest rates and foreign exchange rates and tax contingencies. These risks are managed in the following manner:

*Credit risk*

TCS takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of TCS's credit card lending and other transactions with counterparties giving rise to financial assets. TCS uses an application scoring model, behavioural scoring model and transition matrix approach to calculate credit risk. See "*Asset, Liability and Risk Management—Credit Risk*".

*Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. TCS is exposed to daily calls on its available cash resources from unused limits on issued credit cards, retail deposits and current accounts. TCS does not maintain cash resources to meet all of these needs as experience shows that only a certain level of calls will take place and it can be predicted with a high level of certainty. See "*Asset, Liability and Risk Management—Liquidity Risk*".

*Interest rate risk*

TCS is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event of unexpected movements. Management monitors interest rates and exposure on a daily basis and adjusts as necessary the limits on the level of mismatch of interest rate re-pricing that may be undertaken. See "*Asset, Liability and Risk Management — Market Risks—Interest Rate Risk*".

*Foreign currency risk*

TCS's credit card loan portfolio is denominated in Roubles, and currently all of TCS's liabilities are also denominated in Roubles. Following the Offering, however, TCS will be exposed to foreign currency risk. Foreign currency risk arises when the actual assets in a foreign currency are either greater or lesser than the liabilities in that currency. Foreign exchange rate derivative financial instruments are used by Group to hedge the imbalances in the foreign currency structure of assets and liabilities. See "*Asset, Liability and Risk Management—Market Risks—Foreign Currency Risk*".

**Taxation Contingencies**

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 TCS may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes the guidance from the Supreme Arbitrazh Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, such assertive and sophisticated approach of tax authorities may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, 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 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 per cent.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether they were performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20 per cent. 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 arbitrazh court practice in this respect has been contradictory.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

TCS's parent company Egidaco is incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that Egidaco is not subject to Russian profits tax because it does not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of Egidaco in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

From time to time, TCS adopts interpretations of such uncertain areas that reduce the overall tax rate of TCS. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

**Significant Accounting Policies**

TCS's consolidated financial position and results of operations presented in the Group's Financial Statements and the notes thereto, as well as selected statistical and other information appearing elsewhere in this Prospectus are, to a large degree, dependent upon TCS's accounting policies, which in some cases involve a degree of management judgement. TCS's significant accounting policies are described in the notes to the Group's Financial Statements appearing elsewhere in this Prospectus.

TCS has identified the following accounting policies that it believes are the most important to an understanding of the consolidated results of operations and financial condition of TCS. These significant accounting policies require management's subjective and complex judgment about matters that are inherently uncertain. The impact of, and any associated risks related to, TCS's significant accounting policies on its business, operating results and financial position, are discussed throughout this section where these policies affect TCS's consolidated financial results as presented in this Prospectus.

***Impairment of financial assets carried at amortised cost***

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("**loss events**") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factor that the Group considers in determining whether a financial asset is impaired is its overdue status.

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

In the course of business the Group sells bad debts to third parties, and the difference between the carrying amount of bad debt and the consideration received is recorded in profit and loss at the settlement date.

***Income and expense recognition***

Interest income and expense are recorded in the consolidated income statement for all debt instruments on an accruals basis using the effective interest method. This method defers, as part of interest income or expense, all fees 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.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, negotiating the terms of the instrument, for servicing of account and cash withdrawal. Commitment fees received by TCS to originate loans at market interest rates are integral to the effective interest rate if it is probable that TCS will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. TCS does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows, and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

Customer acquisition costs represented by the expenses paid by TCS on services related to attraction of the credit card borrowers (including mailing of advertising materials and processing of the responses) and are expensed on the basis of the actual services provided.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

***Income taxes***

Income taxes have been provided for in the consolidated financial statements in accordance with Russian and Cypriot legislation enacted or substantively enacted by the end of reporting period. The income tax (charge)/credit comprises current tax and deferred tax and is recognised in the income statement for the year, except in cases where it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than income tax are recorded within administrative and other expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of Egidaco. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where Egidaco controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

## Selected Statistical Information

***Average statement of financial position and interest rate data***

The following table sets forth the consolidated average balances of interest-earning assets and interest-bearing liabilities of TCS for the years ended 31 December 2010, 2009 and 2008, and also sets forth the amount of interest income and expense and the average rate of such interest income or expense for such assets and liabilities which existed at the end of the reporting period. For the purposes of this table, the consolidated average balances of assets and liabilities represent the average of the opening and closing balances for each year. The results of this analysis would likely be different if alternative averaging methods were used. The average rates below are calculated by dividing aggregate interest income or expense for the relevant line item below by the average balance for the same line item. Average interest rates are distinct from the effective interest rates presented in the Group's Financial Statements and referred to elsewhere in this Prospectus. See "*—Significant Accounting Policies—Income and Expense Recognition*" above for a description of the method of calculation of effective interest rates:

| | For the year ended 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | | 2008 | | |
| | Average balance | Interest Income/ Expense | Average interest rate (percentage)[7] | Average balance | Interest Income/ Expense | Average interest rate (percentage)[7] | Average balance | Interest Income/ Expense | Average interest rate (percentage)[7] |
| | (In thousands of US dollars except for percentages) | | | | | | | | |
| **Interest-earning assets** | | | | | | | | | |
| Cash and cash equivalents[1] | 27,906 | 465 | 1.7% | 20,820 | 248 | 1.2% | 22,740 | 1,824 | 8.0% |
| Credit card loans[2] | 243,484 | 138,106 | 56.7% | 155,859 | 104,617 | 67.1% | 82,117 | 61,260 | 74.6% |
| Other loans[2][3] | 1,592 | 122 | 7.7% | 1,064 | 414 | 38.9% | 20,384 | 1,410 | 6.9% |
| **Total average interest-earning assets** | 272,982 | 138,693 | **50.8%** | 177,743 | 105,279 | **59.2%** | 125,241 | 64,494 | **51.5%** |
| **Interest-bearing liabilities** | | | | | | | | | |
| Due to banks | 2,489 | 873 | 35.1% | 2,489 | 372 | 14.9% | — | - | 0.0% |
| Customer accounts | 93,385 | 11,490 | 12.3% | 10,529 | 707 | 6.7% | 5,344 | 224 | 4.2% |
| Debt securities in issue[4] | 115,111 | 16,981 | 14.8% | 96,171 | 17,701 | 18.4% | 73,546 | 13,743 | 18.7% |
| Syndicated loan | 45,890 | 13,766 | 30.0% | 55,318 | 12,753 | 23.1% | 35,337 | 9,958 | 28.2% |
| **Total average interest-bearing liabilities** | 256,875 | 43,110 | **16.8%** | 164,507 | 31,533 | **19.2%** | 114,227 | 23,925 | **20.9%** |
| Net interest spread[5] | | — | 34.0% | | — | 40.0% | | — | 30.6% |
| Net interest income | | 95,583 | | | 73,746 | | | 40,569 | |
| Net interest margin[6] | | — | 35.0% | | — | 41.5% | | — | 32.4% |

(1) Excludes cash on hand and cash balances with the CBR (other than mandatory reserve deposits) as these assets are not interest-earning.

(2) These values are net of provision for loan impairment.

(3) Includes other loans to individuals and corporate loans.

(4) Includes Euro- and Rouble-denominated bonds.

(5) Net interest spread is defined as a difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities.

(6) Net interest margin is defined as a relation of net interest income to total average interest-earning assets.

(7) Average interest rate on interest-earning assets was calculated as the total interest income divided by interest-earning assets representing the average of the opening and closing balances for the respective year. Average interest rate on interest-bearing liabilities was calculated as total interest expense divided by interest-bearing liabilities representing the average of the opening and closing balances for the respective year.

| | For the year ended 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | | 2008 | | |
| | Average balance[1] | Interest Income/ Expense[2] | Average interest rate (percentage) | Average balance[1] | Interest Income/ Expense[2] | Average interest rate (percentage) | Average balance[1] | Interest Income/ Expense[2] | Average interest rate (percentage) |
| | Unaudited (In thousands of Roubles except for percentages) | | | | | | | | |
| **Interest-earning assets** | | | | | | | | | |
| Cash and cash equivalents | 848,910 | 14,122 | 1.7% | 617,489 | 7,753 | 1.3% | 626,348 | 45,336 | 7.2% |
| Credit card loans | 7,400,637 | 4,194,172 | 56.7% | 4,653,515 | 3,270,536 | 70.3% | 2,353,285 | 1,522,636 | 64.7% |
| Other loans | 48,336 | 3,704 | 7.7% | 31,996 | 12,943 | 40.5% | 501,389 | 35,046 | 7.0% |
| **Total average interest-earning assets** | 8,297,883 | 4,211,998 | **50.8%** | 5,303,000 | 3,291,232 | **62.1%** | 3,481,022 | 1,603,018 | **46.1%** |
| **Interest-bearing liabilities** | | | | | | | | | |
| Due to banks | 75,263 | 26,512 | 35.2% | 75,263 | 11,630 | 15.5% | — | — | 0.0% |
| Customer accounts | 2,844,617 | 348,942 | 12.3% | 314,783 | 22,102 | 7.0% | 151,566 | 5,568 | 3.7% |
| Debt securities in issue | 3,498,162 | 515,700 | 14.7% | 2,862,959 | 553,370 | 19.3% | 2,060,786 | 341,586 | 16.6% |
| Syndicated loan | 1,391,557 | 418,063 | 30.0% | 1,651,381 | 398,686 | 24.1% | 988,802 | 247,509 | 25.0% |
| **Total average interest-bearing liabilities** | 7,809,599 | 1,309,217 | **16.8%** | 4,904,386 | 985,788 | **20.1%** | 3,201,154 | 594,663 | **18.6%** |
| Net interest spread | | — | 34.0% | | — | 42.0% | | — | 27.5% |
| Net interest income | | 2,902,781 | | | 2,305,444 | | | 1,008,355 | |
| Net interest margin | | — | 35.0% | | — | 43.5% | | — | 29.0% |

(1) Average balances for the years ended 31 December 2010, 2009 and 2008 in Roubles has been determined as an average of relative opening and closing balances that have been translated in Roubles at official exchange rate of the CBR on the respective reporting date (at the official rate of the CBR which was RUB 30.4769 to US$ 1 as of 31 December 2010, RUB 30.2442 to US$ 1 as of December 2009, RUB 29.3804 to US$ 1 as of 31 December 2008 and RUB 24.5462 to US$ 1 as of 31 December 2007). See "*Presentation of Financial and Other Information—Exchange Rates*"

(2) Financial information for the years ended 31 December 2010, 2009 and 2008 has been translated into Roubles at the average rate for the respective reporting period (at the average conversion rate which is RUR 30.3692 to US$ 1 for the year ended 31 December 2010, RUB 31.2621 to US$ 1 for the year ended 31 December 2009 and RUB 24,8553 to US$ 1 for the year ended 31 December 2008). See "*Presentation of Financial and Other Information—Exchange Rates*"

*Interest-earning assets*

*Average balances*. The increase in interest-earning assets in 2010 as compared to 2009 was principally the result of an increase in the size of TCS's credit card loan portfolio, whose average balance increased by 56.2 per cent., or US$ 87,625 thousand, from US$ 155,859 thousand for the year ended 31 December 2009 to US$ 243,484 thousand for the year ended 31 December 2010. The average balance of TCS's cash and cash equivalents increased in 2010 as compared to 2009 primarily because TCS had more excess cash in 2010.

*Average interest rates*. The decrease in the average interest rate on TCS's credit card loans in 2010 as compared to 2009 was primarily because TCS's portfolio growth mainly occurred in the second half of the year, whilst in the first half of the year the loan portfolio did not grow significantly. Given that there is a five- to seven-month lag between the time when portfolio growth occurs and the time when interest income from the newly acquired assets is received, the average interest started to decrease. In addition, TCS started attracting customers through the Internet by offering lower introductory interest rates.

The increase in average interest rates on interest-earning assets in 2009 as compared to 2008 was principally the result of increases in the average interest rate on credit card loans and on other loans.

*Interest-bearing liabilities*

*Average balances*. The increases in interest-bearing liabilities in 2010 as compared to 2009 and in 2009 as compared to 2008, can be explained by the fact that these liabilities, and debt securities in particular, are the major source of financing for TCS's interest-earning assets and, consequently, have increased as TCS's interest-earning assets have increased. TCS issued its first Rouble-denominated domestic bond in 2007, subsequently raised a syndicated loan and issued a Eurobond in 2008, issued Rouble-denominated domestic bonds in the amount of RUB 4,500 million (approximately US$ 143,591 thousand) in 2010 and placed RUB 1,500 million (approximately US$ 51,831 thousand) of Rouble-denominated domestic bonds in February 2011, a RUB 300 million (approximately US$ 10,366 thousand) of which was purchased by Egidaco. The increase in the total average balance of interest-bearing liabilities by 56.1 per cent., or by US$ 92,368 thousand, from US$ 164,507 thousand for the year ended 31 December 2009 to US$ 256,875 thousand for the year ended 31 December 2010 principally resulted from an increase in deposits by customers, which amounted to 787.0 per cent. or US$ 82,856 thousand. The increase by 44.0 per cent., or by US$ 50,280 thousand, from US$ 114,227 thousand for the year ended 31 December 2008 to US$ 164,507 thousand for the year ended 31 December 2009, was principally due to the issue of the Eurobond and the syndicated loan placed in 2008. See "—*Funding*".

*Average interest rates*. The average interest rate on interest-bearing liabilities calculated in Roubles (functional currency) decreased slightly in 2010 to 16.8 per cent. as compared to 20.1 per cent. in 2009, which in turn represented an increase from 18.6 per cent. in 2008. The decrease in 2010 as compared to 2009 can be explained by a combination of three factors: (i) a decrease in the average interest rate of debt securities from 19.3 per cent. in 2009 to 14.7 per cent. in 2010; (ii) the growth of the average balance of debt securities in issue by 22.2 per cent. and an increase in the average customer account balance by 803.7 per cent. (constituting 36.4 per cent. of the total average balance of interest-bearing liabilities in 2010) with an average interest rate of 12.3 per cent. which led to a reduction in the proportion of high-interest-bearing liabilities in the portfolio of interest-bearing liabilities; and (iii) changes in the terms of the RUB 1.5 Billion Facility which took place in 2010. The increase in 2009 as compared to 2008 was primarily due to changes in the terms of the RUB 1.5 Billion Facility. See "—*Funding—RUB 1.5 Billion Facility*".

*Net interest spread and margin*. Net interest spread and net interest margin calculated in Roubles decreased to 34.0 and 35.0 per cent in 2010 from 42.0 and 43.5 per cent in 2009 primarily due to a decrease in interest income earned on credit card loans due to a lower average interest rate and growth of the credit card loan portfolio. This decrease is caused by a five- to seven-month lag between the time when portfolio growth occurs and the time when interest income from the newly acquired assets is received. Net interest spread and net interest margin increased in 2009 as compared to 2008 primarily due to an increase in average interest rate on credit card loans from 64.7 per cent. in 2008 to 70.3 per cent. in 2009 and interest income earned in the amount of RUB 1,747,900 thousand.

### *Net changes in interest income and expense — volume and rate analysis*

The following table provides a comparative analysis of net changes to interest income and interest expense by reference to changes in average volume and rates for the periods indicated. Net changes in net interest income are attributed to either changes to average balances (volume change) or changes in average rates (rate change) for interest-earning assets and interest-bearing liabilities. Volume change is calculated as the change in volume multiplied by the rate for the comparative period, while average rate change is the change in average rate multiplied by the average volume for the current period. The rate/volume change (change in rate multiplied by change in volume) is allocated between volume change and rate change at the ratio each component bears to the absolute value of their total. Average balances represent the average of the opening and closing balances for the respective year. Average interest rates are distinct from the effective interest rates presented in the Group's Financial Statements and referred to elsewhere in this Prospectus:

| | For the year ended 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 Increase/(decrease) due to changes in | | | 2009 Increase/(decrease) due to changes in | | | 2008 Increase/(decrease) due to changes in | | |
| | Volume | Rate | Net change | Volume | Rate | Net change | Volume | Rate | Net change |
| | *(In thousands of US dollars except for percentages)* | | | | | | | | |
| **Interest income** | | | | | | | | | |
| Cash and cash equivalents | 84 | 133 | 217 | (154) | (1,422) | (1,576) | 6 | 1,808 | 1,814 |
| Credit card loans | 58,816 | (25,327) | 33,489 | 55,013 | (11,656) | 43,357 | 14,108 | 44,673 | 58,781 |
| Corporate loans | 206 | (498) | (292) | (1,336) | 340 | (996) | (275) | (533) | (808) |
| **Total interest income** | **59,106** | **(25,692)** | **33,414** | **53,523** | **(12,738)** | **40,785** | **13,839** | **45,948** | **59,787** |
| **Interest expense** | | | | | | | | | |
| Due to banks | — | 501 | 501 | — | 372 | 372 | — | — | — |
| Customer accounts | 5,564 | 5,219 | 10,783 | 217 | 266 | 483 | — | 224 | 224 |
| Debt securities in issue | 3,486 | (4,206) | (720) | 4,228 | (270) | 3,958 | 2,849 | 9,780 | 12,628 |
| Syndicated loan | (2,174) | 3,187 | 1,013 | 5,631 | (2,836) | 2,795 | 157 | 9,736 | 9,894 |
| **Total interest expense** | **6,876** | **4,701** | **11,577** | **10,076** | **(2,468)** | **7,608** | **3,006** | **19,740** | **22,746** |
| **Net change in net interest income** | **52,230** | **(30,391)** | **21,837** | **43,447** | **(10,270)** | **33,177** | **10,833** | **26,208** | **37,041** |

| | For the year ended 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 Increase/(decrease) due to changes in | | | 2009 Increase/(decrease) due to changes in | | | 2008 Increase/(decrease) due to changes in | | |
| | Volume | Rate | Net change | Volume | Rate | Net change | Volume | Rate | Net change |
| | *Unaudited (In thousands of Roubles except for percentages)* | | | | | | | | |
| **Interest income** | | | | | | | | | |
| Cash and cash equivalents | 2,906 | 3,463 | 6,369 | (641) | (36,942) | (37,583) | 203 | 44,878 | 45,081 |
| Credit card loans | 1,930,703 | (1,007,069) | 923,635 | 1,488,307 | 259,593 | 1,747,900 | 431,463 | 1,027,830 | 1,459,292 |
| Corporate loans | 6,610 | (15,847) | (9,237) | (32,810) | 10,706 | (22,103) | (7,414) | (14,213) | (21,627) |
| **Total interest income** | **1,940,219** | **(1,019,453)** | **920,767** | **1,454,856** | **233,357** | **1,688,214** | **424,252** | **1,058,495** | **1,482,746** |
| **Interest expense** | | | | | | | | | |
| Due to banks | — | 14,883 | 14,883 | — | 11,630 | 11,630 | — | — | — |
| Customer accounts | 177,631 | 149,209 | 326,840 | 5,996 | 10,539 | 16,535 | — | 5,568 | 5,568 |
| Debt securities in issue | 122,776 | (160,446) | (37,671) | 132,964 | 78,820 | 211,784 | 109,937 | 230,534 | 340,471 |
| Syndicated loan | (62,728) | 82,105 | 19,377 | 165,852 | (14,676) | 151,176 | 6,129 | 241,316 | 247,445 |
| **Total interest expense** | **237,679** | **85,751** | **323,429** | **304,812** | **86,313** | **391,125** | **116,066** | **477,418** | **593,484** |
| **Net change in net interest income** | **1,702,540** | **(1,105,204)** | **597,338** | **1,150,044** | **147,045** | **1,297,089** | **308,186** | **581,077** | **889,262** |

Overall, the increase in total interest income in 2010 as compared to 2009 was principally due to an increase in the US dollar volume of credit card loans by 6.9 per cent. The growth in TCS's credit card loan portfolio calculated in Roubles was higher than the growth in US dollars due to a negative US dollar/Rouble effect. The net change in total interest income for the year ended 31 December 2010 as compared to the year ended 31 December 2009 was 28.0 per cent. or RUB 920,767 thousand.

The average interest rate on credit card loans increased in 2009 as compared to 2008 primarily due to growth of the credit card loan portfolio. The growth in the average interest rate in 2009 as compared to 2008 calculated in Roubles equalled 5.6 per cent. per annum.

### Results of Operations for Years Ended 31 December 2010, 2009 and 2008

The following table sets out TCS's operating results for the years ended 31 December 2010, 2009 and 2008:

| | For the year ended 31 December | | | Change from prior year | |
|---|---|---|---|---|---|
| | **2010** | **2009** | **2008** | **2010** | **2009** |
| | *(In thousands of US dollars)* | | | *(Percentages)* | |
| Interest income | 138,693 | 105,341 | 65,434 | 31.7% | 61.0% |
| Interest expense | (43,110) | (31,606) | (24,876) | 36.4% | 27.1% |
| **Net interest income** | **95,583** | **73,735** | **40,558** | **29.6%** | **81.8%** |
| Provision for loan impairment | (27,965) | (18,342) | (24,253) | 52.5% | (24.4%) |
| **Net interest income after provision for loan impairment** | **67,618** | **55,393** | **16,305** | **22.1%** | **239.7%** |
| Losses/gains on repurchase of debt securities in issue | (359) | 4,872 | — | (107.4%) | n/a |
| Customer acquisition expense | (17,121) | (3,359) | (13,379) | 409.7% | (74.9%) |
| Foreign exchange translation gains less losses/(losses less gaines) | 7,993 | (3,906) | (13,062) | (304.6%) | (70.1%) |
| Losses less gains from financial derivatives[(1)] | (1,849) | (1,442) | — | 28.2% | n/a |
| Release/(charge) of provision for tax risks | 1,786 | (1,302) | (4,411) | (237.2%) | (70.5%) |
| Fee and commission expense | (2,726) | (1,631) | (970) | 67.1% | 68.1% |
| Gain from sale of bad debts[(2)] | 2,268 | 1,406 | — | 61.3% | n/a |
| Other operating income[(3)] | 283 | 583 | 894 | (51.5%) | (34.8%) |
| Remeasurcmcnt of net assets attributable to minority participant | — | 199 | 1,504 | (100.0%) | (86.8%) |
| Administrative and other operating expenses | (44,954) | (23,755) | (30,935) | 89.2% | (23.2%) |
| **Profit / (loss) before tax** | **12,939** | **27,058** | **(44,054)** | (52.2%) | (161.4%) |
| Income tax expense | (3,814) | (8,836) | (693) | (56.8%) | 1,175.0% |
| **Profit / (loss) for the year** | **9,125** | **18,222** | **(44,747)** | (49.9%) | (140.7%) |

(1) This line item is referred to as losses less gains from derivative revaluation in respect of consolidated statement of comprehensive income for the year ended 31 December 2009.

(2) This line item is referred to as income from sale of bad debts in respect of consolidated statement of comprehensive income for the year ended 31 December 2009.

(3) Represents sum of gains less losses from trading in foreign currencies and other operating income line items in consolidated statement of comprehensive income for the year ended 31 December 2009.

*Interest income*

The following table sets out the principal components of TCS's interest income for the years ended 31 December 2010, 2009 and 2008:

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | Percentage of total | 2009 | Percentage of total | 2008 | Percentage of total |
| | *(In thousands of US dollars, except for percentages)* | | | | | |
| **Total interest income** | **138,693** | **100%** | **105,341** | **100%** | **65,434** | **100%** |
| *of which* | | | | | | |
| Credit card loans | 138,106 | 99.6% | 104,617 | 99.3% | 61,260 | 93.6% |
| Placements with other banks | 465 | 0.3% | 248 | 0.2% | 1,824 | 2.8% |
| Other interest income | 122 | 0.1% | 476 | 0.5% | 2,350 | 3.6% |

Total interest income consists primarily of interest income on credit card loans and on TCS's placements in banks. During the years under review, TCS's main source of interest income has been from credit card loans.

The following table sets out the principal components of TCS's net interest income and average interest-earning assets, calculated as the average of the opening and closing balances for each year under review:

| | For the year ended 31 December | | | Change from prior year | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010 | 2009 |
| | *(In thousands of US dollars)* | | | *(Percentages)* | |
| Credit card loans | 138,106 | 104,617 | 61,260 | 32.0% | 70.8% |
| Other loans | 122 | 476 | 2,350 | (74.4%) | (79.7%) |
| Placements with other banks | 465 | 248 | 1,824 | 87.5% | (86.4%) |
| **Total interest income** | **138,693** | **105,341** | **65,434** | **31.7%** | **61.0%** |
| **Total interest expense** | **43,110** | **31,606** | **24,876** | **36.4%** | **27.1%** |
| **Net interest income** | 95,583 | 73,735 | 40,558 | 29.6% | 81.8% |
| Provision for loan impairment | (27,965) | (18,342) | (24,253) | 52.5% | (24.4%) |
| **Net interest income after provision for loan impairment** | 67,618 | 55,393 | 16,305 | 22.1% | 239.7% |
| **Average interest-earning assets** | | | | | |
| Due from banks | 27,906 | 20,820 | 22,740 | 34.0% | (8.4%) |
| Credit card loans | 243,484 | 155,859 | 82,117 | 56.2% | 89.8% |
| Corporate loans | 1,592 | 1,064 | 20,384 | 49.7% | (94.8%) |
| **Total average interest-earning assets** | **272,982** | **177,743** | **125,241** | **53.6%** | **41.9%** |

The following table sets out the principal components of TCS's net interest income in Rouble terms and average interest-earning assets, calculated as the average of the opening and closing balances for each year under review:

| | For the year ended 31 December(1) | | | Change from prior year | |
|---|---|---|---|---|---|
| | **2010** | **2009** | **2008** | **2010** | **2009** |
| | *Unaudited* | | | | |
| | *(In thousands of Roubles)* | | | *(Percentages)* | |
| Credit card loans | 4,194,171 | 3,270,536 | 1,522,636 | 28.2% | 114.8% |
| Other loans | 3,704 | 14,881 | 58,410 | (75.1%) | (74.5%) |
| Placements with other banks | 14,122 | 7,753 | 45,336 | 82.1% | (82.9%) |
| **Total interest income** | **4,211,998** | **3,293,170** | **1,626,382** | **27.9%** | **102.5%** |
| **Total interest expense** | **1,309,217** | **988,070** | **618,300** | **32.5%** | **59.8%** |
| Net interest income | 2,902,781 | 2,305,100 | 1,008,082 | 25.9% | 128.7% |
| Provision for loan impairment | (849,275) | (573,398) | (602,816) | 48.1% | (4.9%) |
| Net interest income after provision for loan impairments | 2,053,506 | 1,731,702 | 405,265 | 18.6% | 327.3% |
| **Average interest-earning assets(2)** | | | | | |
| Due from banks | 848,910 | 617,489 | 626,348 | 37.5% | (1.4%) |
| Credit card loans | 7,400,637 | 4,653,515 | 2,353,285 | 59.0% | 97.7% |
| Other loans | 48,336 | 31,996 | 501,389 | 51.1% | (93.6%) |
| **Total average interest-earning assets** | **8,297,883** | **5,303,000** | **3,481,022** | **56.5%** | **52.3%** |

(1) Financial information for the years ended 31 December 2010, 2009 and 2008 has been translated into Roubles at the average rate for the respective reporting period (at the average conversion rate which is RUR 30.3692 to US$ 1 for the year ended 31 December 2010, RUB 31.2621 to US$ 1 for the year ended 31 December 2009 and RUB 24,8553 to US$ 1 for the year ended 31 December 2008). See "*Presentation of Financial and Other Information—Exchange Rates*"

(2) Average balances for the years ended 31 December 2010, 2009 and 2008 in Roubles has been determined as an average of relative opening and closing balances that have been translated in Roubles at official exchange rate of the CBR on the respective reporting date (at the official rate of the CBR which was RUB 30.4769 to US$ 1 as of 31 December 2010, RUB 30.2442 to US$ 1 as of December 2009, RUB 29.3804 to US$ 1 as of 31 December 2008 and RUB 24.5462 to US$ 1 as of 31 December 2007). See "*Presentation of Financial and Other Information—Exchange Rates*"

Interest income on all of TCS's credit card loans to individuals consists of an interest rate charged to the customers and certain fees relating to credit card loans, including cash withdrawal fee, annual fee, insurance fee and SMS fee. There are several types of monthly, annual and one-off fees on credit card loans.

Interest income increased by 27.9 per cent., or RUB 918,828 thousand, and amounted to RUB 4,211,998 thousand for the year ended 31 December 2010 as compared to RUB 3,293,170 thousand for the year ended 31 December 2009, primarily due to an increase in the average balance of the credit card loan portfolio by 59.0 per cent. from RUB 4,653,515 thousand for the year ended 31 December 2009 to RUB 7,400,637 thousand for the year ended 31 December 2010. This significant increase in the size of TCS's credit card loan portfolio was due to new customers (mostly from the Internet). It also caused the average interest rate to decrease by 13.6 per cent. due to (i) a five- to seven-month lag between the time when portfolio growth occurs and the time when interest income from the newly acquired assets is received; and (ii) lower interest rates which were offered to the Internet customers. Interest income increased by 102.5 per cent., or RUB 1,666,788 thousand, and totalled RUB 3,293,170 thousand for the year ended 31 December 2009 as compared to RUB 1,626,382 thousand for the year ended 31 December 2008, primarily due to an increase in the average balances of credit card loans from RUB 2,353,285 thousand for the year ended 31 December 2008 to RUB 4,653,515 thousand for the year ended 31 December 2009.

The average balance of credit card loans represented 99.4 per cent. and 99.3 per cent. of net total average loans to customers outstanding as of 31 December 2010 and 2009, respectively.

The year-on-year increases in interest income for the years ended 31 December 2008, 2009 and 2010, principally resulted from TCS's continuing penetration of the Russian credit card market. TCS also continued to benefit from relatively high interest rates on credit card loans. However, in the future, increased competition in the consumer banking market, as well as new regulations, may result in reductions in interest rates charged by TCS.

Interest income earned on placements with banks and other financial institutions increased by 82.1 per cent., or by RUB 6,369 thousand, and amounted to RUB 14,122 thousand for the year ended 31 December 2010 as compared to RUB 7,753 thousand for the year ended 31 December 2009. The increase in interest income earned on placements with banks and other financial institutions for the year ended 31 December 2010 as compared to the year ended 31 December 2009 was primarily due to the introduction of treasury management in TCS during 2010. TCS management made a decision to invest in market instruments and, therefore, most of the investments at the end of the year were made primarily in promissory notes of highly-rated Russian banks with an average duration of 32 days and an average yield of 4.87 per cent. The average cash balance throughout 2010 remained above RUB 940 million. Interest income earned on placements with banks and other financial institutions in 2009 decreased by RUB 37,583 thousand, or by 82.9 per cent., and amounted to RUB 7,753 thousand for the year ended 31 December 2009 as compared to RUB 45,336 thousand for the year ended 31 December 2008. This decrease was primarily due to absence of excess cash in TCS during 2009.

### *Interest expense*

Interest expense principally comprises amounts incurred by TCS as interest on debt securities issued by TCS (principally domestic bonds and loan participation notes), as well as funding received from retail deposits, banks and other financial institutions. The following table sets out the principal components of TCS's consolidated interest expense for the years ended 31 December 2010, 2009 and 2008 and average interest-bearing liabilities, calculated as the average of the opening and closing balances for each year under review:

| | For the year ended 31 December | | | Change from prior year | |
|---|---|---|---|---|---|
| | **2010** | **2009** | **2008** | **2010** | **2009** |
| | *(In thousands of US dollars)* | | | *(Percentages)* | |
| **Interest expense** | | | | | |
| Eurobonds | 9,712 | 17,658 | 11,047 | (45.0%) | 59.8% |
| Syndicated loan | 13,766 | 12,753 | 9,958 | 7.9% | 28.1% |
| Customer accounts | 11,490 | 707 | 224 | 1,525.2% | 215.6% |
| Due to banks | 873 | 372 | — | 134.7% | — |
| Rouble denominated bonds | 7,269 | 43 | 2,696 | 16,804.7% | (98.4%) |
| Other interest expense | — | 73 | 951 | (100.0)% | (92.3%) |
| **Total interest expense** | **43,110** | **31,606** | **24,876** | **36.4%** | **27.1%** |
| **Average interest-bearing liabilities** | | | | | |
| Due to banks | 2,489 | 2,489 | — | — | — |
| Customer accounts | 93,385 | 10,529 | 5,344 | 787.0% | 97.0% |
| Debt securities in issue | 115,111 | 96,171 | 73,546 | 19.7% | 30.8% |
| Syndicated loan | 45,890 | 55,318 | 35,337 | (17.0%) | 56.5% |
| **Total average interest-earning liabilities** | **256,875** | **164,507** | **114,227** | **56.1%** | **44.0%** |

| | For the year ended 31 December(1) | | | Change from prior year | |
|---|---|---|---|---|---|
| | **2010** | **2009** | **2008** | **2010** | **2009** |
| | *Unaudited* *(In thousands of Roubles)* | | | *(Percentages)* | |
| **Interest expense** | | | | | |
| Eurobonds | 294,946 | 552,026 | 274,576 | (46.6%) | 101.0% |
| Syndicated loan | 418,063 | 398,686 | 247,509 | 4.9% | 61.1% |
| Customer accounts | 348,942 | 22,102 | 5,568 | 1,478.8% | 297.0% |
| Due to banks | 26,512 | 11,630 | — | 128.0% | — |
| Rouble-denominated bonds | 220,754 | 1,344 | 67,010 | 16,321.8% | (98.0%) |
| Other interest expense | — | 2,282 | 23,637 | (100.0%) | (90.3%) |
| **Total interest expense** | **1,309,217** | **988,070** | **618,300** | **32.5%** | **59.8%** |
| **Average interest-bearing liabilities(2)** | | | | | |
| Due to banks | 75,263 | 75,263 | — | 0.0% | — |
| Customer accounts | 2,844,617 | 314,783 | 151,566 | 803.7% | 107.7% |
| Debt securities in issue | 3,498,162 | 2,862,959 | 2,060,786 | 22.2% | 38.9% |
| Syndicated loan | 1,391,557 | 1,651,381 | 988,802 | (15.7%) | 67.0% |
| **Total average interest-earning liabilities** | **7,809,599** | **4,904,386** | **3,201,154** | **59.2%** | **53.2%** |

(1) Financial information for the years ended 31 December 2010, 2009 and 2008 has been translated into Roubles at the average rate for the respective reporting peoooriod (at the average conversion rate which is RUR 30.3692 to US$ 1 for the year ended 31 December 2010, RUB 31.2621 to US$ 1 for the year ended 31 December 2009 and RUB 24,8553 to US$ 1 for the year ended 31 December 2008). See "*Presentation of Financial and Other Information—Exchange Rates*"

(2) Average balances for the years ended 31 December 2010, 2009 and 2008 in Roubles has been determined as an average of relative opening and closing balances that have been translated in Roubles at official exchange rate of the CBR on the respective reporting date (at the official rate of the CBR which was RUB 30.4769 to US$ 1 as of 31 December 2010, RUB 30.2442 to US$ 1 as of December 2009, RUB 29.3804 to US$ 1 as of 31 December 2008 and RUB 24.5462 to US$ 1 as of 31 December 2007). See "*Presentation of Financial and Other Information—Exchange Rates*"

Interest expense increased by 32.5 per cent., or by RUB 321,147 thousand, and amounted to RUB 1,309,217 thousand for the year ended 31 December 2010 as compared to RUB 988,070 thousand for the year ended 31 December 2009, largely because of an increase in customer deposits by 803.7 per cent. or by RUB 2,529,834 thousand. See "— *Funding*". As a result of such increase and due to the recovery from the global turmoil and declining borrowing rates, the average interest rate on TCS's interest-bearing liabilities decreased to 16.8 per cent. for the year ended 31 December 2010, from 20.1 per cent. for the year ended 31 December 2009. For the year ended 31 December 2010, customer accounts expense increased by RUB 326,840 thousand from RUB 22,102 thousand for the year ended 31 December 2009. The increase was attributable to the 803.7 per cent increase in average customer accounts balance during the year ended 31 December 2010.

Interest expense increased by 59.8 per cent., or by RUB 369,770 thousand, and amounted to RUB 988,070 thousand for the year ended 31 December 2009 as compared to RUB 618,300 thousand for the year ended 31 December 2008, largely because of changes to the terms of the RUB 1.5 Billion Facility relating to the interest rate and payment schedule as a result of the introduction of a deferred coupon feature. As a result of this and due to the tightening of the global credit markets and higher borrowing rates, average interest rates on TCS's interest-bearing liabilities increased to 20.1 per cent. for the year ended 31 December 2009, from 18.6 per cent. for the year ended 31 December 2008. For the year ended 31 December 2009, interest expense on the Eurobonds increased by 101.0 per cent. and amounted to RUB 522,026 thousand as compared to RUB 274,576 thousand for the year ended 31 December 2008, which was attributable to an increase in the average interest rate on the debt securities in issue to 19.3 per cent. for the year ended 31 December 2009 as compared to 16.6 per cent. for the year ended 31 December 2008, as well as to the fact that the Eurobonds were only issued in mid-2008.

Average interest-bearing liabilities increased by 59.2 per cent., or by RUB 2,905,213 thousand, and amounted to RUB 7,809,599 thousand for the year ended 31 December 2010 as compared to RUB 4,904,386 thousand for the year ended 31 December 2009. The increase in interest-bearing liabilities in 2010 as compared to 2009 was largely attributable to the retail deposit programme. For the year ended 31 December 2010, average debt securities issued increased by 22.2 per cent. and amounted to RUB 3,498,162 thousand as compared to RUB 2,862,959 thousand for the year ended 31 December 2009 (due to early redemption of the Eurobonds and the issuance of Rouble-denominated domestic bonds) and average syndicated loan decreased by 15.7 per cent. and amounted to RUB 1,391,557 thousand for the year ended 31 December 2010 as compared to RUB 1,651,381 thousand for the year ended 31 December 2009. Current accounts balances and retail deposits also increased significantly, by 803.7 per cent., or by RUB 2,529,834 thousand, and amounted to RUB 2,844,617 thousand for the year ended 31 December 2010 as compared to RUB 314,783 thousand for the year ended 31 December 2009. As a result, current accounts and deposits became a major portion of TCS's total interest-bearing liabilities comprising 49.9 per cent. of total interest-bearing liabilities at 31 December 2010 compared to 7.7 as of 31 December 2009. This significant increase in current accounts and deposits was primarily the result of the launching of the online retail deposit programme.

Average interest-bearing liabilities grew by 53.2 per cent., or by RUB 1,703,232 thousand, and amounted to RUB 4,904,386 thousand for the year ended 31 December 2009 as compared to RUB 3,201,154 thousand for the year ended 31 December 2008. The increase in interest-bearing liabilities in 2009 as compared to 2008 was largely attributable to capitalisation of interest on the interest-bearing liabilities to reduce cash outflows in order to fund the further growth of TCS's credit card loan portfolio, primarily through the capitalisation of interest expense on the syndicated loan, as well as increased borrowing from customers. For the year ended 31 December 2009, average debt securities issued increased by 38.9 per cent. and amounted to RUB 2,862,959 thousand as compared to RUB 2,060,786 thousand for the year ended 31 December 2008 (due to the fact that the Eurobond was only issued in mid-2008) and average syndicated loan balances increased by 67.0 per cent. and amounted to RUB 1,651,381 thousand for the year ended 31 December 2009 as compared to RUB 988,802 thousand for the year ended 31 December 2008 (largely because of changes to the terms of the syndicated loan relating to the interest rate and payment schedule and the fact that a portion of the syndicated loan was disbursed in 2007 with another portion disbursed in 2008). Current accounts and deposits from customers also increased significantly, by 107.7 per cent., or by RUB 163,217 thousand, and amounted to RUB 314,783 thousand for the year ended 31 December 2009 as compared to RUB 151,566 thousand for the year ended 31 December 2008, although such current accounts and deposits remained a relatively small portion of TCS's total interest-bearing liabilities. The increase in such current accounts and deposits was primarily the direct result of the start of the deposit program to attract funds from retail customers.

### *Net interest income*

Net interest income earned by TCS is affected by a number of factors. It is primarily determined by the volume of interest-earning assets and interest-bearing liabilities, together with the differential between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Interest-earning assets comprise credit card loans, as well as placements with banks and other financial institutions. The predominance of interest income attributable to credit card loans reflects TCS's focus on the credit cards banking business. TCS's net interest income before provision for loan impairment increased by 29.6 per cent. to US$ 95,583 thousand for the year ended 31 December 2010 from US$ 73,735 thousand for the year ended 31 December 2009 and by 81.8 per cent. or US$ 33,177 from US$ 40,558 for the year ended 31 December 2008. The increase in net interest income for the year ended 31 December 2010 as compared to the year ended 31 December 2009 was primarily caused by significant growth of the credit card loan portfolio, and decrease in average interest expense rate on significantly increased average amount of interest bearing liabilities. The increase in net interest income for the year ended 31 December 2009 as compared to the net interest income for the year ended 31 December 2008 was due to a higher average interest rate on credit cards and significant growth of the credit card loan portfolio.

### *Net interest margin*

TCS's net interest margin (net interest income before provision for loan impairment as a percentage of total average interest-earning assets based on the Rouble as the functional currency) decreased to 35.0 per cent. for the year ended 31 December 2010 from 43.5 per cent. for the year ended 31 December 2009. This decrease in net interest margin in 2010 as compared to 2009 was primarily due to the increase in the volume of TCS's credit card loan portfolio and decrease in the average interest rate charged to customers on credit card loans. This resulted from a five- to seven-month lag between the time when portfolio growth occurs and the time when interest income from the newly acquired assets is received and new Internet customers who were attracted by lower interest rates. This decrease was also the result of a decrease in the average interest rates on other loans, which decreased to 7.7 per cent. for the year ended 31 December 2010 from 40.5 per cent. for the year ended 31 December 2009. TCS's net interest margin increased to 43.5 per cent. for the year ended 31 December 2009 from 29.0 per cent. for the year ended 31 December 2008. This increase in net interest margin in 2009 as compared to 2008 was primarily due to the increase in the volume of TCS's credit card loan portfolio followed by an increase in interest income and an average interest rate increase. The effect of this increase was offset in part by a decrease in the average interest rates on the balances with other banks to 1.3 per cent. for the year ended 31 December 2009 from 7.2 per cent. for the year ended 31 December 2008.

The following table sets out the average effective interest rates (for the portfolio of outstanding financial instruments) by major currency for major financial instruments outstanding. The analysis has been prepared using effective interest rates for the portfolios of assets and liabilities outstanding at the respective period-end. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

| | As of 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | | 2008 | | |
| | Russian Roubles | US Dollars | Euros | Russian Roubles | US Dollars | Euros | Russian Roubles | US Dollars | Euros |
| | *(In per cent., per annum).* | | | | | | | | |
| **Assets** | | | | | | | | | |
| Cash and cash equivalents | 3.1 | — | — | 4.8 | — | — | — | — | 3.6 |
| Loans and advances to customers | | | | | | | | | |
| *Corporate loans* | 20.0 | — | — | 20.6 | — | — | 18.7 | — | — |
| *Credit card loans* | 59.2 | — | — | 63.7 | — | — | 70.4(1) | — | — |
| *Other loans to individuals* | 20.0 | — | — | 20.0 | — | — | 20.0 | — | — |
| **Liabilities** | | | | | | | | | |
| Due to banks | — | — | — | 12.0 | — | — | — | — | — |
| Customer accounts | 12.4 | 15.0 | 13.1 | 17.3 | 13.2 | 9.0 | 14.0 | 12.0 | — |
| Debt securities in issue | 20.1 | — | — | 19.8 | — | 20.7 | 19.8 | — | 19.8 |
| Syndicated loan | 16.9 | — | — | 24.4 | — | — | 19.9 | — | — |

(1) The average effective interest rate on credit card loans in Russian Roubles as of 31 December 2008 after restatement of comprehensive income for the year ended 31 December 2008, see "*Presentation of Financial and Other Data — Presentation of Financial Information — Restatement of 2009 Financial Statements*", equals 62.6%.

### *Fee and commission expense*

Fee and commission expense is principally comprised of service, banking and other fees related to the maintenance of customers' accounts, such as the printing and mailing of customers' statements and technical support of customers' operations. The following table sets out the principal components of TCS's fee and commission expense for the years ended 31 December 2010, 2009 and 2008:

| | For the year ended 31 December | | | Change from prior year | |
|---|---|---|---|---|---|
| | **2010** | **2009** | **2008** | **2010** | **2009** |
| | *(In thousands of US dollars)* | | | *(Percentages)* | |
| **Fee and commission expense, including** | **2,726** | **1,631** | **970** | **67.1** | **68.1** |
| *Service fees* | *2,116* | *1,257* | *902* | *68.3* | *39.4* |
| *Banking and other fees* | *610* | *374* | *68* | *63.1* | *450.0* |

| | For the year ended 31 December[(1)] | | | Change from prior year | |
|---|---|---|---|---|---|
| | **2010** | **2009** | **2008** | **2010** | **2009** |
| | *Unaudited (In thousands of Roubles)* | | | *(Percentages)* | |
| **Fee and commission expense, including** | **82,786** | **50,988** | **24,109** | **62.4** | **111.5** |
| *Service fees* | *64,261* | *39,296* | *22,419* | *63.5* | *75.3* |
| *Banking and other fees* | *18,525* | *11,692* | *1,690* | *58.4* | *591.8* |

(1) Financial information for the years ended 31 December 2010, 2009 and 2008 has been translated into Roubles at the average rate for the respective reporting period (at the average conversion rate which is RUB 30.3692 to US$ 1 for the year ended 31 December 2010, RUB 31.2621 to US$ 1 for the year ended 31 December 2009 and RUB 24,8553 to US$ 1 for the year ended 31 December 2008). See "*Presentation of Financial and Other Information—Exchange Rates*"

Fee and commission expense increased by 62.4 per cent., or RUB 31,798 thousand, and amounted to RUB 82,786 thousand for the year ended 31 December 2010 as compared to RUB 50,988 thousand for the year ended 31 December 2009, primarily due to a significant increase in the aggregate amount of fees paid in respect of credit card usage (such as interchange fees) resulting from growth in TCS's credit card portfolio. Fee and commission expense increased by 111.5 per cent., or by RUB 26, 879 thousand, and amounted to RUB 50,988 thousand for the year ended 31 December 2009 as compared to RUB 24,109 thousand for the year ended 31 December 2008, primarily because of an increase in payment processing and account maintenance fees.

### *Foreign currency income and expenses and losses from financial derivatives*

| | For the year ended 31 December | | | Change from prior year | |
|---|---|---|---|---|---|
| | **2010** | **2009** | **2008** | **2010** | **2009** |
| | *(In thousands of US dollars)* | | | *(Percentages)* | |
| Foreign exchange translation gains less losses/(losses less gains) | 7,993 | (3,906) | (13,062) | (304.6%) | (70.1%) |
| Losses less gains from financial derivatives[(1)] | (1,849) | (1,442) | — | 28.2% | — |

(1) This line item is referred to as losses less gains from derivative revaluation in respect of consolidated statement of comprehensive income for the year ended 31 December 2009.

Foreign exchange translation losses less gains for the periods under review are attributable to movements in foreign exchange rates and TCS's efforts to hedge such movements. TCS's assets are predominantly denominated in Roubles and it was funded in large part in Euros during 2009 and for a large part of 2010. Significant net foreign exchange translation losses and gains were the result of a sharp deterioration of the Rouble against the Euro from November 2008 until June 2010. TCS ran an open Euro position which was subject to daily revaluation. TCS managed the exchange risk of that short position by entering into option contracts on the Euro.

The net losses on derivative revaluation for the periods under review are attributable to the change in fair value of option contracts purchased by TCS to protect its cash flows from sharp movements in the Rouble/Euro exchange rate at Eurobond maturity in June 2011. These option contracts were sold in June of 2010.

***Customer acquisition expenses***

Customer acquisition expenses include primarily expenses paid by TCS on services related to origination of credit card customers, including the cost of mailings, payments to partners (co-branding) and direct sales agents, printing of booklets, payments to credit bureaux, advertising and embossing. Customer acquisition expenses are primarily incurred by OOO "TCS", a Russian legal entity owned by the Group, which is a party to the agreements with TCS's partners entered into in connection with customer acquisitions. TCS reimburses these expenses to OOO "TCS" under a number of service agreements.

Customer acquisition expenses increased significantly in 2010 as compared to 2009, from US$ 3,359 thousand for the year ended 31 December 2009 to US$ 17,121 thousand for the year ended 31 December 2010. This increase primarily resulted from the increased number of acquisitions during the year 2010 through all acquisition channels, *inter alia* direct mailing, the Internet, agents, co-branding, etc., in order to obtain new customers and to enhance credit card portfolio growth.

A 74.9 per cent. decrease of customer acquisition expenses in 2009 from US$ 13,379 thousand for the year 2008 was primarily the result of decreased new acquisitions during the financial crisis in order to reduce credit risks related to newly acquired customers and also due to funding restrictions.

***Provision for loan impairment***

Provision for loan impairment includes changes in allowances for impairment of loans and advances to customers, as well as changes in allowances for amounts due from other banks. The following table sets out movements in TCS's provisions for loan impairment relating to TCS's gross loans and advances to customers for the years ended 31 December 2010, 2009 and 2008:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| | *(In thousands of US dollars, except for percentages)* | | |
| **Provision for loan impairment as of 1 January** | **18,590** | **27,013** | **4,493** |
| Increase of provision for loan impairment during the year | 27,965 | 18,342 | 24,253 |
| Loans and advances to customers written-off during the year as uncollectable | (1,429) | (7,473) | (920) |
| Sales of bad debts | (19,667) | (18,537) | — |
| Effect of translation | (254) | (755) | (813) |
| **Provision for loan impairment as of 31 December** | **25,205** | **18,590** | **27,013** |
| **Gross loans and advances to customers** | **341,623** | **192,325** | **167,125** |
| Provision for loan impairment as a percentage of gross loans and advances to customers, *per cent.* | 7.4 | 9.7 | 16.2 |

TCS's provision for loan impairment as of 31 December 2010 increased by 35.6 per cent., or US$ 6,615 thousand, and amounted to US$ 25,205 thousand as of 31 December 2010 as compared to US$ 18,590 thousand as of 31 December 2009, which decreased by 31.2 per cent., or US$ 8,423 thousand, from US$ 27,013 thousand as of 31 December 2008. The higher charge in 2010 was principally due to the growth of the TCS loan portfolio. Credit card loans that are contractually overdue for more than 90 days are considered to be non-performing. As of 31 December 2010 non-performing credit card loans decreased by 14.8 per cent. as compared to 31 December 2009. from US$ 13,321 thousand as of 31 December 2009 to US$ 11,352 thousand as of 31 December 2010 as a result of TCS's new scoring model and collection efforts based on the analysis of TCS's collection experience. As of 31 December 2010, TCS's total collection rate for loans more than 90 days overdue was 90.59 per cent. as compared to 89.16 per cent. as of 31 December 2009. Non-performing credit card loans increased in 2009 as compared to 2008 by 73.0 per cent. or US$ 5,622 thousand, as a result of TCS's business growth and an increase in the loss rate due to deteriorating economic conditions. The gross amount of such overdue loans as of 31 December 2009 totaled US$ 13,321 thousand as compared to US$ 7,699 thousand as of 31 December 2008.

As of 31 December 2010, the provision for loan impairment as a percentage of gross loans and advances to customers decreased to 7.4 per cent. from 9.7 per cent. as of 31 December 2009, primarily due to the rapid growth of the credit portfolio, a lag in the provisioning for loan impairment, which is based on the twelve-months statistics horizon, and sale of bad debts in the amount of US$ 19,667 thousand in 2010. These bad debts were sold to third-party collection agencies (such as MKS+ and FROSKA Industries) on a tender basis. The average sale price was around 5.7 per cent. of the balance sold. For the year ended 31 December 2009, provisions for loan impairment as a percentage of gross credit card loans to customers decreased to 9.7 per cent. from 16.2 per cent. for the year ended 31 December 2008. The decrease in provisions as a percentage of gross credit card loans to customers in 2009 as compared to 2008 was primarily a result of the sale of bad debts and write-off of uncollectable loans and advances to customers.

***General administrative expenses***

General administrative expenses are comprised of employee compensation, telecommunication and postage/mailing costs, occupancy (rental expenses), payroll related taxes, taxes other than income tax, professional services, depreciation of fixed assets and amortisation of intangible assets, information technology, repairs and maintenance, travel expenses and other. The following table sets out the principal components of TCS's general administrative expenses for the years ended 31 December 2010, 2009 and 2008:

| | For the year ended 31 December | | | Change from prior year | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010 | 2009 |
| | *(In thousands of US dollars)* | | | *(Percentages)* | |
| Staff costs | 26,140 | 12,954 | 15,516 | 101.8% | (16.5%) |
| Taxes other than on income | 6,086 | 2,295 | 4,736 | 165.2% | (51.5%) |
| Communication services | 2,794 | 1,942 | 3,334 | 43.9% | (41.8%) |
| Professional services | 1,578 | 513 | 1,075 | 207.6% | (52.3%) |
| Depreciation of fixed assets | 1,453 | 897 | 688 | 62.0% | 30.4% |
| Rental expenses[(1)] | 1,372 | 1,121 | 1,139 | 22.4% | (1.6%) |
| Fixed assets write-off | 1,343 | — | — | — | — |
| Amortisation of intangible assets | 1,278 | 703 | 883 | 81.8% | (20.4%) |
| Information services | 1,115 | 1,162 | 1,457 | (4.0%) | (20.2%) |
| Stationery and office expenses[(2)] | 778 | 304 | 607 | 155.9% | (49.9%) |
| Repair of premises and equipment | — | 300 | 333 | (100.0%) | (9.9%) |
| Other administrative expenses[(3)] | 1,017 | 1,564 | 1,167 | (35.0%) | 34.0 |
| **Total** | **44,954** | **23,755** | **30,935** | **89.2%** | **(23.2%)** |

(1) This line item referred to as Operating Lease expense for fixed assets in respect of consolidated statement of comprehensive income for the year ended 31 December 2009.

(2) Represents sum of stationery and office expenses line items in consolidated statement of comprehensive income for the year ended 31 December 2009.

(3) Represents sum of advertising expenses and other administrative expenses line items in consolidated statement of comprehensive income for the year ended 31 December 2009.

The following table sets out the principal components of TCS's general administrative expenses for the years ended 31 December 2010, 2009 and 2008 presented in Roubles:

| | For the year ended 31 December[(1)] | | | Change from prior year | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010 | 2009 |
| | *Unaudited (In thousands of Roubles)* | | | *(Percentages)* | |
| Staff costs | 793,851 | 404,969 | 385,655 | 96.0% | 5.0% |
| Taxes other than on income | 184,827 | 71,747 | 117,715 | 157.6% | (39.1%) |
| Communication services | 84,852 | 60,711 | 82,868 | 39.8% | (26.7%) |
| Professional services | 47,923 | 16,037 | 26,719 | 198.8% | (40.0%) |
| Depreciation of fixed assets | 44,126 | 28,042 | 17,100 | 57.4% | 64.0% |
| Rental expenses | 41,667 | 35,045 | 28,310 | 18.9% | 23.8% |
| Fixed assets write-off | 40,786 | — | — | — | — |
| Amortisation of intangible assets | 38,812 | 21,977 | 21,947 | 76.6% | 0.1% |
| Information services | 33,862 | 36,327 | 36,214 | (6.8%) | 0.3% |
| Stationery and office expenses | 23,627 | 9,504 | 15,087 | 148.6% | (37.0%) |
| Repair of premises and equipment | — | 9,379 | 8,277 | (100.0%) | 13.3% |
| Other administrative expenses | 30,885 | 48,894 | 29,006 | (36.8%) | 68.6% |
| **Total** | **1,365,218** | **742,631** | **768,899** | **83.8%** | **(3.4%)** |

(1) Financial information for the years ended 31 December 2010, 2009 and 2008 has been translated into Roubles at the average rate for the respective reporting period (at the average conversion rate which is RUB 30.3692 to US$ 1 for the year ended 31 December 2010, RUB 31.2621 to US$ 1 for the year ended 31 December 2009 and RUB 24,8553 to US$ 1 for the year ended 31 December 2008). See "*Presentation of Financial and Other Information—Exchange Rates*".

General administrative expenses increased by 89.2 per cent., or by US$ 21,199 thousand, to US$ 44,954 thousand for the year ended 31 December 2010 from US$ 23,755 thousand for the year ended 31 December 2009. General administrative expenses decreased by 23.2 per cent., or by US$ 7,180 thousand, to US$ 23,755 thousand for the year ended 31 December 2009 from US$ 30,935 thousand for the year ended 31 December 2008. The increase in 2010 was primarily the result of a major increase in staff costs and taxes other than on income by 101.8 and 165.2 per cent compared to 2009. The decrease in 2009 was primarily the result of a decrease in the average currency exchange rate affecting costs directly or indirectly associated with the growth of TCS's business, most notably staff costs, taxes other than on income and communication services. These changes include the effect of foreign exchange rate changes.

*Staff costs*

Staff costs include wages, staff bonuses and recruitment expenses. Staff costs increased by 96 per cent., or by RUB 388,882 thousand, and amounted to RUB 793,851 thousand for the year ended 31 December 2010 as compared to RUB 404,969 thousand for the year ended 31 December 2009, which in turn increased by 5 per cent., or by RUB 19,314 thousand as compared to RUB 385,655 thousand for the year ended 31 December 2008. These year-on-year increases were primarily due to the growth of TCS's business. Also, as a part of its cost management programme, in 2009 TCS did not pay bonuses to its employees although it resumed bonus payments in 2010. TCS employed 1,039 employees as of 31 December 2010 as compared to 561 employees as of 31 December 2009 and 460 employees as of 31 December 2008. TCS anticipates that staff costs will increase in the future as TCS continues to expand its business and increases its headcount.

*Taxes other than income tax*

Taxes other than income tax increased by 157.6 per cent., or by RUB 113,080 thousand, and amounted to RUB 184,827 thousand for the year ended 31 December 2010 as compared to RUB 71,747 thousand for the year ended 31 December 2009, which in turn decreased by 39.1 per cent., or by RUB 45,968 thousand as compared to RUB 117,715 thousand for the year ended 31 December 2008. Taxes other than income tax consist mainly of value-added tax on certain services provided by TCS and tax on property and fixed assets. The increases in 2010 and 2008 were largely due to an increase in the provision of services subject to value-added tax ("**VAT**") and an increase in tax on property and fixed assets owned by TCS. The decrease in 2009 was mostly due to a decrease in the share of expenses that are subject to VAT.

*Communication services*

Communication services expenses increased by 39.8 per cent., or by RUB 24,141 thousand and amounted to RUB 84,852 thousand for the year ended 31 December 2010 as compared to RUB 60,711 thousand for the year ended 31 December 2009 which in turn decreased by 26.7 per cent., or by RUB 22,157 thousand as compared to RUB 82,868 thousand for the year ended 31 December 2008. The increase in 2010 reflected increased costs associated with servicing the portfolio such as expenses for telephone lines and internet and other costs, which in turn reflected the overall growth of the portfolio year to year. The decrease in 2009 was explained by the decrease in the number of calls due to the decrease in the rate of growth in the credit card applications.

*Professional services*

Professional services expenses increased by 198.8 per cent., or by RUB 31,886 thousand and amounted to RUB 47,293 thousand for the year ended 31 December 2010 as compared to RUB 16,037 thousand for the year ended 31 December 2009 which in turn decreased by 40.0 per cent., or by RUB 10,682 thousand as compared to RUB 26,719 thousand for the year ended 31 December 2008. The increase in 2010 reflected increased costs associated with professional services expenses related to debt securities issue, recruiting fees and other. The decrease in 2009 was explained by the absence of any funding transactions and related professional consultancy and other expenses in 2009.

*Information services*

Information services costs for the year ended 31 December 2010 decreased by 6.8 per cent., or by RUB 2,465 thousand, and totalled RUB 33,862 thousand as compared to RUB 36,327 thousand for the year ended 31 December 2009, which in turn represented an increase of 0.3 per cent., or RUB 113 thousand, as compared to RUB 36,214 thousand for the year ended 31 December 2008. The majority of information services expenses comprised IT support expenses and software development. The decrease in information technology expenses in 2010 as compared to 2009 was principally due to optimisation of applications processed. The increase in information technology expenses in 2009 as compared to 2008 was principally due to an increase in the number of applications processed.

*Operating lease expense for fixed assets*

Expenses related to operating leases for fixed assets increased by 18.9 per cent., or by RUB 6,622 thousand, to RUB 41,667 thousand for the year ended 31 December 2010, from RUB 35,045 thousand for the year ended 31 December 2009, which in turn represented an increase of 23.8 per cent., or RUB 6,735 thousand, as compared to RUB 28,310 thousand for the year ended 31 December 2008. These year-on-year increases were primarily attributable to an increase in the total size of rented premises and an increase in average rental rates for office space in Moscow.

*Depreciation and amortisation*

Depreciation and amortisation charges increased by 65.8 per cent., or by RUB 32,919 thousand, and totalled RUB 82,938 thousand for the year ended 31 December 2010 as compared to RUB 50,019 thousand for the year ended 31 December 2009, which in turn increased by 28.1 per cent., or by RUB 10,972 thousand, as compared to RUB 39,047 thousand for the year ended 31 December 2008. These increases were primarily due to the purchase of equipment and software by TCS.

***Provision for tax risks***

In the year ended 31 December 2010, TCS released provision for tax risks in amount of RUB 54,239 thousand, while charged additional provision in the amount of RUB 40,703 thousand for the year ended 31 December 2009 which in turn decreased by 62.9 per cent., or RUB 68,934 thousand, as compared to RUB 109,637 thousand for the year ended 31 December 2008. The provision expenses in 2010 represented in the penalties that may arise in case of potential claims from the tax authorities. TCS recorded provisions for tax risks in respect of uncertain taxes including related penalties and interest, mostly in relation to administrative expenses. The balance as at 31 December 2010 is expected to be either fully utilised or released by the end of 2011. The last tax audit was conducted with respect to OOO "TCS" and covered years 2007, 2008 and 2009. No significant liabilities were revealed during this tax audit. No tax audit has ever been conducted with respect to TCS.

***Income tax expense***

TCS's income tax expense (both current and deferred) decreased by 56.8 per cent., or by US$ 5,022 thousand and totalled US$ 3,814 thousand for the year ended 31 December 2010 as compared to income tax expense of US$ 8,836 thousand for the year ended 31 December 2009, which in turn increased by 1,175.0 per cent., or by US$ 8,143 thousand as compared to income tax expense of US$ 693 thousand for the year ended 31 December 2008. The combined statutory rate of the Russian Federal and regional taxation, and City of Moscow taxation, applicable to TCS was 20 per cent. in 2010 and 2009 and 24 per cent. in 2008. TCS's effective tax rate was 29.5 per cent., 32.7 per cent. and 1.6 per cent. for the years ended 31 December 2010, 2009 and 2008, respectively. The difference between the effective tax rate and the statutory rate, as well as the decline of effective tax rate in 2010 in comparison with 2009 is explained by growth of TCS's tax deductable expenses in 2010 in comparison with 2009.

***Profit /(Loss)***

TCS's profit for the year was US$ 9,125 thousand for the year ended 31 December 2010 as compared to US$ 18,222 thousand for the year ended 31 December 2009. The decrease was primarily the result of increases in expenses on the post-crisis fundraising and resumed mass customer acquisition partially offset by an increase in net interest income. Net interest income increased primarily as a result of the credit card portfolio growth. TCS's profit for the year was US$ 18,222 thousand for the year ended 31 December 2009 as compared to a loss for the year of US$ 44,747 thousand for the year ended 31 December 2008, primarily as a result of an increase in net interest income, which was offset in part by increases in impairment losses. Net interest income increased primarily as a result of an increase in the interest rate on credit card loans (especially in fees directly attributable to credit card loan issuance).

## Analysis of Consolidated Statement of Financial Position as of 31 December 2010, 2009 and 2008

The following table sets out TCS's consolidated statement of financial position as of 31 December 2010, 2009 and 2008:

| | As of 31 December | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| | *(In thousands of US dollars)* | | |
| **ASSETS**: | | | |
| Cash and cash equivalents | 50,892 | 18,946 | 30,907 |
| Mandatory cash balances with the CBR | 2,463 | 1,182 | 276 |
| Loans and advances to customers | 316,418 | 173,735 | 140,112 |
| Financial derivatives[1] | — | 2,361 | — |
| MasterCard guarantee deposit | 12,555 | 2,004 | 3,754 |
| Current income tax assets | 409 | — | — |
| Deferred income tax assets | 529 | — | 4,349 |
| Other financial assets[2] | 10,501 | 3,633 | 2,646 |
| Other non-financial assets | 2,296 | 1,862 | 2,652 |
| Fixed assets | 4,427 | 3,864 | 4,618 |
| Intangible assets | 4,646 | 4,027 | 4,628 |
| **TOTAL ASSETS** | **405,136** | **211,614** | **193,942** |
| **Liabilities:** | | | |
| Due to banks[3] | — | 4,977 | — |
| Customer accounts | 174,149 | 12,621 | 8,436 |
| Debt securities in issue | 143,591 | 86,632 | 105,710 |
| Syndicated loan | 31,378 | 60,402 | 50,236 |
| Provisions for liabilities and charges. | 4,747 | 6,850 | 5,711 |
| Current income tax liability | — | 1,723 | 1,562 |
| Deferred tax liability | — | 257 | — |
| Other financial liabilities | 6,424 | 2,253 | 3,832 |
| Other non-financial liabilities | 982 | 859 | 1,781 |
| Net assets attributable to participant | — | — | 206 |
| **TOTAL LIABILITIES** | **361,271** | **176,574** | **177,474** |
| **Equity**: | | | |
| Share capital | 6,283 | 5,905 | 5,905 |
| Share premium | 66,641 | 65,148 | 65,148 |
| Obligation under warrants | — | 1,871 | 1,871 |
| Accumulated deficit | (20,380) | (29,505) | (47,727) |
| Translation reserve | (8,679) | (8,379) | (8,729) |
| **TOTAL EQUITY** | **43,865** | **35,040** | **16,468** |
| **TOTAL LIABILITIES AND EQUITY** | **405,136** | **211,614** | **193,942** |

(1) This line item is referred to as derivates in respect of consolidated statement of financial position as of 31 December 2009.

(2) Other financial assets include primarily settlement of operations with plastic cards and trade and other receivables.

(3) As of 31 December 2009, due to banks includes loans from the CBR in the amount of US$ 4,977 thousand bearing an interest of 12 per cent. per annum. These loans were repaid in January 2010 at a maturity.

## Liquidity and Capital Resources

### *Liquidity*

TCS is exposed to daily calls on its available cash resources from unused limits on issued credit cards, retail deposits and current accounts. TCS does not maintain cash resources to meet all of these needs as experience shows that only a certain level of calls will take place at any given point and this level can be predicted with a high level of certainty. Liquidity risk is managed by the Chief Financial Officer (the "**CFO**") of TCS.

TCS's current sources of funding include debt securities in issue, syndicated loans, and retail deposits, customer current account balances and loans of banks and other financial institutions. TCS keeps all available cash in diversified portfolios of liquid instruments such as a correspondent account with the CBR and overnight placements in highly-rated commercial banks, as well as short-term debt instruments in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The available cash at all times exceeds accrued financing costs falling due within half a year plus two months of regular operating costs.

### *Cash flow*

The following table sets out TCS's cash flows for the years ended 31 December 2010, 2009 and 2008:

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | *(In thousands of US dollars)* | | |
| Cash flows from operating activities before changes in operating assets and liabilities | 51,143 | 35,734 | 6,681 |
| Net cash from/(used in) operating activities | 26,953 | (1,905) | (124,365) |
| Net cash used in investing activities | (5,316) | (756) | (6,757) |
| Net cash from/(used in) financing activities | 10,359 | (10,659) | 135,901 |
| Effect of exchange rate changes on cash on hand and cash equivalents | (50) | 1,359 | 2,890 |
| Cash and cash equivalents at the beginning of the year | 18,946 | 30,907 | 23,238 |
| Cash and cash equivalents at the end of the year | 50,892 | 18,946 | 30,907 |

Cash flows from operating activities increased by approximately 15 times, or US$ 28,858 thousand, and totalled US$ 26,953 thousand for the year ended 31 December 2010 as compared to cash used in operating activities of US$ 1,905 thousand. The positive cash flow for the year ended 31 December 2010, primarily resulted from a substantial increase in interest income received from customers and offset in part by an increase in interest paid in 2010.

Cash flows used in investing activities increased approximately 7 times, or US$ 4,560 thousand, and amounted to US$ 5,316 thousand for the year ended 31 December 2010 from US$ 756 thousand for the year ended 31 December 2009, primarily as a result of larger amounts spent on the acquisitions of equipment and intangible assets in 2010 as compared to 2009. Cash flows from financing activities increased by 197.2 per cent., or by US$ 21,018 thousand, and totalled US$ 10,359 thousand for the year ended 31 December 2010 as compared to negative cash flow of US$ 10,659 thousand for the year ended 31 December 2009, primarily as a result of changes in the composition of external funding (repayment of Eurobonds and syndicated loan, and issue of Rouble-denominated domestic bonds), including debt securities in issue and a syndicated loan. See "—*Funding*".

### *Short-term borrowings*

The table below sets forth information on TCS's short term borrowings as of 31 December 2010, 2009 and 2008:

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | *Unaudited* *(In thousands of US dollars except for percentages)* | | |
| Outstanding as of 31 December[(1)] | 143,669 | 13,518 | 5,870 |
| Maximum amount outstanding during the year | 143,669 | 13,518 | 5,870 |
| Average amount outstanding during the year[(2)] | 78,594 | 9,694 | 3,456 |
| Weighted interest expense for the year ended 31 December[(3)] | 10,135 | 804 | 145 |
| Weighted-average interest rate during the year, *per cent.*[(4)] | 12.9% | 8.3% | 4.2% |
| Weighted-average interest rate as of 31 December, *per cent.*[(5)] | 7.1% | 5.9% | 2.5% |

(1) This includes outstanding balances of customer accounts and amounts due to the CBR that have original contractual terms of less than one year.

(2) Average amount outstanding during the year represents average of related average outstanding balances for the most recent and prior years.

(3) Weighted interest expense for the year ended 31 December was calculated as a sum of interest expenses for the customer accounts and due to the banks, divided by average balance of customer accounts and due to the banks, and multiplied by average amount outstanding during the year.

(4) Weighted-average interest rate during the year was calculated as weighted interest expense for the year ended 31 December divided by average amount outstanding during the year.

(5) Weighted-average interest rate as of 31 December was calculated as weighted interest expense for the year ended 31 December divided by outstanding as of 31 December.

TCS's short-term borrowings fluctuate considerably depending on its current operating needs. The sharp increase in the amount outstanding at the end of 2010 principally reflected the proceeds from the Rouble-denominated bond offering TCS received at the end of November 2010.

***Funding***

TCS's current sources of funding include debt securities in issue, syndicated loans, and retail deposits and customer current account balances. The table below sets forth TCS's funding sources as of 31 December 2010, 2009 and 2008:

| | As of 31 December 2010 | Per cent. of total funding | As of 31 December 2009 | Per cent. of total funding | As of 31 December 2008 | Per cent. of total funding |
|---|---|---|---|---|---|---|
| | *(In thousands of US dollars, except for percentages)* | | | | | |
| Due to banks | — | 0.0% | 4,977 | 3.0% | — | 0.0% |
| Debt securities in issue including: | 143,591 | 41.1% | 86,632 | 52.6% | 105,710 | 64.3% |
| *RUB 1.4 billion 20 per cent. bonds due July 2013* | *44,868* | *12.9%* | — | *0.0%* | — | *0.0%* |
| *RUB 1.6 billion 14.2 per cent. bonds due September 2013* | *49,199* | *14.1%* | — | *0.0%* | — | *0.0%* |
| *RUB 1.5 billion 16.5 per cent. bonds due November 2011( in case of early redemption)* | *49,524* | *14.2%* | — | *0.0%* | — | *0.0%* |
| *EUR 59.5 million 18 per cent. bonds due June 2013* | — | *0.0%* | *68,686* | *41.7%* | *89,745* | *54.6%* |
| *EUR 10.5 million 24 per cent. bonds due June 2011* | — | *0.0%* | *17,819* | *10.8%* | *15,666* | *9.5%* |
| *RUB 1,500 million 18 per cent. bonds due October 2010*(1) | — | *0.0%* | *127* | *0.1%* | *299* | *0.2%* |
| Syndicated loan including | 31,378 | 9.0% | 60,402 | 36.7% | 50,236 | 30.6% |
| *RUB 1,245 million 26.5 per cent. due September 2011* | *22,933* | *6.6%* | *51,758* | *31.4%* | *41,378* | *25.2%* |
| *RUB 255 million 20.5 per cent. due June 2011* | *8,445* | *2.4%* | *8,644* | *5.3%* | *8,858* | *5.4%* |
| Term deposits | 162,420 | 46.5% | 11,469 | 7.0% | 7,888 | 4.8% |
| Current accounts | 11,729 | 3.4% | 1,152 | 0.7% | 548 | 0.3% |
| **Total:** | **349,118** | **100.0%** | **164,632** | **100.0%** | **164,382** | **100.0%** |

(1) The Rouble-denominated bonds in the amount of RUB 1,500 million due in October 2010 were almost fully repaid in early 2008.

TCS's external funding in the last three years was received from the issue of debut Eurobonds, Rouble-denominated bonds, a syndicated facility, retail deposits and bank loans.

*3-year RUB 3 billion financing*

In July 2010, TCS issued Rouble-denominated domestic bonds in the total amount of RUB 1,400 million (US$ 46,077 thousand) with a 20 per cent. coupon maturing in July 2013. In December 2010, the Group repurchased some of these bonds in the amount of approximately RUB 108 million to manage its excess cash position.

In September 2010, TCS issued Rouble-denominated domestic bonds in the total amount of RUB 1,600 million (US$ 51,476 thousand) with a 14.22 per cent. coupon maturing in September 2013.

In November 2010, TCS issued Rouble-denominated domestic bonds in the amount of RUB 1,500 million (US$ 47,914 thousand) with a 16.5 per cent. coupon maturing in November 2013. The holders of these bonds have the right to request early redemption at a nominal value in November 2011.

*Customer Deposits*

Retail deposits were rolled out in four regions starting in mid-2009 and launched in Moscow and Saint-Petersburg during 2010. TCS's portfolio of retail deposits increased from RUB 255,352 thousand (US$ 8,443 thousand) as of 31 December 2009 to RUB 5,167 million (US$ 169,526 thousand) as of 31 December 2010. Approximately 70 per cent. of TCS retail deposit customers are male, while approximately 69 per cent. of customers are aged between 25 and 40 years. The average deposit amount is equal to RUB 150,000 (approximately US$ 5,183) and approximately 75 per cent. of retail deposits are below the RUB 700,000 (US$ 24,188) level and, accordingly, fully protected by the Russian mandatory deposit insurance system. The average maturity of retail deposits is between fifteen and seventeen months. See "*Business—TCS Operating Highlights—Retail Deposits*".

*Debut Eurobond*

In June 2008, Egidaco issued its EUR 70 million debut Eurobonds listed on the NASDAQ OMX in Stockholm. The initial maturity of the debut Eurobonds was 24 June 2011 and the coupon rate was initially 18 per cent. per annum payable semi-annually. In the period from May to September 2010 and from March to August 2009, Egidaco repurchased these bonds from the market with a nominal value of EUR 60,448 thousand in 2010 and EUR 7,960 thousand in 2009. In February 2010 and October 2009, Egidaco sold back these Eurobonds with a nominal value of EUR 659 thousand and EUR 294 thousand, respectively. In September 2010, the Group repurchased and redeemed the last tranche of these bonds in full.

*RUB 1.5 Billion Facility*

In December 2007, TCS entered into the RUB 1.5 Billion Facility (equivalent of US$ 61,109 thousand) with, *inter alia*, Vostok Nafta, Goldman Sachs and Blue Crest Mercantile B.V. ("**Blue Crest**").

In May 2009 the financial covenants on the syndicated loan, effective as at 31 December 2008, were revised together with the maturity and interest rate terms of the agreement, and in accordance with the revised terms of the agreement the facility matures on 24 September 2011 and the interest under the revised RUB 1.5 Billion Facility was set at 16.5 per cent. until 23 December 2008, 18.5 per cent. from 23 December 2008 until 29 December 2008, 24.5 per cent. from 30 December 2008 until 31 December 2009, and 26.5 per cent from January 2010 until the maturity date.

The terms of the syndicated loan agreement were further revised in August 2010. In accordance with the revised terms, the RUB 1.5 Billion Facility was to mature on 24 June 2011, and the interest rate was changed to 18.5 per cent. until maturity.

In September 2010, TCS repaid a portion of RUB 1.5 Billion Facility in the amount of US$ 23,255 thousand and agreed with Vostok Nafta, Goldman Sachs and Blue Crest on monthly amortisation of the remaining part.

In July 2010, Blue Crest's position in the RUB 1.5 Billion Facility was assigned to Redcreston Holdings Limited ("**Redcreston**"), a company indirectly controlled by Mr. Oleg Tinkov, at a nominal value.

The portion of the RUB 1.5 Billion Facility which is due to Mr. Oleg Tinkov is not being amortised. As part of the financing agreement, Vostok Nafta, Goldman Sachs and Blue Crest received warrants for 3 per cent., 2 per cent., and 1 per cent. of shares in Egidaco, respectively. In November 2010, Goldman Sachs, Vostok Nafta, and Redcreston exercised their stock warrants under the RUB 1.5 Billion Facility. Accordingly, Vostok Nafta and Goldman Sachs increased their stakes in the share capital of Egidaco to 17.08 per cent. and 14.75 per cent, respectively, while Mr. Oleg Tinkov's share decreased to 68.17 per cent.

The carrying value of the syndicated loan at 31 December 2010 was US$ 31,378 thousand. On 31 March 2011, an outstanding portion of the RUB 1.5 Billion Facility in the amount of RUB 606 million was repaid in full. Apart from the RUB 1.5 Billion Facility, the only other scheduled repayment of indebtedness that falls during the remainder of 2011 is one series of RUB 1,500 million Rouble-denominated domestic bonds, which will happen if the holders of these bonds exercise their put option in November 2011.

### *Loan portfolio*

As of 31 December 2010, TCS's total loans to customers and advances to customers, net of provisions for loan impairment, were US$ 316,418 thousand, representing 78.1 per cent. of its total assets.

The following table summarises TCS's loan portfolio as of 31 December 2010, 2009 and 2008:

| | As of 31 December | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| | *(In thousands of US dollars)* | | |
| ***Loans to individuals*** | | | |
| Credit card loans | 339,385 | 188,375 | 154,461 |
| Other loans | — | 238 | 235 |
| ***Loans to legal entities*** | | | |
| Direct commercial loans | 2,238 | 3,712 | 12,429 |
| **Gross loans and advances to customers** | **341,623** | **192,325** | **167,125** |
| Less: Provision for loan impairment | (25,205) | (18,590) | (27,013) |
| **Net loans and advances to customers** | **316,418** | **173,735** | **140,112** |

The increases in credit card loans in 2010 and 2009 were the result of the growth of TCS's business. See "*Business—Strategy*". Loans to corporations represent legacy loans extended by Khimmashbank before its acquisition by Egidaco. See also "*—Selected Statistical Information—Average balance sheet and interest rate data*" above.

The following table sets out TCS's net loans to customers by maturity (including overdue loans), net of accumulated provisions for loan impairment as of 31 December 2010, 2009 and 2008:

| | As of 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2010** | **Per cent. of total funding** | **2009** | **Per cent. of total funding** | **2008** | **Per cent. of total funding** |
| | *(In thousands of US dollars except for percentages)* | | | | | |
| Demand and less than 1 month | 26,369 | 8.3 | 14,471 | 8.3 | 12,066 | 8.6 |
| From 1 to 6 months | 131,840 | 41.7 | 72,390 | 41.7 | 58,203 | 41.5 |
| From 6 to 12 months | 158,209 | 50.0 | 86,874 | 50.0 | 69,843 | 49.9 |
| From 1 to 3 years | — | 0.0 | — | 0.0 | — | 0.0 |
| More than 3 years | — | 0.0 | — | 0.0 | — | 0.0 |
| Total(1) | **316,418** | **100.0** | **173,735** | **100.0** | **140,112** | **100.0** |

(1) Net of accumulated provisions for loan impairment.

Short-term loans of 12 months or less are predominant in TCS's credit card loan portfolio. The following table sets out credit card loans, including non-performing loans, net of accumulated provisions for loan impairment. TCS treats as non-performing credit card loans that are 90 days or more past due:

| | As of 31 December | | | Change from prior year | |
|---|---|---|---|---|---|
| | **2010** | **2009** | **2008** | **2010** | **2009** |
| | *(In thousands of US dollars)* | | | *(Percentages)* | |
| Performing credit card loans | 328,033 | 175,054 | 146,762 | 87.4% | 19.3% |
| Non-performing credit card loans | 11,352 | 13,321 | 7,699 | (14.8%) | 73.0% |
| Gross credit card loans | 339,385 | 188,375 | 154,461 | 80.2% | 22.0% |
| Less accumulated provisions for impairment of credit card loans | (24,449) | (16,343) | (14,774) | 49.6% | 10.6% |
| **Total:** | **314,936** | **172,032** | **139,687** | **83.1%** | **23.2%** |
| Provision for impairment of credit card loans as a percentage of gross credit card loans | 7.2% | 8.7% | 9.6% | (17.0%) | (9.3%) |
| Provision for impairment of credit card loans as a percentage of non-performing credit card loans | 215.4% | 122.7% | 191.9% | 75.5% | (36.1%) |
| Non-performing credit card loans as a percentage of gross credit card loans | 3.3% | 7.1% | 5.0% | (52.7%) | 41.9% |

The provision for impairment of credit card loans as a percentage of gross credit card loans decreased from 8.7 per cent. for the year ended 31 December 2009 to 7.2 per cent. for the year ended

31 December 2010 as compared to a decrease from 9.6 per cent. for the year ended 31 December 2008 to 8.7 per cent. for the year ended 31 December 2009. The decrease in provisions for impairment of credit card loans as a percentage of gross credit card loans in 2010 was mainly attributable to an increase in the quality of the credit card loan portfolio, the rapid growth of the credit portfolio, inertia of the provisioning for loan impairment which is based on the statistics of the preceding six months and sale and write-off of bad debts in the amount of US$ 19,667 thousand in 2010. The decrease in provisions for impairment of credit card loans as a percentage of gross credit card loans in 2009 was mainly attributable to the sale and write-off of bad debts.

For the year ended 31 December 2010, the provision for loan impairment as a percentage of gross loans and advances to customers decreased to 7.4 per cent. from 9.7 per cent. for the year ended 31 December 2009, primarily due to the rapid growth of the credit portfolio, inertia of the provisioning for loan impairment, which is based on the twelve-month statistics horizon, and sale and write-off of bad debts in the amount of US$ 19,667 thousand in 2010. These bad debts were sold to third-party collection agencies (such as MKS+ and FROSKA Industries) on a tender basis. As of 31 December 2009, provisions for loan impairment as a percentage of gross credit card loans to customers decreased to 9.7 per cent. from 16.2 per cent. as of 31 December 2008. The decrease in provisions as a percentage of gross credit card loans to customers in 2009 as compared to 2008 was primarily a result of the sale and write-off of bad debts.

**Capital Adequacy**

TCS's capital adequacy ratio ("**CAR**") is calculated under the methodology set by the Basel Committee on Banking Regulations and Supervisory Practices (the "**Basel Committee**") using the definition of capital adopted by the CBR. TCS's Tier I capital is represented by net assets attributable to participants. TCS's Tier II capital is represented by subordinated loans, up to a limit of 50 per cent. of Tier I capital.

The following table sets out the principal components of TCS's CAR as of 31 December 2010, 2009 and 2008:

| | As of 31 December | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| | *(In thousands of US dollars except for ratios)* | | |
| **Risk-weighted assets** | **372,556** | **275,388** | **249,048** |
| Tier I capital | 43,865 | 33,169 | 14,597 |
| Tier II capital | — | 1,871 | 1,871 |
| **Total capital** | **43,865** | **35,040** | **16,468** |
| Tier I capital ratio | 11.8% | 12.0% | 5.9% |
| **Total capital ratio** | **11.8%** | **12.7%** | **6.6%** |

As of 31 December 2010, TCS's Tier I capital amounted to US$ 43,865 thousand, representing an increase of US$ 10,696 thousand over the corresponding figure as of 31 December 2009. This increase primarily resulted from an increase in profit for the year ended 31 December 2010 amounting to US$ 9,125 thousand compared to US$ 18,222 thousand profit for the year ended 31 December 2009. As of 31 December 2009, TCS's Tier I capital amounted to US$ 33,169 thousand, representing an increase by US$ 18,572 thousand over the corresponding figure as of 31 December 2008. This increase primarily resulted from an increase in profit for the year ended 31 December 2009 amounting to US$ 18,222 thousand as compared to a US$ 44,747 thousand loss for the year ended 31 December 2008.

Although TCS is not bound to comply with capital adequacy ratios calculated under the methodology set by the Basel Committee, TCS regularly monitors its compliance with these ratios on a voluntary basis. Despite growth in risk-weighted assets, which increased by 35.3 per cent., or US$ 97,168 thousand, and amounted to US$ 372,556 thousand as of 31 December 2010 from US$ 275,388 thousand as of 31 December 2009, which in turn increased by US$ 26,340 thousand from US$ 249,048 thousand as of 31 December 2008, TCS maintained a CAR significantly above the minimum capital requirements set by the Basel Committee in 2009 and 2010.

In 2010, the CAR calculated in accordance with RAS requirements declined from 28.57 per cent. as of 1 January 2010 to 13.55 per cent. as of 1 January 2011, due to the rapid growth of TCS's credit cards portfolio in the second half of 2010. The CBR requires banks whose capital base is RUB 180 million or more to maintain a CAR of 10 per cent. or more calculated based on RAS. As of 1 February 2011, TCS's capital adequacy ratio calculated on a standalone basis based on RAS was 14.08 per cent.

**Off-Balance Sheet Commitments**

TCS's off-balance sheet commitments primarily comprise unused limits on credit cards and derivative contracts.

*Unused limits on credit cards*

TCS's off-balance sheet commitments mainly consisted of unused limits on credit card loans. As of 31 December 2010, TCS had US$ 191,487 thousand in outstanding credit-related commitments, as compared to US$ 81,723 thousand as of 31 December 2009 and US$ 60,901 thousand as of 31 December 2008. The increases in both 2010 as compared to 2009 and 2009 as compared to 2008 primarily reflected increased demand for, and issuance of, credit cards and related increases in unused limits on credit card loans.

The following table sets out TCS's credit-related commitments as of 31 December 2010, 2009 and 2008:

| | As of 31 December | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| | *(In thousands of US dollars)* | | |
| Unused limits on credit card loans | 191,487 | 81,723 | 60,901 |
| **Total credit related commitments** | **191,487** | **81,723** | **60,901** |

The primary purpose of TCS's credit-related commitments is to ensure that funds are available as required by credit card customers. Unused limits on credit cards represent unused portions of authorisations to extend credit in the form of loans. The total outstanding contractual amount of unused limits on credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

With respect to credit risk on commitments to extend credit, TCS is potentially exposed to a loss in the amount equal to the total of unused irrevocable commitments. However, the likely amount of loss is less than the total unused commitments since most of the commitments to extend credit are contingent upon customers maintaining specific credit standards and, for example, could be terminated in the event of customer default. TCS monitors the term to maturity of credit-related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Where TCS has operating lease commitments as the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

| | As of 31 December | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| | *(In thousands of US dollars)* | | |
| Not later than 1 year | 1,656 | 819 | 114 |
| **Total operating lease commitments(1)** | **1,656** | **819** | **114** |

(1) TCS operates a number of premises and pieces of equipment under operating leases. Lease payments are usually increased annually to reflect market trends. None of these leases include contingent rentals.

***Derivative financial instruments***

The table below sets out fair values, at the end of each reporting period, of currencies receivable or payable under foreign exchange swap contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are short term in nature.

| | As of 31 December | | | |
|---|---|---|---|---|
| | **2010** | **2009** | | |
| | **Contracts with positive fair value** | **Contracts with negative fair value** | **Contracts with positive fair value** | **Contracts with negative fair value** |
| | *(In thousands of US dollars)* | | | |
| **Foreign exchange swap: fair values, at the end of the reporting period, of** | | | | |
| — US$ receivable on settlement (+) | — | 7,000 | — | — |
| — RUB payable on settlement (-) | — | (7,009) | — | — |
| **Net fair value of foreign exchange forwards and swaps** | **—** | **(9)** | **—** | **—** |

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

| **Buy/sell** | **Notional value, EUR thousand** | **Strike price EUR** |
|---|---|---|
| Buy | 50,000 | 45 |
| Sell | 100,000 | 55 |
| Buy | 50,000 | 65 |

As of 31 December 2009, TCS had:

- an outstanding purchased call option giving TCS the right to buy EUR 50,000 thousand from its counterparty for a strike price of RUB 45 per 1 EUR;
- an outstanding written put option giving TCS's counterparty the right to buy EUR 100,000 thousand to TCS for a strike price of RUB 55 per 1 EUR;
- an outstanding purchased call option giving TCS the right to buy EUR 50,000 thousand from its counterparty for a strike price of RUB 65 per 1 EUR.

At 31 December 2009 the fair value of the outstanding options was recognised as an asset of US$2,361 thousand. In June 2010 the Group sold these options to an international financial institution at their fair value for the amount of US$ 510 thousands.

TCS uses derivative transactions to manage its foreign currency risks. See "—*Significant Factors Affecting Results of Operations—Risk Management*". Proceeds from the Loan will be denominated in foreign currency, whereas TCS's consumer loan portfolio is denominated in Roubles. Therefore, foreign currency risk arises when the assets in the respective foreign currency are either greater or less than the liabilities in that currency. TCS has entered into derivative transactions to manage its foreign currency risks.

**Recent Developments**

Please see "—*Liquidity and Capital Resources—Funding*" for details.

In February 2011, Egidaco's Board of Directors approved an additional issue of 9,999 ordinary shares with a nominal value of US$ 1 per share, ranked equally and carrying one vote each for the approximate amount of US$ 15,000 thousand. Proceeds from the additional issue of shares will be accumulated at Egidaco's level. As of the date of this Prospectus, a part of these proceeds has been already contributed to Egidaco and TCS management believes that the remaining proceeds will be received by mid-April. The main purpose of the additional share issue is to increase the Group's capital to enhance further growth of TCS's operations.

In February 2011, the Group acquired a 100 per cent. stake in OOO TCS, an entity previously controlled by Egidaco and consolidated within the Group.

In February 2011, TCS issued Rouble-denominated domestic bonds with a nominal value of RUB 1,500 million (approximately US$ 51,831 thousand) at a 14 per cent. coupon maturing in February 2014 and with a put option exercisable in August 2012. In November and December 2010, Egidaco purchased a part of these Rouble-denominated domestic bonds in the total amount of RUB 300 million (approximately US$ 10,366 thousand).

In March 2011, an outstanding portion of the RUB 1.5 Billion Facility in the amount of RUB 606 million was repaid in full.

# BUSINESS

## Overview

TCS is a Russian bank organised as a closed joint stock company under the laws of the Russian Federation with its registered office located at Perviy Volokolamskiy proezd, 10, building 1, 123060 Moscow, Russian Federation. TCS is registered with the Unified State Register of Legal Entities of the Russian Federation with the Principal State Registration Number 1027739642281. The telephone number of TCS's registered office is +7 495 648 1000.

Mr. Oleg Tinkov is the principal shareholder of TCS, indirectly holding 68.17 per cent. of TCS's share capital. Vostok Nafta, a Swedish investment fund focusing on the countries of the former Soviet Union, and Goldman Sachs are TCS's minority shareholders, indirectly holding 17.08 per cent. and 14.75 per cent. of TCS's share capital respectively.

TCS's principal business activity is providing consumer banking products and services to customers in the Russian Federation, primarily credit card loans and, more recently, retail deposits.

According to FRG, as of 28 February 2011, TCS had the sixth largest credit card loan portfolio in the Russian Federation amounting to RUB 11,400 million (US$ 400,999 thousand). TCS's management believes that it has one of the fastest growing credit card portfolios in the Russian Federation and, according to FRG, as of 28 February 2011, TCS's market share in the Russian credit card loan segment amounted to 4.5 per cent. based on non-delinquent receivables. Retail deposits were offered first in four regions starting in mid-2009 and launched in Moscow and Saint-Petersburg during 2010. TCS's portfolio of retail deposits increased from RUB 255,352 thousand (US$ 8,443 thousand) as of 31 December 2009 to RUB 5,167 million (US$ 169,526 thousand) as of 31 December 2010.

TCS's business model is based on that of Capital One, the US credit card issuer and other leading credit card lenders such as MBNA, and adapted for the Russian market and operating environment. TCS management believes that low penetration, relatively high margins, high response rates along with certain barriers for entry for TCS's competitors make its business model attractive in Russia. In particular, the direct mail monoline credit card business model used by TCS is successful in Russia due to the following reasons:

- consumer finance products, including installment loans at points-of-sale and credit cards, work successfully in Russia and have a relatively long track record;
- despite well-established consumer lending in Russia, credit card penetration remains relatively low, which, combined with high response rates, allows for steady growth and supports high margins;
- unlike in the point-of-sale environment, there are currently few competing offers in the Russian credit card market, which results in decreased competition leading to decreased price pressure and higher margins in the credit card segment. Direct mail and the Internet require special data-management and analytical skills and focus not typically found in universal retail banks, as well as significant investment in direct mail techniques and in supporting IT and business intelligence infrastructure; and
- consumer finance banks (such as OTP, Russian Standard Bank, Renaissance Credit and Home Credit & Finance Bank) already have access to other channels, including point-of-sale networks and branches, and it is difficult for them to make the investment necessary to make either direct mail or the Internet work. These consumer finance banks already have national branch coverage and therefore have less incentive to start competing in TCS's acquisition channels.

TCS targets its credit card offers through a number of distribution channels. Currently, the primary distribution channel is direct mail. TCS management believes that personalised direct mail offers are one of the most efficient ways to reach new customers in Russia, particularly in the under-served parts of the country where TCS operates. Another of TCS's customer acquisition channels is the Internet, which is used by TCS for both credit card loans and retail deposits. Given growing internet penetration in Russia and the popularity of online services, TCS management believes that online acquisition will become the primary distribution channel in the future. In addition to direct mail and the Internet, TCS uses direct sales agents, commercial partnerships (including co-branding), credit brokers and other channels including, increasingly, "bring a friend" network marketing (a bonus system encouraging existing customers to recommend TCS). In 2009 and 2010, TCS also cooperated with the Russian Federal Post Office and attracted credit card customers through its branches. TCS acquires credit card customers by entering into commercial arrangements with a wide variety of partners including retailers, mail order companies, airlines, insurance companies, associations and loyalty management companies. These partners have customer lists to which TCS selectively mails credit card offers.

TCS's target credit card customers are mass-market, predominantly regional, retail borrowers. TCS's direct mail customer monthly income breakdown is as follows: income of 38 per cent. of TCS's direct mail customers is less than RUB 15,000 (approximately US$ 528), income of 41 per cent. of TCS's direct mail customers is between RUB 15,000 (approximately US$ 528) and RUB 30,000 (approximately US$ 1,055), income of 14 per cent. of TCS's direct mail customers is between RUB 30,000 (approximately US$ 1,055) and RUB 50,000 (approximately US$ 1,759) and income of 7 per cent. of TCS's direct mail customers is more than RUB 50,000 (approximately US$ 1,759). Approximately 68 per cent. of TCS's direct mail customers are female, which is explained by the use of mail order databases in which females tend to constitute a higher proportion of customers, as well the fact that women are generally more responsive than men. The average age of TCS's direct mail credit card customers is approximately 42 years.

TCS's Internet credit card customer monthly income breakdown is as follows: income of 13 per cent. of TCS's Internet customers is less than RUB 15,000 (approximately US$ 528), income of 39 per cent. of TCS's Internet customers is between RUB 15,000 (approximately US$ 528) and RUB 30,000 (approximately US$ 1,055), income of 27 per cent. of TCS's Internet customers is between RUB 30,000 (approximately US$ 1,055) and RUB 50,000 (approximately US$ 1,759) and income of 21 per cent. of TCS's Internet customers is more than RUB 50,000 (approximately US$ 1,759). Approximately 55 per cent. of TCS's Internet customers are male. The average age of TCS's Internet credit card customers is approximately 35 years.

Approximately 70 per cent. of TCS retail deposit customers are male while approximately 69 per cent. of customers are aged between 25 and 40 years. The average deposit amount is equal to RUB 150,000 (approximately US$ 5,183) and approximately 75 per cent. of retail deposits are below the RUB 700,000 (approximately US$ 24,188) level and, accordingly, fully protected by the Russian mandatory deposit insurance system. The average maturity of retail deposits is between fifteen and seventeen months.

As well as using a branchless acquisition model through direct marketing and online application, TCS operates a remote-service bank primarily through its Call Centre, SMS and Internet banking platforms, third-party electronic payments networks (such as Elecsnet and QIWI, the money transfer system CONTACT, the Russian Federal Post Office and international card schemes). The branchless model is a core feature of operations that affords flexibility and allows TCS to adjust its business according to external factors, such as funding and seasonality, as well as providing a low fixed cost-base. It has also enabled TCS to attract credit card customers in all of Russia's regions without having to set up branches or sales offices. Moreover, TCS is able to acquire and service customers in towns and cities irrespective of size and, unlike other retail banks, it is not restricted to the larger cities by the economics of opening a branch. The resulting diversification of TCS's credit portfolio throughout Russia limits the concentration of credit risk in specific industrial clusters (i.e. "mono-cities" where the majority of the population is employed by a single enterprise) or regions. Currently, based on the number of customers, no region accounts for more than 5 per cent. of TCS's credit card customer base. Moscow and Saint Petersburg account for approximately 3 per cent. and 4 per cent. of TCS's credit card customer base, respectively.

TCS has been a principal member of the MasterCard International Payment System since 2007.

As of the date of this Prospectus, TCS operates under full banking licence (No. 2673) received from the CBR covering a wide range of banking activities. This licence was issued on 8 December 2006. TCS's licence allows it to conduct banking operations which include but are not limited to operations in Roubles and foreign currencies, deposits from individuals and legal entities in Roubles and foreign currencies, opening and maintaining bank accounts of individuals and legal entities, wire transfers and settlements. TCS has been a member of the Russian mandatory deposit insurance system (for retail deposits) registered under No. 696 since February 2005.

As of the date of this Prospectus, TCS has a "B" credit rating from Fitch with a stable outlook assigned to TCS in March 2011 and a "B3" credit rating from Moody's with a stable outlook assigned to TCS in May 2010. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

For the year ended 31 December 2010, TCS generated net interest income after provision for loan impairment of US$ 67,618 thousand as compared to US$ 55,393 thousand for the year ended

31 December 2009 and US$ 16,305 thousand for the year ended 31 December 2008. For the year ended 31 December 2010, TCS's profit before tax totalled US$ 12,939 thousand as compared to US$ 27,058 thousand for the year ended 31 December 2009 and US$ 44,054 thousand loss before tax for the year ended 31 December 2008. For the year ended 31 December 2010, TCS's profit for the year totalled US$ 9,125 thousand as compared to US$ 18,222 thousand for the year ended 31 December 2009 and US$ 44,747 thousand loss for the year ended 31 December 2008.

As of 31 December 2010, TCS had total assets of US$ 405,136 thousand as compared to US$ 211,614 thousand as of 31 December 2009 and US$ 193,942 thousand as of 31 December 2008.

**History**

TCS was incorporated in January 1994, and was initially known as Joint Stock Company AKB Khimmashbank ("**Khimmashbank**"). Khimmashbank was a small bank focused on customers from the pharmaceutical and chemical industries primarily operating in Moscow and the Moscow Region. Khimmashbank was registered with the CBR on 28 January 1994.

In November 2006, Egidaco, a Cypriot company at that point under the sole control of Mr. Oleg Tinkov, acquired a 100 per cent. stake in the share capital of Khimmashbank. In December 2006, Khimmashbank was renamed Closed Joint Stock Company "Tinkoff Credit Systems" Bank.

In late 2006 to early 2007, TCS implemented its core IT systems, entered into agreements with key vendors to whom it outsourced its IT services and put in place key business processes. In the spring of 2007, it launched its revolving credit card lending programme based on a monoline model.

In October 2007, Goldman Sachs acquired a 10.0 per cent. stake in Egidaco together with option to increase its stake. In September 2008, Vostok Nafta, a Swedish investment fund, acquired a 15.0 per cent. stake in Egidaco. Concurrently, Goldman Sachs exercised its additional option and acquired a further 5.0 per cent. stake in Egidaco, taking its share to 13.6 per cent. after dilution.

In October 2007, TCS issued its first Rouble bond in the amount of RUB 1,005,502 thousand (US$ 40,533 thousand) of which RUB 550 million (US$ 22,172 thousand) was placed into the market. In October 2010, the bond was fully redeemed upon maturity.

In December 2007, TCS entered into the RUB 1.5 Billion Facility with, *inter alia*, Vostok Nafta, Goldman Sachs and Blue Crest. In July 2010, Blue Crest's position in the RUB 1.5 Billion Facility was assigned to Redcreston, a company indirectly controlled by Mr. Oleg Tinkov. Since September 2010, the outstanding indebtedness under the RUB 1.5 Billion Facility which is due to Vostok Nafta and Goldman Sachs has been amortised on a monthly basis. The portion of the RUB 1.5 Billion Facility which is due to Mr. Oleg Tinkov is not being amortised. As part of the financing agreement, Vostok Nafta, Goldman Sachs and Blue Crest received warrants for 3 per cent., 2 per cent., and 1 per cent. of shares in Egidaco, respectively. In November 2010, Goldman Sachs, Vostok Nafta, and Redcreston exercised their stock warrants under the RUB 1.5 Billion Facility. Accordingly, Vostok Nafta and Goldman Sachs increased their stakes in the share capital of Egidaco to 17.08 per cent. and 14.75 per cent, respectively while Mr. Oleg Tinkov's share decreased to 68.17 per cent. On 31 March 2011, an outstanding portion of the RUB 1.5 Billion Facility in the amount of RUB 606 million was repaid in full.

In June 2008, Egidaco issued its debut EUR 70 million (approximately US$ 109 million) Eurobond listed on the NASDAQ OMX in Stockholm which was fully redeemed in September 2010.

In response to the global financial and economic crisis, TCS implemented a number of measures to optimise business operations, manage liquidity, manage risk and reduce cost. These included reducing approval rates for new credit card issuances, reducing initial limits, the introduction of pre-collection calling, an increase in the number of employees working in collections and collections scoring. TCS also significantly reduced direct mailing to new customers, limited new customer acquisition and introduced a series of cost-cutting measures, including reductions in staffing levels and renegotiation of contracts with vendors.

The new and more stringent risk policies introduced by TCS in response to the financial crisis have increased the quality of the credit card loan portfolio. During the second half of 2009, delinquency trends showed an improvement and the proportion of overdue loans as a percentage of gross loans and advances to customers decreased to 18.8 per cent. as of 31 December 2009 as compared to 23.6 per cent. as of 31 December 2008. This decrease was also partially due to the sale of bad debts in 2009. TCS's provision for loan impairment as a percentage of gross loans and advances to customers decreased to 9.7 per cent. as of 31 December 2009 as compared to 16.2 per cent. as of 31 December

2008 as a result of the sale of a substantial amount of bad debts in 2009. In US dollar terms the provision for loan impairment decreased as of 31 December 2009 to US$ 18,590 thousand as compared to US$ 27,013 thousand as of 31 December 2008.

In mid-2009, as part of its strategy to diversify its funding sources, TCS launched a retail deposit programme in four regions. In February 2010, TCS launched its online retail deposit programme in Moscow and Saint-Petersburg. By the end of 2010, TCS raised more than RUB 5,000 million through its retail deposit programme.

In pursuing its strategy to diversify funding sources, in 2010, TCS accessed domestic capital markets through the issuance of Rouble-denominated domestic bonds for a total amount of RUB 4,500 million:

(i) In July 2010, TCS placed a RUB 1,400 million Rouble-denominated domestic bond maturing in 2013;

(ii) In September 2010, TCS placed a RUB 1,600 million domestic exchange bond maturing in 2013; and

(iii) In November 2010, TCS placed a RUB 1,500 million domestic exchange bond maturing in 2013 and with a put option exercisable in November 2011.

CJSC Investment Company "Troika Dialog" acted as the lead manager of these bond issues.

In the approximately four years of its operating history, TCS has mailed 57 million customer invitations throughout Russia, received 2,200 thousand credit card applications and issued 1,021 thousand credit cards out of which nearly 730 thousand have been activated.

**Strategy**

TCS's strategic goal is to continue to expand its credit card lending business via a branchless and online model supported by diversified long-term funding, high-quality customer service and based on a data-driven, "test and learn" approach.

TCS's strategy can be characterised as follows:

- *Target mass-market regional customers in under-served parts of Russia using direct mail and the Internet as the primary customer acquisition channels.* TCS targets mass-market regional customers in under-served parts of Russia through direct mail and the Internet. TCS also uses direct sales agents, partnerships (including co-branding), credit brokers and other distribution channels. TCS management expects that over time online acquisition is likely to become the core part of the channel mix as Internet (and broadband) penetration rapidly expands. In addition, TCS maintains a lower-cost branchless model and outsources wherever feasible while retaining core functions including sales/marketing, underwriting/risk management, CRM and data management and financial and portfolio management. Outsourcing helps TCS management to retain focus on and develop its core competences with respect to TCS's main operations, to economise on capital expenditures and to ensure a flexible cost base.

- *Offer innovative premium-brand products with strong customer value proposition.* TCS applies a "test and learn" approach, employing data analysis, including design, testing, measurement, analysis, learning and roll-out, whilst keeping the business model simple and flexible to adapt. TCS management believes that TCS is efficient in data acquisition, mining and management enabling it to tailor products to customer needs. Also, TCS believes that the keys to TCS's success are convenience, service and access to credit. The TCS value proposition to customers includes a convenient and easy application process, no onerous requirements for documentation, creating an invitation only "club" effect facilitated by targeted direct mails, "bring a friend" network marketing, free credit repayment through a wide network of partners, free 24x7 call centre and paperless problem resolution.

- *Retain primary focus on providing the highest quality of services to attract and retain customers.* TCS's primary focus is on providing a high quality of services enabling it to attract and retain customers. This approach includes constant improvement in the quality of service: TCS aims to provide its customers with a level of service that they have not experienced elsewhere, delivered via a Call Centre, user-friendly website and other electronic channels. Speed to market, flexibility, responsiveness to customer needs, and the ability to expand or shrink the size of operations relatively quickly are also important advantages of the TCS business model.

- *Manage credit risk through advanced data mining, processes and systems*. TCS takes its credit decisions based on a large range of available information, including credit bureaux data and scores (the database of which is constantly increasing), proprietary scoring models (which are constantly updated) and an application verification process. TCS is currently building an online scoring capability based on IBM Websphere ILOG which will enhance the speed and efficiency of its decisions. Focusing on customers with established credit history is another cornerstone of TCS's credit risk management. Credit risk is also effectively managed by applying a multi-tiered collections process, collections optimisation through collections scoring and a "low-and-grow" approach where low limits initially assigned to new customers steadily increase as customers' credit profiles improve over time.
- *Support the business by operating a sophisticated IT and operating platform with functions outsourced where possible for maximum efficiency*. TCS business operations are supported by a fully-integrated, global "industry standard" platform, which includes Avaya (Call Centre), TSYS (card management system), Siebel (CRM) and scoring, data warehouse and campaign management ("**SAS**").
- *Diversify risk*. By employing a wide variety of distribution channels, in particular direct mail and online application, TCS is able to reach many parts of Russia and significantly diversify its credit card portfolio, thereby decreasing the concentration of credit risk. Factors decreasing credit risk are as follows:
  - TCS's credit card portfolio is spread out throughout the country;
  - No region represents more than 5 per cent. of the customer base;
  - Approximately 3 per cent. of TCS's customer base is in Moscow and 4 per cent. in Saint-Petersburg; and
  - Footprint driven "push marketing" using partner databases to find clusters of potential candidates with attractive risk and behavioural characteristics.

The platform for implementation of TCS strategy consists of the following:

***Innovative product development***

TCS believes that maintaining the quality of its product offering is a key for maintaining and enhancing its competitive position in the Russian consumer finance market, and increased customer acquisition and retention rates. In order to develop better products, TCS regularly runs small tests to gauge customer interest and the effect of proposed innovations on its operating results. TCS rolls out only those innovations or products that prove successful in these tests, such as the deposit programme, the online credit card programme or new tariffs that are introduced from time to time. In order to measure the results of these tests and obtain the necessary data for introducing new products or changing the existing ones, TCS uses sophisticated data warehousing and analytic systems.

TCS constantly strives to improve its product and service offerings through the following means, which management expects will continue to be key factors in implementing TCS's strategy:

*Ease of application process*. TCS is focused on customer comfort during the application process. TCS delivers its credit card offers to the prospective customer's home address using direct mail, to the customer's office using an outsourced direct sales force (direct sales agents), or straight to his or her hand through regular "bring-a-friend" promotions whereby TCS customers receive a cash bonus from TCS when they bring friends to TCS. Application forms are designed to be easy to complete. The customer can monitor the status of their application by means of SMS and email notifications or the TCS website. The TCS 24x7 Call Centre is available to explain the value proposition, tariffs and procedures of TCS's credit cards. Under the retail deposit programme launched in February 2010, TCS representatives deliver all pre-populated documents and an embossed black MasterCard Platinum debit card to the customer within 24 hours of receipt of the application. A prospective customer can apply through the TCS website which has been redesigned for these purposes or the Call Centre, whichever is most convenient for them.

*Convenience*. TCS strives to make its products as convenient as possible for the customer to use. TCS offers a wide network of payment partners through which customers can make monthly payments free-of-charge. TCS is one of the few banks in Russia to provide this service at no cost to the customer, which TCS believes makes its credit card more attractive. TCS's partners include the Russian Federal Post Office (approximately 42,000 branches), Elecsnet, QIWI, Contact and others.

The Call Centre and Internet bank (through the TCS website) are free and available 24x7. TCS tries to resolve all customer complaints over the phone, and its procedures enable the customer to resolve issues remotely. TCS focuses on providing higher than average levels of customer service, which it believes to be an important advantage vis-à-vis many competitors.

In order to track customer service levels, customer satisfaction surveys are conducted by the TCS customer service team. In a recent online popular survey, in March 2011, TCS was among the top five most popular banks in terms of overall quality and service among users of the banki.ru web-site (http://www.banki.ru/services/responses/).

*Competitive tariffs and product offering.* TCS's credit cards offer a 55-day grace period, comparatively low introductory rates and mostly free repayments through a wide network of partners. Customers with a positive payment history are offered periodic credit limit upgrades. The TCS deposit programme offers marketable interest rates, a black MasterCard Platinum card with free cash withdrawals, the ability to switch between monthly interest capitalisation or monthly interest deposit on the card and other features.

***Constant improvement of operations efficiency, business processes and customer service***

TCS constantly improves its operational efficiency by regularly reviewing its internal management systems and controls. TCS's operating platform is designed to process high volumes of credit applications, customer requests, card transactions and telephone calls. All business processes are closely monitored through a set of metrics using TCS's powerful analytic systems and data warehouse, which enables management to identify potential problems early and initiate corrective action in a timely manner. To enhance TCS operational control and efficiency, TCS is currently implementing the BPMS "Lombardi", industry-standard business process management software offered by IBM.

TCS focuses on developing its IT systems and processes to ensure cost-effective loan and deposit application processing and in order to adapt to the potentially changing needs and objectives of its business and customers. Allied with this, TCS uses its carefully designed risk management system to enable steady growth of the business. TCS also works to improve the security of its IT systems through regular updates and capital investments into useful soft- and hardware. Apart from this, TCS management believes that its existing IT system is scalable enough to accommodate further significant growth in TCS's operations without requiring significant additional investments.

Because focusing on customer support is an important part of TCS's strategy, TCS closely monitors the quality of Call Centre staff, and trains and motivates personnel to provide the highest possible level of service at all times.

***Enhancement of credit risk management and collection systems***

TCS regularly enhances its risk management and collection systems in order to:

- increase the profitability of its portfolio;
- decrease fraud and default rates;
- implement new collections procedures and methods to increase recovery rates;
- broaden its analytical competence through the introduction of more sophisticated and flexible scoring; and
- incorporate new anti-fraud procedures and technologies into its risk management systems.

In order to improve credit decision processes, TCS incorporates into its scoring models not only credit histories (negative and positive data showing the applicants' credit history in other lending institutions, including type and tenor of loan, payment history and overall indebtedness), but also credit bureaux scores (such as FICO and Equifax) and the results of its own phone-based applicant verification process. In order to reduce credit fraud losses, TCS uses an "invitation" model consisting of direct mail solicitation of pre-selected prospective customers and personalised, indexed and bar-coded offers, which can then be accurately matched with incoming applications. Online applications are carefully analysed using data matching and other methods before they are sent to the credit bureau and verified. TCS improves its credit bureaux hit rates (i.e., the number of applicants found in credit bureau databases) by carefully pre-selecting target customer lists, which has led to an increase in the hit rate from an initial 40 per cent. to over 80 per cent. at the current time. TCS further reduces credit risk by employing active credit limit management, which includes:

- initial limit assignment based on the application score; and

- subsequent limit increases (or decreases) in accordance with customer's internal behavioural score and external bureau scores.

In order to increase the efficiency of its debt collection efforts, in early 2009, TCS implemented a collection scoring model based on the allocation of customers to certain risk groups. Since the third quarter of 2010, TCS has been bringing to the local courts claims against delinquent customers (typically 120 days overdue). The first stage of this litigation initiative involved approximately 2,500 non-performing loans in the total amount of approximately RUB 130 million. As a part of this new approach, TCS mails a standardised claim to the court rather than appearing before the court. If TCS receives a favorable court decision then it works in close cooperation with the Federal Service of Court Bailiffs of the Russian Federation to collect the delinquent loan. TCS management believes that this new approach will have a positive impact on debt collection. Moreover, in 2010, TCS also introduced a new collection measure based on regular installments paid by delinquent customers (typically those 90 days overdue). After consultations with the delinquent customer, TCS fixes the outstanding amount of the debt under the credit card loan and offers the customer the option to repay his or her debt in monthly installments during a period limited to 24 months.

TCS believes that the regular steps it has taken to improve underwriting, credit risk management and collection procedures, as well as additional measures to introduce early warning systems for fraud detection, support TCS's goals of maintaining profitable growth and enhancing the quality of its loan portfolio.

#### *Diversifying funding base*

TCS has diversified its funding base to avoid dependence on any particular source of funding. TCS seeks to maintain a balance between wholesale and retail funding, while actively diversifying its sources of financing from debt capital markets.

TCS has a policy of borrowing with a longer maturity than the average life of its assets. This served TCS well during the financial crisis when external funding sources were limited. Additionally, TCS has a policy according to which all foreign currency borrowings are appropriately hedged against foreign currency risk.

TCS continues to access domestic and international debt capital markets, and intends to obtain bilateral and syndicated unsecured loans and asset-backed financing both from major Russian and foreign banks as well as arrange for the securitisation of credit card receivables in the longer term. Retail deposits will remain a significant source of funding which can be increased when needed by increasing deposit interest rates and more active advertising to keep a balance between wholesale and retail funding. TCS also considers positive net cash flow from its existing credit card portfolio as an additional source of funding under extreme circumstances.

TCS's management believes that its commitment to transparency facilitates its interaction with investors in various segments of the debt market. In particular, TCS provides regular management presentation materials to its investors. In regular updates to investors, TCS provides a management discussion with quarterly IFRS accounts, as well as a more detailed management presentation covering key areas of financial and operational performance.

### Market Position and Competition

According to the CBR, as of 1 March 2011, 1010 banks and non-banking credit organisations were operating in the Russian Federation, with most of the large Russian banks' operations being based in Moscow.

According to CBR data, total credit card outstandings in Russia remained largely flat at approximately RUB 180 billion (approximately US$ 6 billion) between the fourth quarter of 2008 and the beginning of 2010 and then increased up to RUB 220 billion (approximately US$ 7 billion) at the end of 2010. TCS management estimates that there are about 11.5 million active credit cards in the Russian market, making penetration less than 0.1 credit card per person. TCS therefore believes that the Russian credit card market is at an early stage of development and there is enough room for significant growth in the coming years. TCS's branchless, remote-service model enables it to tap into this growth potential by offering credit cards to Russians in smaller regional urban centres where, according to TCS's experience, there is a higher response rate, competition is less and demand is strong.

TCS believes that its main competitors in the credit card market are the consumer lending specialists, such as Russian Standard Bank, Home Credit and Finance, Renaissance Credit and OTP, and retail banks including Sberbank, VTB24, Citibank and Alfa-Bank.

During 2009, as a result of the economic downturn, there was an overall lull in consumer lending in the Russian Federation. However, there were signs of a general revival in consumer lending in late 2009 and throughout 2010. Despite the overall slow-down in the credit card segment in 2008 and 2009 and despite TCS's comparatively short track record, according to CBR statistics, as of 31 December 2010, TCS had a market share of approximately 4.5 per cent. and ranked seventh among Russian banks operating in this segment as compared to a 3 per cent. market share as of 31 December 2009 and 2 per cent. market share as of 31 December 2008.

The following table sets out market shares of selected Russian credit card issuers based on non-delinquent credit card receivables according to statistics provided by the FRG:

| | As of 28 February 2010 | As of 31 December 2009 | As of 31 December 2008 |
|---|---|---|---|
| | *(Per cent. of the market)* | | |
| **Bank** | | | |
| Russian Standard Bank | 20 | 28 | 33 |
| Sberbank | 11 | 4 | 1 |
| VTB24 | 11 | 11 | 6 |
| OTP Bank | 6 | 5 | 4 |
| Citibank | 5 | 6 | 5 |
| **TCS** | **5** | **3** | **2** |
| Home Credit and Finance Bank | 4 | 9 | 11 |
| Alfa Bank | 4 | 4 | 4 |
| Bank of Moscow | 3 | 3 | 3 |
| Rosbank | 3 | 2 | 2 |
| Others | 29 | 25 | 29 |

The following table sets out 10 major Russian credit card issuers based on non-delinquent credit card receivables according to statistics provided by the CBR:

| Rank(1) | As of 28 February 2011 | | As of 31 December 2008 | |
|---|---|---|---|---|
| | Name of the bank | Non-delinquent credit card receivables | Name of the bank | Non-delinquent credit card receivables |
| | | *(In bln of Roubles)* | | *(In bln of Roubles)* |
| 1. | Russian Standard Bank | 51.1 | Russian Standard Bank | 69.9 |
| 2. | Sberbank | 27.9 | Home Credit and Finance Bank | 23.6 |
| 3. | VTB24 | 27.2 | VTB24 | 12.9 |
| 4. | OTP Bank | 14.1 | Citibank | 11.1 |
| 5. | Citibank | 13.4 | Avangard | 9.1 |
| 6. | **TCS** | **11.4** | Alfa Bank | 8.2 |
| 7. | Home Credit and Finance Bank | 11.3 | OTP Bank | 8.1 |
| 8. | Alfa Bank | 11.2 | GE Money | 7.7 |
| 9. | Bank of Moscow | 7.3 | Renaissance | 6.4 |
| 10. | RosBank | 6.8 | MDM Bank | 6.4 |

(1) As of 31 December 2008, TCS was ranked as 15th Russian credit card issuer based on non-delinquent credit card receivables (approximately 1.4 billion Roubles).

According to the CBR, as of 1 January 2011, the volume of the retail deposits attracted by Russian banks amounted to RUB 9,818,048 million (approximately US$ 323,489.9 million) as compared to RUB 7,484,970 million (approximately US$ 247,969 million) as of 1 January 2010. In the retail deposits market, TCS believes that its principal competitors are Sberbank, VTB24, Bank of Moscow, Rosbank, Alfa Bank and other leading retail banks, as well as banks operating in particular regions and new market participants, such as Svyaznoy Bank which may become a significant new player in this market because of its access to the distribution chain of Svyaznoy, the Russian mobile phone and electronics retailer. See also "*Risk Factors—Increased competition in the Russian consumer finance market may result in a decline in TCS's market share*".

### Competitive Strengths

Despite the likelihood of increased competition in the coming years, TCS believes that it has a number of specific advantages over its competitors, including:

- *Branchless model.* TCS's branchless, remote-service model allows it to target customers in all of Russia's towns and cities, irrespective of the region and the size of the population centre. By distributing credit card offers through its numerous partners, TCS can bring consumer credit to under-served parts of Russia where competition and supply of credit are lower and risks tend to be lower (due to lower levels of fraud) than in Moscow and Saint-Petersburg, the two largest markets in the country. Moreover, with growing Internet penetration in Russia, TCS continues to develop its online services, including those related to customer acquisition. TCS invests in its IT and service infrastructure to ensure a level of customer service that Russians, particularly in the regions, have not previously experienced because there are very few banking services and branches in smaller urban centres than in the capital. This, coupled with premium branded MasterCard Platinum products and customer management processes, increases the response rate on offers of TCS products and services and helps TCS retain existing customers. The Call Centre uses technology such as IVR and call-routing, and offers an innovative card-to-card transfer service and callback assist system, which further improve the level of service extended to new and existing customers. With more than three years of operating experience and extensive risk and behavioural data, TCS is now in a position to expand its operations in the Moscow market, which it is currently doing through its online acquisition platform. TCS believes that its own database, combined with the large size of the credit bureaux data (approximately 50 million records across the bureaux), has reduced the risks of working in Moscow and Saint-Petersburg, where fraud has traditionally been higher, to manageable levels, allowing TCS to expand its customer base in these markets.

- *Risk diversification*. TCS's wide geographical coverage across Russia means that risks are not concentrated in a small number of specific geographies such as "mono-cities" dependent on one industry or employer. TCS's acquisition model also enables it to target customers in different income and demographic segments through, *inter alia*, direct sales agents, co-brands and online through the Internet. Moreover, TCS believes it is currently the only bank that employs the direct mail model of customer acquisition in Russia to any scale.

- *Data expertise.* Direct mail and online acquisition channels require organisational focus and specialist systems that are difficult to house in traditional retail banks. TCS specialises in data management which is a pre-requisite core competence to deploy direct mail and manage online applications successfully. The large initial investments required to establish these systems further increase the barriers to entry.

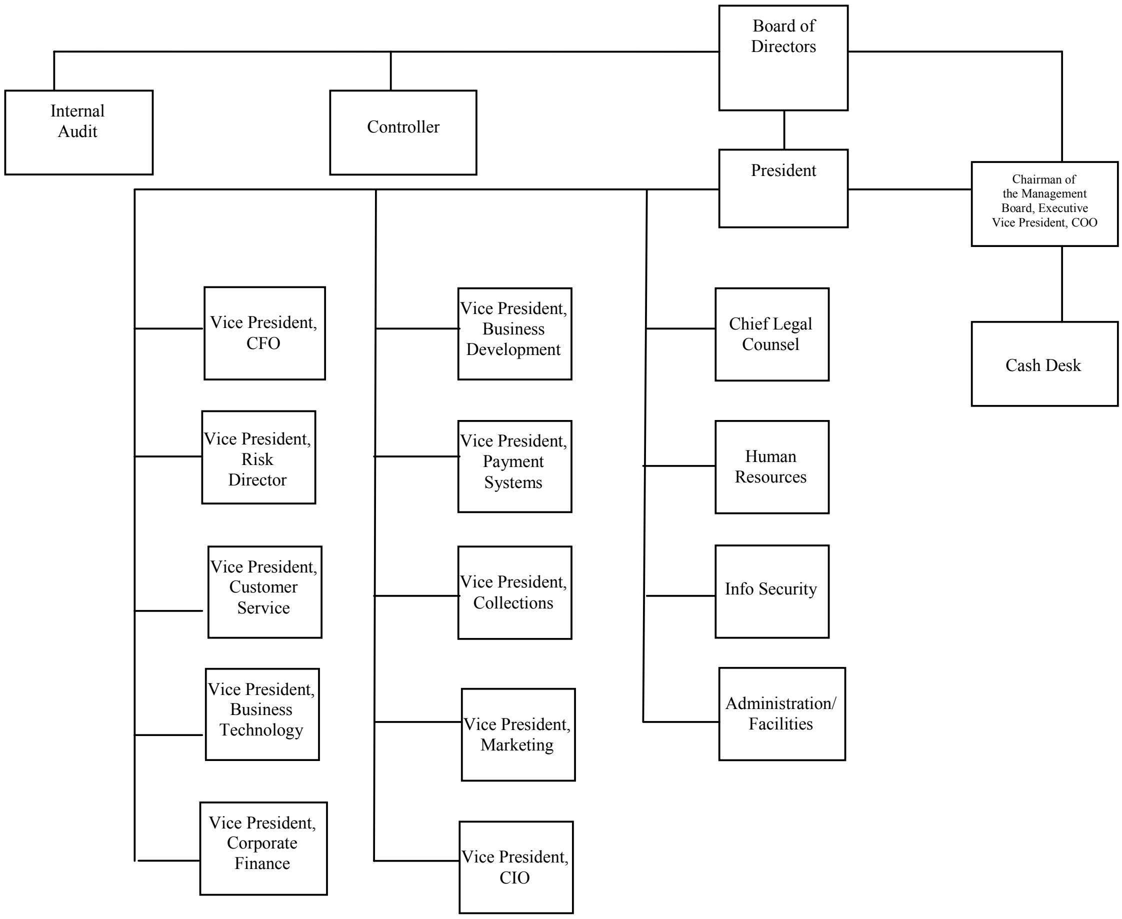
- *Thorough credit approval and risk management procedures*. TCS uses a data-driven approach for pre-selecting potential customers, underwriting and ongoing portfolio management. TCS uses credit-scoring technology that ranks potential customers according to the probability of fraud or default. Prior to conducting a mailing campaign, TCS performs analysis and risk modelling to eliminate undesired prospects—TCS believes this is one of the key advantages of its "push" marketing approach to customer acquisition (as opposed to the "pull" marketing of branch- and retailer-based acquisition employed by TCS's competitors, which allows anyone to apply for a credit card, therefore potentially entailing a concentration of fraud risk). Once applications have been received, TCS checks all applicants in Russia's three main credit bureaux (Equifax, Experian-Interfax and the National Bureau of Credit Histories). Sberbank's and Russian Standard Bank's credit histories are now available through these bureaux. The credit bureaux provide TCS with a consistently high hit rate (typically over 70 per cent.), which demonstrates the effectiveness of TCS's targeting as well as enabling it to screen out fraudsters and applicants with a higher probability of default. In addition to credit histories from the bureaux, TCS performs its own manual checks by calling up the majority of applicants on their home, work and mobile phones ("verification"). Once this has been performed, all data is fed into the TCS application scoring system and a decision is made. On the basis of this decision (approve or decline, and the "risk bucket" to which the applicant has been allocated) a credit limit is assigned. TCS applies a "low-and-grow" approach: over time, credit limits are increased to customers with a good payment history with TCS, enhanced by bureaux scores (for example, FICO, a technology pioneered in Russia by TCS). The four pillars of TCS underwriting (pre-screening, credit bureaux, verification and limit management) provide it with low first payment defaults and non-performing loans. However, TCS recognises the fact that the credit risk profile and behavioral pattern of potential customers targeted through new acquisition channels, notably the Internet, may differ from those demonstrated by direct mail customers. On this basis, TCS uses stricter credit screening technologies for online credit card applicants and TCS's approval rates for this category of potential customers are lower relative to those acquired through the direct mail channel.

- *Established debt collection and fraud prevention*. TCS has developed an in-house "soft" collection system that has been evolved to provide higher rates of recovery of overdue loans. TCS collections is also data-driven - the collections scoring system ensures that delinquent customers are allocated to the collections team in an efficient way based on their previous behaviour and external bureaux scores. Although TCS outsources "hard" collection functions (typically after 90-120 days) to the largest collection agencies in Russia, TCS is increasingly applying to the court through mailing standardised claims to the courts rather than appearing before the respective court to enforce overdue loans because this new approach has proved itself an effective measure for customer debt collection. Typically, after 180-210 days, TCS writes bad loans off and sells them to collection agencies on a competitive tender basis. In 2010, the overall effectiveness of TCS's collection services has improved significantly. The monthly delinquency rate (the number of delinquent accounts that were non-delinquent in the previous month) decreased from 14.18 per cent. as of 31 December 2009 to 9.33 per cent. as of 31 December 2010. This was achieved primarily through the establishment of the pre-collection programme (a set of preparatory collection measures based on sending an early reminder to the riskiest groups of customers) and as a consequence of the better quality of new acquisitions. As a result, as of 31 December 2010, TCS's total collection rate for credit card loans classed as overdue from 0-90 days was 90.59 per cent. as compared to 89.16 per cent. as of 31 December 2009.
- *Operational flexibility*. The use of advanced information technology systems, coupled with the advantages of a branchless network and qualified personnel allow TCS to reduce operational costs and adjust to changes in the Russian consumer finance market environment. The branchless model employed provides a low fixed-cost base and flexibility that allows TCS to rapidly adapt to external factors such as funding availability and seasonality, and adjust its business accordingly. TCS's management believes that this flexibility allows it to utilise funding and allocate business resources in an efficient manner, respond to consumer needs, reduce operational costs and offer more attractive interest rates on retail deposits than competitors.
- *Support from shareholders*. TCS is currently Mr. Tinkov's only business, in which he is highly engaged, and has Vostok Nafta and Goldman Sachs as financial investors. TCS believes that its shareholders are willing to support further development of TCS in a financially prudent manner and to assist TCS in its future business expansion. For example, in December 2007, Goldman Sachs and Vostok Nafta provided RUB 1.245 billion (approximately US$ 39.8 million) to TCS as a part of the RUB 1.5 Billion Facility to support TCS at the early stage of its development and also supported Egidaco in connection with its debut Eurobond issue including assisting in negotiations, structuring and marketing of the Eurobonds. Shareholders have not drawn dividends since TCS's operations were launched in order for TCS to maximise its ability to fund growth and maintain strong capitalisation. Moreover, in February 2011, Egidaco's Board of Directors approved an additional issue of shares for the approximate amount of US$ 15,000 thousand. The main purpose of the additional share issue is to increase the Group's share capital to enhance further growth of TCS's operations.
- *Experienced senior management and employees*. Members of TCS's senior management have extensive Russian and international market expertise, in particular in consumer lending and credit cards. The team also has expertise in payment systems, direct mail and Call Centre operations. The TCS senior management incentive programme based on annual performance-based salary reviews and annual bonuses motivates the team to achieve individual targets and overall company performance, whilst maintaining the integrity and cohesion of the team. Utilising the experience of its employees, TCS is able to continually improve IT and communication systems, risk management systems and processes, MIS reporting systems, TCS products and services (particularly the Call Centre), and the relationship with its customers and business partners. The team has now been together for over three years and has been through a number of phases together: rapid growth in 2007 and 2008, "steady-state" (crisis management, no external funding and organic growth), and now embarking on a post-financial-crisis growth phase.
- *Brand recognition*. The TCS brand originates from the last name of Mr. Tinkov, TCS's controlling shareholder. The name "Tinkov/Tinkoff" is associated with entrepreneurial activity that has given birth to a number of successful businesses and brands not related to the banking

sector, including "Tinkoff" beer, "Tinkoff Restaurants" and "Daria". According to Livejournal.com, Mr. Tinkov's personal blog is ranked the 14th most read Russian blog, which provides TCS with another channel to promote its brand and products across the Russian Federation. TCS's marketing and public relations divisions respond to the latest consumer and online trends and use new communication channels to increase recognition of TCS's brand, including through its web site (www.tcsbank.ru) and social networks such as Livejournal.com, Twitter.com, Facebook.com, Odnoklassniki.ru and Vkontakte.ru. TCS believes that its brand strategy will strengthen its customer acquisition campaigns, particularly as the Internet becomes more important in TCS's customer acquisition efforts.

**ORGANISATIONAL STRUCTURE**

The following chart sets out the current organisational structure of TCS:



## TCS OPERATING HIGHLIGHTS

### Credit Card Loans

TCS provides credit card loans to individuals who are resident in the Russian Federation. Generally, TCS's credit card loans have been issued to citizens of the Russian Federation aged between 20 and 55 years, who live outside Moscow and Saint-Petersburg. For a detailed description of TCS's lending and credit procedures, see "—*Loan Repayment, Loan Collection and Fraud Prevention*" below.

TCS's credit card loans are denominated in Roubles. The initial limit typically does not exceed a maximum of RUB 50,000 (approximately US$ 1,600), which can be raised depending on the behaviour of the customer once approved. The annual percentage rate (the "**APR**") on credit cards issued by TCS typically ranges between 20 per cent. and 60 per cent. depending on the tariff plan, cash/purchase composition of the customer's balance, repayment behaviour, and rates increase for delinquent customers during the period of delinquency. TCS's credit cards have a grace period of up to 55 days and require a minimum monthly payment of 5 per cent. (or at least RUB 600) of the outstanding balance. TCS's credit card loans are unsecured and revolving.

TCS has been a principal member of MasterCard International since 2007. TCS offers its own Tinkoff-branded and co-branded credit cards. TCS's MasterCard Platinum credit cards are also accepted internationally. Credit cards are issued by TCS on the basis of a paper application. TCS requires a copy of the customer's passport to be able to process the application. The credit decision process typically takes 1-4 weeks from the receipt of the application, depending on the applicant's credit history and availability by phone. See "*Risk Management—Credit Risk—Underwriting criteria and procedures*".

TCS's target credit card customers are mass-market, predominantly regional, retail borrowers. TCS's direct mail customer monthly income breakdown is as follows: income of 38 per cent. of TCS's direct mail customers is less than RUB 15,000 (approximately US$ 528), income of 41 per cent. of TCS's direct mail customers is between RUB 15,000 (approximately US$ 528) and RUB 30,000 (approximately US$ 1,055), income of 14 per cent. of TCS's direct mail customers is between RUB 30,000 (approximately US$ 1,055) and RUB 50,000 (approximately US$ 1,759) and income of 7 per cent. of TCS's direct mail customers is more than RUB 50,000 (approximately US$ 1,759). Approximately 68 per cent. of TCS's direct mail customers are female, which is explained by the use of mail order databases in which females tend to constitute a higher proportion of customers, as well the fact that women are generally more responsive than men. The average age of TCS's direct mail credit card customers is approximately 42 years.

TCS's Internet credit card customer monthly income breakdown is as follows: income of 13 per cent. of TCS's Internet customers is less than RUB 15,000 (approximately US$ 528), income of 39 per cent. of TCS's Internet customers is between RUB 15,000 (approximately US$ 528) and RUB 30,000 (approximately US$ 1,055), income of 27 per cent. of TCS's Internet customers is between RUB 30,000 (approximately US$ 1,055) and RUB 50,000 (approximately US$ 1,759) and income of 21 per cent. of TCS's Internet customers is more than RUB 50,000 (approximately US$ 1,759). Approximately 55 per cent. of TCS's Internet customers are male. The average age of TCS's Internet credit card customers is approximately 35 years.

For the year ended 31 December 2010, net interest income before provision for loan impairment from TCS's operations with credit cards amounted to US$ 95,583 thousand as compared to US$ 73,735 thousand for the year ended 31 December 2009 and US$ 40,558 thousand for the year ended 31 December 2008. Net interest income after provision for loan impairment was US$ 67,618, US$ 55,393 and US$ 16,305 thousand for the year ended 31 December 2010, 2009 and 2008, respectively.

As of 31 December 2010, TCS's outstanding loans and advances to customers amounted to US$ 316,418 thousand as compared to US$ 173,735 thousand as of 31 December 2009 and US$ 140,112 thousand as of 31 December 2008.

Total number of credit card applications received by TCS increased in 2010 by 108 per cent. from 884 thousand as of 31 December 2009 to 1,839 thousand as of 31 December 2010. In 2009, a total number of credit card applications increased by 34 per cent. from 661 thousand as of 31 December 2008.

Total number of credit cards issued by TCS in 2010 increased by 100 per cent. from 429 thousand as of 31 December 2009 to 859 thousand as of 31 December 2010. In 2009, the total number of credit cards issued increased by 41 per cent. from 305 thousand as of 31 December 2008.

The volume of transactions (cash withdrawals and POS-operations) made by TCS's customers increased by 144 per cent. from RUB 4,100 million for the year ended 31 December 2009 to RUB 10,000 million for the year ended 31 December 2010. In 2009, the volume of transactions decreased by 21 per cent. from RUB 5,200 million for the year ended 31 December 2008.

TCS's portfolio of credit card loans increased in 2010 by 80.2 per cent. from US$ 188,375 thousand (RUB 5,697 million) as of 31 December 2009 to US$ 339,385 thousand (RUB 10,343 million) as of 31 December 2010. In 2009, the portfolio of credit cards increased by 22.0 per cent. from US$ 154,461 (RUB 4,538 million) as of 31 December 2008.

The following table sets out the breakdown of TCS's limits on issued, activated and utilised credit cards as of 31 December 2010, 2009 and 2008:

| | As of 31 December | | |
|---|---|---|---|
| **Credit card limits** | **2010** | **2009** | **2008** |
| *(In thousands of Roubles)* | *(Number of borrowers)* | | |
| Up to 10 | 6,192 | 3,048 | 3,770 |
| 10-20 | 48,007 | 31,489 | 24,347 |
| 20-30 | 90,982 | 65,637 | 56,691 |
| 30-40 | 107,265 | 59,178 | 48,226 |
| 40-50 | 68,921 | 39,092 | 23,162 |
| 50-60 | 62,482 | 26,987 | 21,962 |
| 60-80 | 72,183 | 10,333 | 7,543 |
| 80-100 | 31,751 | 9,893 | 11,407 |
| 100-200 | 13,794 | 1,831 | 1,899 |
| More than 200 | 1,770 | — | — |
| **Total cards** | **503,347** | **247,488** | **199,007** |

The following table sets out the regional distribution of TCS's gross credit card loan portfolio by outstanding principal amount (net of provisions for loan impairment, and excluding accrued interest and other deferrals) as of 31 December 2010:

| **Region of the Russian Federation** | **Amount of Loans** |
|---|---|
| | *(In thousands of US dollars)* |
| Volga Federal District | 66,342 |
| Siberian Federal District | 64,319 |
| Central Federal District | 63,919 |
| Northwestern Federal District | 49,177 |
| Southern Federal District | 37,158 |
| Urals Federal District | 37,111 |
| Far Eastern Federal District | 21,363 |
| North Caucasian Federal District | 1,658 |
| **Total** | **341,047** |

## Distribution of Credit Cards

Since the launch of its operations, TCS has offered its credit card products to potential customers through a number of distribution channels. The primary distribution channel is direct mail to pre-selected potential customers. In addition to direct mail, TCS also uses the Internet, direct sales agents, partnerships (including co-branding), credit brokers and other distribution channels.

Since the beginning of its operations TCS has mailed approximately 57 million of invitations and received approximately 2,200 thousand of applications and issued over 1,000 thousand credit cards out of which approximately 930 thousand were approved.

### *Direct mail*

About 80 per cent. of all customers have been acquired through the direct mail channel. TCS employs third-party databases and distribution lists, which are either rented from various sources, or supplied as part of partner programmes such as co-brands (Sela, Sky Express, Mir Knigi) or commercial partnerships with various retail companies (catalogue operators such as La Redoute, Le Monti) and loyalty programmes. Some of the lists are a result of "2-step" programmes, where partners generate customer "hotlists" or TCS generates its own "hotlist" via the TCS Internet site. TCS also intensively markets to its own existing customer base through its "bring-a-friend" programme which offers bonuses to existing customers.

***Online distribution***

In mid-2010, TCS redesigned its website to create a new tool for customer acquisition. This helped TCS to increase its portfolio of retail deposits from RUB 255,352 thousand (US$ 8,443 thousand) as of 31 December 2009 to RUB 5,167 million (US$ 169,526 thousand) as of 31 December 2010.

Following the launch of the programme to acquire retail deposits through an online application procedure, TCS enabled credit card acquisition through the Internet, employing a wide variety of online media to promote its offering.

***Direct sales agents***

TCS's next important distribution channel in terms of customer acquisitions is sales through direct sales agents the largest of which is OSE Ltd. Using an outsourcing scheme, TCS distributes application forms via agents who visit worksites, retail locations and door-to-door, targeting candidates according to strict selection criteria laid down by TCS. Close monitoring of this channel at the agent level is performed by TCS employees using a suite of daily reports specially created for this purposes.

***Co-brands***

TCS develops its co-branded products in partnership with a range of Russian companies. The credit card application procedure for the customers of these companies is tailored to the various partners according to the type of business they conduct and the type of customer in their customer base. TCS also has co-brand programmes with Mir Knigi, Russia's largest mail order company and book retailer, and Sela, a clothing retailer.

Co-branded products are similar to TCS standard products in terms of pricing, but differ largely in terms of the additional loyalty benefits provided.

**Retail Deposits**

***General***

In June 2009, TCS launched its retail deposit programme in cooperation with the Russian Federal Post Office in three regions (Kemerovo, Chelyabinsk and Perm). In November 2009, TCS added the Ulyanovsk region to the program. In February 2010, TCS launched a programme in Moscow and Saint-Petersburg to acquire deposits via the Internet and the Call Centre.

Since January 2010, TCS's retail deposit portfolio has increased significantly from RUB 255,352 thousand (US$ 8,443 thousand) as of 31 December 2009 to RUB 5,167 million (US$ 169,526 thousand) as of 31 December 2010. TCS anticipates further growth in the number of deposit accounts over the next few years but expects that this growth will be organic in accordance with TCS's needs in such source of funding.

Approximately 70 per cent. of TCS retail deposit customers are male while approximately 69 per cent. of customers are aged between 25 and 40 years. The average deposit amount is equal to RUB 150,000 (approximately US$ 5,183) and approximately 75 per cent. of retail deposits are below the RUB 700,000 (approximately US$ 24,188) level and, accordingly, are fully protected by the Russian mandatory deposit insurance system. The average maturity of retail deposits is between fifteen and seventeen months.

The main distribution channel for retail deposits is online acquisition with card and document delivery using couriers who are currently full-time TCS employees.

**Loan Repayment, Loan Collection and Fraud Prevention**

***Loan repayment***

TCS's primary product is a revolving credit card. The minimum monthly payment is 5 per cent. of the outstanding balance or RUB 600. Monthly statements are sent to credit card customers each month by post, SMS and/or email. Customers can also call the Call Centre free-of-charge at any time to check their balance and receive payment information. While TCS conducts loan servicing and billing internally, the actual mailing of monthly statements is outsourced to a number of third-party firms specialising in mailing services.

TCS's loans may be repaid through a variety of channels with a combined total of over 200,000 payment locations, including the Russian Federal Post Office, networks of payment systems and terminal providers, Russian banks, and through direct debit.

*Russian Federal Post Office*

TCS has an agreement with the Russian Federal Post Office that allows TCS customers to pay their credit card bills without paying commission at over 40,000 Russian Federal Post Office branches. TCS estimates that approximately half of loan repayments (by value) are made through Russian Federal Post Office branches.

*Network of payment systems and terminals*

Credit card bills may also be repaid through a variety of online payment systems and payment terminal providers including payment terminal providers "Elecsnet" and "QIWI", the money transfer systems "CONTACT", "Giperkassa", "Gorod", "Platforma", "Rapida" and others. TCS has agreements with these payment providers according to which repayments are free-of-charge to TCS customers with TCS bearing the cost. In most cases, TCS competitors pass this charge onto the customer through a repayment fee charged by the service provider. For the year ended 31 December 2010, 40 per cent. of loan repayments (by value) were made through online payment systems and payment terminals.

*Russian banks*

TCS's customers can pay their credit card bill through the branches of any bank in the Russian Federation through the national RKTs settlements system. This system includes Sberbank, which has the largest branch network in the Russian Federation (approximately 20,000). Russian banks usually charge a small commission to TCS customers for processing such payments. For the year ended 31 December 2010, 10 per cent. of loan payments (by value) were made through regional branches of Russian banks.

*"Card-to-card"*

TCS has implemented an innovative way to pay credit card bills through an analogue of direct debit in other markets. The customer instructs TCS to make a debit from a debit (salary, savings or current account) or credit card issued by any other bank. In order to initiate the payment, the customer makes a free call to the Call Centre and provides the number of their TCS credit card and the number of the account or card from which monies should be debited. This service is proving increasingly popular and is an important value-add service to customers seeking convenience in their banking relationship.

*Monthly debit*

TCS also allows customers to use salary payment arrangements through their employer whereby the customer's monthly credit card payment is automatically debited from their salary and is transferred to TCS.

***Loan collection***

TCS employs a multi-stage collection process that allows for greater efficiency in the recovery of overdue loans. 0-90 day collections are performed by TCS's internal Collections Department ("soft" collections) and 90+ collections ("hard" collections) are typically outsourced to external collection agencies.

TCS's collections methodology is based on customer behaviour and corresponding collection scores which are updated daily. Under this approach, at each stage of collections (pre-collections, early collections, "soft" collections and "hard" collections) delinquent customers are allocated to three groups (high risk of default, medium risk of default and low risk of default). This enables TCS to apply a variety of collections tools and collections treatments to different groups of delinquent customers.

All of the stages described below may be accelerated in cases where TCS has grounds to believe that the delinquent customer will not repay the debt voluntarily or that fraud has taken place. In such circumstances, the time periods between each collections stage are shortened or omitted (respective loans are accelerated into "hard" collection) in order to increase pressure on the customer and increase the chances of recovery.

In 2010, the overall effectiveness of TCS's collection services improved significantly. The monthly delinquency rate (the number of delinquent accounts that were non-delinquent in the previous month) decreased from 14.18 per cent. as of 31 December 2009 to 9.33 per cent. as of 31 December 2010. This was achieved primarily through the establishment of the pre-collection programme (a set of preparatory measures based on sending an early reminder to the riskiest groups of customers) and as a consequence of the better quality of new acquisitions. As a result, as of 31 December 2010, TCS's total collection rate for loans classed as overdue from 0-90 days was 90.59 per cent. as compared to 89.16 per cent. as of 31 December 2009.

*Pre-collections (prior to due date)*

TCS sends customers a reminder about forthcoming payments and the amount due, two to four days prior to the due date. The customer receives a call (either autodial or from one of the pre-collections teams), a text message and/or email. Pre-collections calling has proved an important way to combat delinquency. In the fourth quarter of 2010, TCS's total delinquency rate defined as the number of accounts that have gone delinquent during the period as a percentage of accounts that were current at the beginning of the period was 8.8 per cent. as compared to 11.6 per cent. in the fourth quarter of 2009. This decrease was in large part due to the introduction and further development of the pre-collection calling approach.

*Early collections (0-30 days)*

This stage is known as "technical delinquency". If payment is more than one day overdue, the customer receives reminders via SMS and email, as well as autodial calls and calls from the collections team. The level of contact is determined by behavioural scoring (their probability of default based on the customer's previous history with TCS and external bureaux score) to ensure efficient use of collections resources. When payment becomes more than three days overdue, the customer is sent a written notification of the missed payment.

*"Soft" collections (30-90 days)*

Once a credit card loan becomes more than 30 days overdue, the customer is switched to "soft" collections. On the 31st day of delinquency, the customer is sent a written notification of the missed payment and receives SMS and email reminders at regular intervals, as well as follow-up autodial calls and calls by members of the "soft" collections team. TCS's objective at the "soft" collection stage is to identify and assess the reasons why the customer has missed the payment, to collect payments and to identify potential customers eligible for transfer to "hard" collections.

*"Hard" collections (90+ days)*

Typically after 90-120 days, the last stage of collections is entirely outsourced to external collection agencies (TCS works currently with around 10 collection agencies, including Sequoia Credit Consolidation and SKA). Overdue loans remain on TCS's balance sheet during this phase. The average commission rate charged by collection agencies is in the range of 20 per cent. to 28 per cent. depending on the quality of the portfolio.

Since the third quarter of 2010, TCS has been more active in submitting and pursuing claims against delinquent borrowers. TCS applies to the court through mailing standardised claims rather than appearing before the court to enforce overdue loans and considers these in general very straightforward and quick litigations as an alternative to collection agency services. As of the date of this Prospectus, TCS has filed claims against nearly 2,500 customers whose total indebtedness to TCS amounted to approximately RUB 130 million. In relation to one-third of these claims TCS has already obtained court orders and collected 8 per cent. of the indebtedness under such court orders with the help of the Federal Service of Court Bailiffs of the Russian Federation, which is a relatively higher collection rate as compared to collection via collection agencies.

*Restructuring*

In August 2009, as a part of its continuous improvement of customer service quality, TCS established a new scheme of restructuring for its customers with established credit history. Under this scheme, a customer experiencing financial difficulties can apply for a rescheduling of payments. This program was introduced in response to the financial turmoil and post-crisis period and was scaled back starting from mid-2010.

Another restructuring measure implemented by TCS in 2010 is its installment programme. This programme is based on regular installments paid by delinquent customers (typically those 90 days overdue). After consultations with the delinquent customer, TCS fixes the outstanding amount of the debt under the credit card loan and offers the customer the option to repay his or her debt in monthly installments during a period limited to 24 months. Since the launch of this new initiative, TCS has been able to collect indebtedness of approximately 20-25 per cent. of the non-performing loans that went through this restructuring programme.

*Write-offs*

Typically, loans delinquent for more than 180 to 210 days and not collected in the course of the "hard" collections stage are sold to collection agencies. TCS currently sells approximately RUB 53 to RUB 214 million (US$ 1,727 to US$ 6,956 thousand) of bad debts each month. The average sale price is around 3.9-9.0 per cent. of the balance sold.

***Card fraud prevention***

TCS uses a number of fraud-prevention measures, including early warning systems and regular investigation to identify the most common types of fraud. One of the most important tools in combating unsanctioned card use is the sending of SMS messages to customers' mobile phones during the card lifecycle including at card activation, card usage (transactions), card blocking and change of user details. The Call Centre is also an important source of potential card fraud alerts and information gathered from customers and Call Centre staff is carefully captured and fed to the monitoring team.

In March 2009, there was a fraud attack against TCS resulting from a compromise of track and PIN data in ATMs infected by malicious software. This fraud attack hit the majority of CEMEA issuers simultaneously. As a result 101 TCS cards were compromised and 17 were used by fraudsters during a Russian bank holiday weekend. The total losses incurred by TCS amounted to RUB 264,000 (approximately US$ 8,445). In 2010, fraudsters successfully replicated information recorded on the magnetic stripes of credit cards (with or without PIN) using skimming devices in ATMs and merchants' payment networks. As a result, 24 TCS cards were compromised and the total loss incurred by TCS amounted to RUB 314,410 (approximately US$ 10,349). Another fraud attack against TCS's customers involved malicious attacks on various internet sites and payment platforms which allowed fraudsters to obtain credit card details (card numbers, CVV2 and cardholders' names). As a result, 20 cards were compromised leading to RUB 240,633 (approximately US$ 7,921) of losses. TCS was, however, able to dispute (call back) some of the operations, recouping a total of RUB 55,921 (approximately US$ 1,841). Finally, during 2010, a total of 183 TCS cards were blocked as a result of the compromised card security.

Following these incidents, TCS strengthened its monitoring system to allow it to react to fraud attacks more quickly and to block compromised terminals. The system now provides several alert reports that are sent to the fraud officer (by SMS and e-mail) and a new upgrade to the Online card processing system (TSYS) that allows TCS to block suspicious terminals, acquirers or countries where fraudsters are active.

***Customer service and Call Centre***

TCS believes that high quality customer service is crucial for maintaining TCS's competitive position in the Russian consumer finance market, and leads to increased adoption (response rates) and customer retention rates. Because customer service is an important part of TCS's strategy, TCS seeks ongoing improvements in service levels and regularly introduces new, innovative services.

Given TCS's branchless model, the Call Centre is a core component of TCS's customer service platform. It is located in Moscow and operates 24 hours-a-day, seven days-a-week and is staffed by more than 400 operators. Around-the-clock coverage is provided so that all regions are covered. In addition to providing informational support to prospective and existing customers, Call Centre operators are also responsible for, among other things, card activation and blocking, updating/ activating additional services, providing balance information and information on payment service providers. The Call Centre maintains an average call handling time of approximately 4 minutes, including post-call procedures. TCS management believes that TCS's Call Centre is currently the only bank call centre in Russia that offers "callback assist" service for customers who would like to be called back rather than waiting in a queue. The Call Centre currently handles over 300,000 (30 per cent. handled via IVR) inbound calls, 1,000,000 outbound calls (50 per cent. automatically via predictive dialing system) and 1,700 emails per month. All inbound and outbound calls are recorded.

TCS closely monitors the quality of the Call Centre staff and motivates all personnel to provide the highest possible level of service through performance-based pay, bonus and other motivational schemes.

In order to track customer service levels, customer satisfaction surveys are conducted by the TCS customer service team. In a recent online popular survey, in March 2011, TCS was among the top five most popular banks in terms of overall quality and service among users of banki.ru web-site (http://www.banki.ru/services/responses/).

***Outsourcing of functions***

TCS outsources various business functions to third parties wherever feasible. These include physical issuance of credit cards, mailing of monthly payment statements, data centre management and "hard" collection. TCS has built close working relationships with a broad group of trusted service providers and awards service contracts to them through a regular tender process.

TCS retains core functions, including sales and marketing, underwriting, risk management, core IT and data management, the Call Centre and financial and portfolio management. However, since 2011, TCS outsources some of its Call Centre functions where it is feasible and does not affect the quality of customer service.

**Affiliates**

The 2010 Financial Statements include, in addition to TCS, OOO "T-Finance" and OOO "TCS".

OOO "T-Finance" is a Russian limited liability company as of 28 February 2011 100 per cent. owned by Egidaco holding certain hardware and software used in the TCS's business.

OOO "TCS" is a Russian limited liability company as of 28 February 2011 100 per cent. owned by Egidaco established during the start-up phase of TCS to handle acquisition and partner programmes. OOO "TCS" retains many of the contractual relationships with customer acquisition partners. Expenses incurred by OOO "TCS" in the course of customer acquisition process are reimbursed by TCS under a number of service contracts between TCS and OOO "TCS".

TCS has no affiliates other than Egidaco and the affiliates listed above.

**Employees**

As of 31 March 2011, TCS employed a total of 1,200 employees almost all of whom are based in Moscow.

TCS's HR policy is based on the following core principles:

- building up a sound team of well-educated, adaptable and open-minded specialists and managers;
- effective and dynamic learning system for employees in customer services, underwriting ("verification") and collection departments;
- efficiency with minimum bureaucracy; and
- team spirit.

For personnel training purposes, TCS runs a number of courses, including those for employees of customer service functions (primarily for the Call Centre), underwriting ("verification"), collections and IT departments and four-six month special courses for the development of management skills targeted at lower- to mid-level managers. TCS subscribes to external courses aimed at key employees and regularly sends its staff to various professional conferences, training sessions and seminars.

TCS's sales course runs for 2 weeks with follow-up training and development at least twice per year. This course provides an overview of TCS's credit card and loan products, sales techniques and procedures.

For the year ended 31 December 2010, TCS's staff costs amounted to US$ 26,140 thousand and represented 58.1 per cent. of TCS's administrative and other operating expenses as compared to US$ 12,954 thousand and 54.5 per cent. of TCS's administrative and other operating expenses for the year ended 31 December 2009 and US$ 15,516 thousand and 50.2 per cent. of TCS's administrative and other operating expenses for the year ended 31 December 2008.

**IT Infrastructure**

Given TCS's branchless, data-driven and service-oriented model, information technology plays an important role in TCS business. IT is an integral part of TCS's day-to-day operations. TCS operates a flexible IT platform custom-made for the credit card business. TCS uses a mix of SUN mainframes and HP servers which provide a consolidated platform tailored for high availability of mission-critical business applications, large-scale databases for business intelligence, a data warehouse and CRM functions.

TCS's IT system is based on SOA principles and includes Oracle's Siebel for CRM and Collections, TSYS CTL Prime and Online for card management and transaction processing, Va-Bank XL for core banking and CBR accounting, Avaya Call Centre Elite and NICE Perform for contract-center management and voice recording and SAS Banking Intelligent Solution for data warehousing, analytics, campaign management and decision making support. For the purposes of communication with its customers, TCS uses intelligent character recognition system as well as the Call Centre with IVR, skill based routing, predictive dialing, over-the-phone PIN and Internet Banking capabilities.

Furthermore, for integrating IT systems together, optimising business processes, improving decision engine and e-banking TCS uses IBM Websphere family middleware solutions. IBM Lombardi BPMS is used to optimise business performance by discovering, documenting, automating, and continuously improving business processes to increase efficiency. IBM ILOG BRMS enables TCS policies—and the operational decisions associated with those policies, such as claim approvals, cross-sell offer selection, pricing calculations and eligibility determinations—to be defined, deployed, monitored and maintained separately from application code. ILOG BRMS provides the ability for non-technical business users to be directly involved in business rules management, enabling flexible decision automation for applications and processes that are subject to complex, variable and evolving business rules. IBM ESB helps TCS to enable fast and flexible application integration with reduced cost and bridging to next-generation interconnectivity which decouple complex integration logic from each application with a central, integration solution eliminating point-to-point connectivity programming.

In order to ensure business continuity in case of disruption to IT systems and provide reliable and continuous access to business data and services, TCS's IT systems are located in two dedicated data centres each connected to separate and independent power-supplies. Critical IT systems are operated in the most accessible, primary data centre with primary facilities, while secondary systems and back-up facilities are located in a physically separate data centre. Communications between the two data centres and between each data centre and TCS headquarters take place via a 10 Gbps redundant optical network based on Cisco WAN technologies. This enables TCS to provide its services efficiently and reliably, and maintain constant availability.

To manage its corporate data and ensure information security, TCS uses an information lifecycle management infrastructure. This includes a Hitachi Data System enterprise disk storage system with remote back-up, Sun StorageTek tape libraries and VERITAS NetBackup management software. These are all connected via a storage area network. TCS's IT infrastructure can be modified by adding new modules to increase capacity.

TCS's IT systems can easily be upgraded to support its growing customer base and business volumes. There have been no serious security violations or IT failures since the launch of operations.

The branchless model requires a high level of service for TCS customers. TCS therefore regularly develops and improves the capacity and security of its Call Centre. In 2007, TCS launched a sophisticated call centre with best-in-class systems including IVR, Open Speech Recognizer (voice recognition software whereby customers can instruct the IVR system by use of voice commands), Predictive Dialing, skill-based routing and PIN-over-the-phone.

**Litigation**

TCS has no legal or arbitration proceedings pending or threatened that could have a material adverse effect on TCS's financial condition.

From time to time, in the ordinary course of its business, TCS is involved in legal proceedings relating to non-payment of loans by TCS customers although TCS has not made any provision in its financial statements in respect of such proceedings because management believes that these will not have material adverse effect on TCS financial condition.

# ASSET, LIABILITY AND RISK MANAGEMENT

The purpose of TCS's asset, liability and risk management (''**risk management**'') strategy is to evaluate, monitor and manage the risks arising from TCS's activities. The main types of risk inherent in TCS's business are credit risk, market risk, which includes foreign currency risk and interest rate risk, and liquidity risk. TCS designs its risk management policy to manage these risks by establishing procedures and setting limits that are monitored by relevant departments.

**Risk Management Organisational Structure**

TCS's risk management organisation is divided between policy making bodies that are responsible for establishing risk management policies and procedures (including the establishment of limits) and policy implementation bodies whose function is to implement those policies and procedures, including monitoring and controlling risks and limits.

***Policy making bodies***

The policy making level of TCS's risk management operations consists of the Board of Directors, the Management Board, the Finance Committee, the Credit Committee and the Business Development Committee.

These bodies perform the following functions:

*The Board of Directors*. The Board of Directors is responsible for the creation and functioning of the internal control system of TCS and approves TCS's Credit Policy, appoints the Credit Committee and approves certain decisions that fall outside the scope of the Credit Committee's authority.

*The Management Board*. The Management Board has overall responsibility for TCS's asset, liability and risk management operations, policies and procedures. The Management Board delegates individual risk management functions to each of the various decision-making and execution bodies within TCS's risk management structures.

*The Finance Committee*. The purpose of the Finance Committee is to ensure the long-term economic effectiveness and stability of TCS's operations. The Finance Committee establishes TCS's policy with respect to capital adequacy and market risks, including market limits, manages TCS's assets and liabilities, establishes TCS's medium-term and long-term liquidity risk management policy, and sets interest rate policy and charges with respect to individual credit products. The Finance Committee is comprised of seven members and the Chairman of the Management Board acts as the Chairman of the Finance Committee. The Finance Committee meets on a weekly basis and makes its decisions by simple majority provided that a quorum of at least half of the elected members of the Finance Committee is present.

*Credit Committee*. The Credit Committee supervises and manages TCS's credit risks. In the area of credit cards, the Credit Committee approves the underwriting methodology and the scoring model used for assessment of the probability of default, the initial credit limit assignment and subsequent account management strategies, provisioning rates, and decisions to write-off non-performing loans. The Credit Committee comprises six members and the Chairman of the Management Board acts as the Chairman of the Credit Committee. The Credit Committee meets when necessary but not less than once each month and makes its decision by a simple majority vote of all the members present provided that a quorum of at least half of the elected members of the Credit Committee is present.

*Business Development Committee*. The Business Development Committee is responsible for the development, design and marketing of TCS's financial products and provides recommendations to TCS's risk management bodies with respect to changes to TCS's lending policy and procedures and the pricing of TCS's credit products. The Business Development Committee includes 12 members appointed by the Management Board. The Business Development Committee meets on a weekly basis and makes its decisions by a simple majority provided that a quorum consisting of at least half of the appointed members of the Business Development Committee is present.

***Policy implementation bodies***

The implementation level of TCS's risk management comprises the Finance Department, the Risk Management Department, the Collections Department and the Internal Control Service.

*Finance Department*. The Finance Department is responsible for managing correspondent accounts, daily currency liquidity, money transfer control and daily money transfer modeling to support the required currency liquidity level for correspondent accounts and compliance with CBR liquidity ratios.

The Finance Department is also responsible for closing international and local transactions in accordance with TCS's limits as approved by the Finance Committee and in compliance with CBR regulations, short-term placements, currency hedging and interest rate hedging.

*Risk Management Department*. The Risk Management Department is responsible for the development and implementation of TCS's consumer lending policy after final approval by the Credit Committee. The Risk Management Department is responsible for credit risk assessment of all proposed new products and marketing communications, for approval of credit card applications and for subsequent account management programmes.

*Collections Department*. The Collections Department is responsible for collection of amounts due but unpaid by delinquent TCS customers.

*Internal Control Service*. The Internal Control Service assesses the adequacy of internal procedures and professional standards, and their compliance with CBR regulations. The Internal Control Service is controlled by, and reports to, the Board of Directors.

#### *Management reporting systems*

TCS has implemented an online analytical processing (OLAP) management reporting system based on a common SAS data warehouse which is updated daily. The set of daily reports includes (but is not limited to) sales reports, application processing reports, reports on the risk characteristics of the credit card portfolio, vintage reports, transition matrix ("roll rates") reports, reports on pre-, early and late collections activities, reports on compliance with CBR requirements, capital adequacy and liquidity reports, operational liquidity forecast reports and information on intraday cash flows.

Some reports are submitted for the review of TCS's Board of Directors on a monthly basis. These include financial statements based on IFRS and adjusted to meet requirements of internal reporting, analytical reports on credit risk and lending, reports on the status of TCS's credit card business accompanied by management commentary and analysis, and reports on TCS's performance versus budget and operational risk reports.

### Credit Risk

TCS is exposed to credit risk, which is the risk that a customer will be unable to pay amounts in full when due. Credit risk arises mainly in the context of TCS's consumer finance activities.

The general principles of TCS's credit policy are outlined in its Credit Policy approved by TCS's Chairman of the Management Board. This document also outlines credit risk controls and monitoring procedures and TCS's credit risk management systems. Credit limits with respect to credit card applications are established by the Credit Committee and by officers of the Risk Management Department.

TCS structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to different channels of customer's acquisition such as direct mail, direct sales agents and internet applications. Such risks are monitored on a revolving basis and subject to quarterly or more frequent review with the approval of the Management Board.

TCS uses automated systems to evaluate an applicant's creditworthiness ("scoring"). The system is regularly modified to incorporate past experience and new data acquired on an iterative basis. TCS performs close credit risk monitoring throughout the life of the credit card loan and, in rare cases, offers longstanding customers restructuring programmes in order to help them overcome temporary problems with their income such as during the global economic crisis.

#### *Underwriting criteria and procedures*

TCS is primarily focused on reducing incoming credit risk at the acquisition stage. TCS's Credit Committee has established general principles for lending to individual customers. According to these principles, minimum requirements to potential customers are as follows:

- Citizenship of the Russian Federation;
- Age 21 to 70 inclusive;
- Possession of mobile phone;
- Permanent employment; and
- Registration at the place of residence.

For almost all cases, the decision to issue a credit card to a potential customer is made automatically, based on the credit bureaux result, the result of verification and resulting credit score of the applicant. In very rare cases, decisions to issue credit cards to VIP customers, are taken manually by members of the Credit Committee, but the number of loans granted under such issued cards is immaterial.

The decision to issue a credit card to a customer is made in four steps:

- *Solicitation* – The initial step in the underwriting process is a pre-screening of solicitation lists of prospective customers. At this stage, TCS's credit officers check information provided by partners on prospective customers and remove potential non-creditworthy customers thereby reducing the cost of customer acquisition.
- *Validation* – The purpose of this stage is to ensure the validity, completeness and quality of application data. TCS's system checks integrity of the data and, if necessary, Call Centre staff call applicants to ask them to provide additional information or documentation. The application is considered valid once it is ready to be sent to the credit bureaux.
- *Credit Bureaux* – Subject to the prior consent of the applicants, TCS sends incoming applications to the largest credit bureaux in Russia including Equifax, Experian—Interfax and National Bureaux of Credit Histories, and requests both applicants' credit histories and their credit bureaux scores (primarily, FICO and Equifax scores). Typically, approximately 20 per cent. of applicants have no credit history in the credit bureaux but they are not automatically rejected and can be accepted on the basis of information provided in their application forms.
- *Verification* – At this stage, TCS's credit officers verify information provided by the applicant in their application form, including the applicant's identity, financial condition, employment details, phone numbers and addresses as well as duplicate addresses, phone numbers and other identifiers in TCS databases. TCS currently verifies around 70-75 per cent. of all incoming applications.

TCS also maintains a flexible initial limit allocation system which allows it to reduce or increase the average initial limit in order to manage anticipated credit losses and liquidity.

***Credit line management procedures***

Credit line management procedures for credit card products include the following:

*Initial Credit Line Calculation* – TCS first assesses the probability for the customer to default. This probability is calculated based both on TCS's internal scoring models and credit scores provided by the credit bureaux (primarily, FICO and Equifax scores). Based on probability of default, an initial credit limit is assigned to each customer that is approved. The lower the probability of default is, the higher will the initial credit limit be. TCS's average initial limit amounts to RUB 25,000 (approximately US$ 830). The initial limit typically does not exceed a maximum of RUB 50,000 (approximately US$ 1,700).

*Regular Update of Credit Line* – Once TCS has received at least three minimal payments from new customers and each six months thereafter, TCS reviews the customer's credit limit based on predefined rules. The customer's profile is updated automatically based on internal TCS data ("behavioural score") and on external data (credit bureaux scores, FICO and Equifax). These inputs are used to recalculate the probability of default. Based on this, the credit limit may be increased. The credit limit cannot exceed the equivalent of four months of the customer's salary. TCS has also developed internal scoring models which rank applicants according to the probability of fraud. These models are used in assessing customers credit limits both initially and on an ongoing basis.

When loans are unrecoverable or it is no longer economically viable to pursue the collections effort further, after approval from the Management Board the Collections Department sells these loans to a debt collection agency. The Collections Department applies the following criteria to assess whether a delinquent loan qualifies for sale to an external debt collection agency:

- The loan remains unpaid after all collection procedures are performed (no payment during the last six months);
- The debtor cannot be contacted or located during the last four months;
- The debtor has no assets and there is no expectation that the debtor will have any in the future;
- The debtor is deceased and there is no known estate or guarantor;
- It is determined that it is not cost effective to continue the collection effort.

TCS's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated interim balance sheet.

**Provisioning Policy**

Provisioning policy falls under the responsibility of the TCS Management Board which approves internal documents regulating the determination of delinquency groups and creation of allowances for potential losses in connection with TCS's credit card portfolio.

***IFRS provisioning***

The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The primary factor that the Group considers as objective evidence of impairment is the overdue status of the loan.

In general, loans where there are no breaches in loan servicing are considered to be unimpaired. Given the nature of the borrowers and the loans it is the Group's view and experience that the time lag between a possible loss event that could lead to impairment and the non or under payment of a monthly installment is minimal. 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. In accordance with internal methodology for the provision estimation the Group uses all available loss statistics for the whole period of its operations. Starting from 2010 management use a twelve month horizon for assessment of probabilities of default in calculating the provision for impairment as these statistics provide better information to estimate and project credit card losses.

The table below sets out the loan loss provisioning rates that TCS applied for its IFRS financial reporting as of 31 December 2010:

| Days Overdue | Provisioning range |
|---|---|
| | *(In per cent.)* |
| 0 | 2.1% |
| 1-30 | 25.4% |
| 31-60 | 49.3% |
| 61-90 | 66.0% |
| 91-120 | 85.8% |
| 121-150 | 94.8% |
| 151-180 | 98.2% |
| Over 180 | 98.9% |

As of 31 December 2010, TCS's provision for impairment of credit card loans as a percentage of gross credit card loans was 7.2 per cent., while non-performing credit card loans totalled US$ 11,352 thousand, and the total ratio of allowance for impairment for non-performing credit card loans to total non-performing credit card loans was 92.3 per cent.

***CBR provisioning***

Starting from August 2004, CBR has liberalised the methodology to calculate loan provisioning and to determine expected losses. For CBR regulatory purposes, TCS currently applies a methodology based on Russian accounting standards to calculate loan provisioning and determine expected losses. Under CBR regulations, provisions for loan impairment are established following the borrower's default under the loan or where there is an objective evidence of potential inability of the borrower to repay the loan. In the case of consumer finance TCS creates provisions by reference to homogenous credit portfolios including groups of loans consolidated on the basis of a certain credit risk criteria (such as type of credit product, region of residence, debt terms, month of issue) as well as individual credit products. CBR loan provisions are created by reference to the aggregate of the amount of actual and expected losses. Provisions with respect to individual credit products are calculated based on the borrower's financial condition and debt service quality.

CBR requires that credit organisations classify their loans into categories and to create provisioning in accordance with the following standard:

| Loan Classification | Status of loan and loss potential | Provisioning Range |
|---|---|---|
| | | (In per cent.) |
| Category I | Standard loans, without credit risk | 0 |
| Category II | Non standard loans, moderate credit risk | 1 – 20 |
| Category III | Doubtful loans, considerable credit risk | 21 – 50 |
| Category IV | Problem loans, high credit risk | 51 – 100 |
| Category V | Bad loans | 100 |

Under CBR regulations, as of 31 December 2010, TCS's average provisioning allowance was 9.6 per cent. of its credit card loan portfolio as compared to 15.4 per cent. as of 31 December 2009.

### *Write-off policy*

The Management Board makes decisions on loans to be written-off based on information provided by the Risk Management Department. Generally, loans recommended to be written-off are those where further steps to enforce collection are treated as not to be economically viable.

## Market Risks

TCS takes on exposure to market risks. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements.

TCS is generally not engaged in trading operations. It has mismatches in its currency positions that arise generally due to relatively short-term lending in Roubles and relatively long-term borrowings in Euros. TCS manages the positions through hedging operations, matching, or controlled mismatching.

The CBR sets limits on the open currency position that may be accepted on TCS standalone level, which is monitored on a daily basis. These limits prevent TCS from having an open currency position in any currency more than 5 per cent. of TCS's equity.

### *Foreign currency risk*

TCS suffered from the Rouble devaluation in November 2008 to February 2009 and has implemented a "no foreign exchange risk" policy aiming to minimise exposure to currency exchange risks. The policy imposes neutral hedging that matches assets and liabilities by currency (for example, both credit card lending and deposits are entirely Rouble-based), foreign exchange hedging of funding received in foreign currency, such as the EUR 70 million Eurobond (which was fully repaid in September 2010), and prohibits foreign exchange trading for speculative purposes. Also, TCS plans to enter into a cross-currency swap in order to hedge the US dollar-denominated proceeds from the Loan.

The table below summarises TCS's exposure to foreign currency exchange rate risk at the end of the reporting period:

| | As of 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | | 2008 | | |
| | Monetary financial assets | Monetary financial liabilities | Net balance sheet position | Monetary financial assets | Monetary financial liabilities | Net balance sheet position | Monetary financial assets | Monetary financial liabilities | Net balance sheet position |
| | (In thousands of US dollars) | | | | | | | | |
| Russian Roubles | 377,967 | 360,130 | 17,837 | 192,655 | 74,572 | 118,083 | 148,776 | 53,006 | 95,770 |
| US dollars | 20,775 | 89 | 20,686 | 5,701 | 4,906 | 795 | 9,215 | 10,817 | (1,602) |
| Euros | 1,087 | 2,332 | (1,245) | 3,505 | 87,407 | (83,902) | 19,704 | 104,391 | (84,687) |
| **Total** | **399,829** | **362,551** | **37,278** | **201,861** | **166,885** | **34,976** | **177,695** | **168,214** | **9,481** |

The above analysis includes only monetary assets and liabilities. Non-monetary assets are not considered to give rise to any material currency risk.

The following table represents sensitivities of profit and loss and equity to certain possible changes in exchange rates applied at the end of reporting period, with all other variables held constant:

| | As of 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | 2008 | |
| | Impact on profit or loss | Impact on equity | Impact on profit or loss | Impact on equity | Impact on profit or loss | Impact on equity |
| | (In thousands of US dollars) | | | | | |
| US dollars strengthening by 15 per cent. (2009: by 20 per cent.; 2008: by 40 per cent.) | 3,103 | 3,103 | 159 | 159 | (641) | (641) |
| US dollars weakening by 15 per cent. (2009: by 20 per cent.; 2008: by 40 per cent.) | (3,103) | (3,103) | (159) | (159) | 641 | 641 |
| Euro strengthening by 15 per cent. (2009: by 20 per cent.; 2008: by 40 per cent.) | (187) | (187) | (16,780) | (16,780) | (33,875) | (33,875) |
| Euro weakening by 15 per cent. (2009: by 20 per cent.; 2008: by 40 per cent.) | 187 | 187 | 16,780 | 16,780 | 33,875 | 33,875 |

The exposure was calculated only for monetary balances denominated in currencies other than the Rouble, TCS's functional currency.

***Interest rate risk***

TCS takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may decrease or create losses in the event that unexpected movements arise. Management monitors market interest rates on a regular basis and takes decisions on interest rate repricing that may be undertaken on its assets.

The table below summarises TCS's exposure to interest rate risks as of 31 December 2010, 2009 and 2008. The table presents the aggregated amounts of TCS's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

| | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | From 1 to 3 years | More than 3 years | Total |
|---|---|---|---|---|---|---|
| | (In thousands of US dollars) | | | | | |
| **31 December 2010** | | | | | | |
| Total financial assets | 71,599 | 163,021 | 158,209 | — | — | 392,829 |
| Total financial liabilities | (36,918) | (116,927) | (51,549) | (150,148) | — | (355,542) |
| **Net interest sensitivity gap at 31 December 2010** | **34,681** | **46,094** | **106,660** | **(150,148)** | **—** | **37,287** |
| **31 December 2009** | | | | | | |
| Total financial assets | 42,597 | 72,390 | 86,874 | — | — | 201,861 |
| Total financial liabilities | (8,414) | (17,223) | (18,669) | (122,579) | — | (166,885) |
| **Net interest sensitivity gap at 31 December 2009** | **34,183** | **55,167** | **68,205** | **(122,579)** | **—** | **34,976** |
| **31 December 2008** | | | | | | |
| Total financial assets | 47,562 | 58,203 | 71,840 | — | — | 177,695 |
| Total financial liabilities | (8,195) | (21,988) | (4,091) | (133,940) | — | (168,214) |
| **Net interest sensitivity gap at 31 December 2008** | **39,457** | **36,215** | **67,749** | **(133,940)** | **—** | **9,481** |

TCS has no significant risk associated with variable interest rates on credit and advances provided to customers or loans received.

TCS monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel as of 31 December 2010, 2009 and 2008:

| | As of 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | | 2008 | | |
| | Russian Roubles | US Dollars | Euros | Russian Roubles | US Dollars | Euros | Russian Roubles | US Dollars | Euros |
| | (In per cent., per annum). | | | | | | | | |
| **Assets** | | | | | | | | | |
| Cash and cash equivalents | 3.1 | — | — | 4.8 | — | — | — | — | 3.6 |
| Loans and advances to customers | | | | | | | | | |
| *Corporate loans* | 20.0 | — | — | 20.6 | — | — | 18.7 | — | — |
| *Credit card loans* | 59.2 | — | — | 63.7 | — | — | 70.4(1) | — | — |
| *Other loans to individuals* | 20.0 | — | — | 20.0 | — | — | 20.0 | — | — |
| **Liabilities** | | | | | | | | | |
| Due to banks | — | — | — | 12.0 | — | — | — | — | — |
| Customer accounts | 12.4 | 15.0 | 13.1 | 17.3 | 13.2 | 9.0 | 14.0 | 12.0 | — |
| Debt securities in issue | 20.1 | — | — | 19.8 | — | 20.7 | 19.8 | — | 19.8 |
| Syndicated loan | 16.9 | — | — | 24.4 | — | — | 19.9 | — | — |

(1) The average effective interest rate on credit card loans in Russian Roubles as of 31 December 2008 after restatement of comprehensive income for the year ended 31 December 2008, see "*Presentation of Financial and Other Data — Presentation of Financial Information — Restatement of 2009 Financial Statements*", equals 62.6%.

### *Liquidity Risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. TCS is exposed to daily calls on its available cash resources from unused limits on issued credit cards, retail deposits and current accounts. TCS does not maintain cash resources to meet all of these needs as experience shows that only a certain level of calls will take place and it can be predicted with a high level of certainty. Liquidity risk is managed by the CFO of the Group.

TCS seeks to maintain a stable funding base primarily consisting of amounts due to institutional investors, corporate and retail customer deposits and debt securities. TCS keeps all available cash in diversified portfolios of liquid instruments such as a correspondent account with CBR and overnight placements in high-rated commercial banks, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The available cash at all times exceeds all accrued financing costs falling due within half a year plus two months of regular operating costs.

The liquidity management of TCS requires (i) considering the level of liquid assets necessary to settle obligations as they fall due; (ii) maintaining access to a range of funding sources; (iii) maintaining funding contingency plans; and (iv) monitoring balance sheet liquidity ratios against regulatory requirements. The liquidity analysis takes into account the covenant requirements and ability of TCS to waive any potential breaches within the grace period.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the CBR. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 88.5 per cent. as of 1 January 2011 as compared to 279.1 per cent as of 1 January 2010. The statutory ratio limit is a minimum of 15 per cent.
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio for TCS was 145.7 per cent. as of 1 January 2011 as compared to 239.8 per cent. as 1 January 2010. The statutory ratio limit is a minimum of 50 per cent.
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The ratio for TCS was 0 per cent. as of 1 January 2011 and 2010. The statutory ratio limit is a maximum of 120 per cent.

The CFO receives information about the liquidity profile of the financial assets and liabilities. This includes daily, weekly, monthly and quarterly updates on the level of credit card transactions and repayments, statistics on credit card issuance and credit card limit utilisation, inflow and outflow of retail deposits, level of expected outflows such as operating costs and financing activities. The CFO then ensures the availability of an adequate portfolio of short-term liquid assets, made up of an amount in the correspondent account with the CBR and overnight deposits with banks, to ensure that sufficient liquidity is maintained within the Group as a whole. Major assumptions used in liquidity analysis are based on long-standing statistics that show that on average, from 88 to 92 per cent. of issued credit cards are activated, from 83 to 90 per cent. of activated credit cards are actually used and the limit utilisation level on credit cards is stable at around from 70 to 78 per cent. The level of quarterly transactions is generally within 16-17 per cent. of the net credit card portfolio while the level of quarterly repayments is generally 32-33 per cent. of the net credit card portfolio.

Regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions and credit card portfolio behavior is reviewed by the CFO.

The table below shows liabilities as of 31 December 2010 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows and gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the balance sheet amount is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of reporting period.

| | Demand and less than1 month | From 1 to3 months | From 3 to6 months | From 6 to12 months | From 1 to3 years | Total |
|---|---|---|---|---|---|---|
| | *(In thousands of US dollars)* | | | | | |
| **Liabilities** | | | | | | |
| Customer accounts | 16,206 | 35,049 | 48,115 | 41,997 | 41,941 | 183,308 |
| Debt securities in issue | 4,078 | 3,695 | 4,049 | 12,101 | 192,759 | 216,682 |
| Syndicated loan | 4,193 | 8,605 | 20,624 | — | — | 33,422 |
| Other financial liabilities | 6,424 | — | — | — | — | 6,424 |
| Undrawn credit lines | 191,487 | — | — | — | — | 191,487 |
| Due to Intermediary Entities | 9.893 | — | 15.289 | 21,035 | — | 46,217 |
| **Total potential future payments for financial obligations** | **232,281** | **47,349** | **88,077** | **75,133** | **234,700** | **677,540** |

The maturity analysis of financial liabilities as of 31 December 2009 is as follows:

| | Demand and less than1 month | From 1 to3 months | From 3 to6 months | From 6 to12 months | From 1 to3 years | Total |
|---|---|---|---|---|---|---|
| | *(In thousands of US dollars)* | | | | | |
| **Liabilities** | | | | | | |
| Due to banks | 5,000 | — | — | — | — | 5,000 |
| Customer accounts | 34 | 3,253 | 1,547 | 3,149 | 7,281 | 15,264 |
| Debt securities in issue | — | — | 11,885 | 14,794 | 84,395 | 111,074 |
| Syndicated loan | — | 426 | 436 | 867 | 88,797 | 90,526 |
| Other financial liabilities | 2,253 | — | — | — | — | 2,253 |
| Undrawn credit lines | 81,723 | — | — | — | — | 81,723 |
| **Total potential future payments for financial obligations** | **89,010** | **3,679** | **13,868** | **18,810** | **180,473** | **305,840** |

The maturity analysis of financial liabilities as of 31 December 2008 is as follows:

| | Demand and less than1 month | From 1 to3 months | From 3 to6 months | From 6 to12 months | From 1 to3 years | Total |
|---|---|---|---|---|---|---|
| | | | (In thousands of US dollars) | | | |
| **Liabilities** | | | | | | |
| Customer accounts | 4,950 | 738 | 110 | 220 | 3,324 | 9,342 |
| Debt securities in issue | — | 3,203 | 7,806 | 26,808 | 109,208 | 147,025 |
| Syndicated loan | — | 2,251 | 2,381 | 4,744 | 66,682 | 76,058 |
| Other financial liabilities | 1,425 | 2,407 | — | — | — | 3,832 |
| Undrawn credit lines | 60,901 | — | — | — | — | 60,901 |
| **Total potential future payments for financial obligations** | **67,276** | **8,599** | **10,297** | **31,772** | **179,214** | **297,158** |

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with the Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

TCS's liquidity management requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements. The liquidity analysis takes into account the covenant requirements and TCS's ability to waive any potential breaches within the grace period.

Expected maturities, may be summarised as of 31 December 2010 as follows:

| | Demand and less than1 month | From 1 to3 months | From 3 to6 months | From 6 to12 months | From 1 to3 years | Total |
|---|---|---|---|---|---|---|
| | | | (In thousands of US dollars) | | | |
| **Assets** | | | | | | |
| Cash and cash equivalents | 19,711 | 31,181 | — | — | — | 50,892 |
| Mandatory cash balances with the CBR | 2,463 | — | — | — | — | 2,463 |
| Loans and advances to customers | 26,369 | 52,735 | 79,105 | 158,209 | — | 316,418 |
| MasterCard guarantee deposit | 12,555 | — | — | — | — | 12,555 |
| Other financial assets | 10,501 | — | — | — | — | 10,501 |
| **Total financial assets** | **71,599** | **83,916** | **79,105** | **158,209** | **—** | **392,829** |
| **Liabilities** | | | | | | — |
| Customer accounts | 22,225 | 33,825 | 48,172 | 39,447 | 30,480 | 174,149 |
| Debt securities in issue | 4,076 | 3,695 | 4,050 | 12,102 | 119,668 | 143,591 |
| Syndicated loan | 4,193 | 8,605 | 18,580 | — | — | 31,378 |
| Other financial liabilities | 6,424 | — | — | — | — | 6,424 |
| **Total financial liabilities** | **36,918** | **46,125** | **70,802** | **51,549** | **150,148** | **355,542** |
| **Net liquidity gap at 31 December 2010** | **34,681** | **37,791** | **8,303** | **106,660** | **(150,148)** | **37,287** |
| **Cumulative liquidity gap at 31 December 2010** | **34,681** | **72,472** | **80,775** | **187,435** | **37,287** | |

TCS monitors expected maturities, which may be summarised as follows as of 31 December 2009:

| | Demand and less than1 month | From 1 to3 months | From 3 to6 months | From 6 to12 months | From 1 to3 years | Total |
|---|---|---|---|---|---|---|
| | *(In thousands of US dollars)* | | | | | |
| **Assets** | | | | | | |
| Cash and cash equivalents | 18,946 | — | — | — | — | 18,946 |
| Mandatory cash balances with the CBR | 1,182 | — | — | — | — | 1,182 |
| Loans and advances to customers | 14,471 | 28,956 | 43,434 | 86,874 | — | 173,735 |
| Financial derivatives | 2,361 | — | — | — | — | 2,361 |
| MasterCard guarantee deposit | 2,004 | — | — | — | — | 2,004 |
| Other financial assets | 3,633 | — | — | — | — | 3,633 |
| **Total financial assets** | **42,597** | **28,956** | **33,434** | **86,874** | **—** | **201,861** |
| **Liabilities** | | | | | | |
| Due to banks | 4,977 | — | — | — | — | 4,977 |
| Customer accounts | 1,184 | 3,125 | 1,351 | 2,881 | 4,080 | 12,621 |
| Debt securities in issue | — | — | 11,885 | 14,921 | 59,826 | 86,632 |
| Syndicated loan | — | — | 862 | 867 | 58,673 | 60,402 |
| Other financial liabilities | 2,253 | — | — | — | — | 2,253 |
| **Total financial liabilities** | **8,414** | **3,125** | **14,098** | **18,669** | **122,579** | **166,885** |
| **Net liquidity gap at 31 December 2009** | **34,183** | **25,831** | **29,336** | **68,205** | **(122,579)** | **34,976** |
| **Cumulative liquidity gap at 31 December 2009** | **34,183** | **60,014** | **89,350** | **157,555** | **34,976** | |

Expected maturities may be summarised as of 31 December 2008 as follows:

| | Demand and less than1 month | From 1 to3 months | From 3 to6 months | From 6 to12 months | From 1 to3 years | Total |
|---|---|---|---|---|---|---|
| | | | (In thousands of US dollars) | | | |
| **Assets** | | | | | | |
| Cash and cash equivalents | 30,907 | — | — | — | — | 30,907 |
| Mandatory cash balances with the CBRF | 276 | — | — | — | — | 276 |
| Loans and advances to customers | 12,066 | 23,281 | 34,922 | 69,843 | — | 140,112 |
| MasterCard guarantee deposit | 3,754 | — | — | — | — | 3,754 |
| Other financial assets | 649 | — | — | 1,997 | — | 2,646 |
| **Total financial assets** | **47,652** | **23,281** | **34,922** | **71,840** | **—** | **177,695** |
| **Liabilities** | | | | | | |
| Customer accounts | 4,849 | 719 | 104 | 198 | 2,566 | 8,436 |
| Debt securities in issue | — | — | 16,381 | — | 89,329 | 105,710 |
| Syndicated loan | — | 2,142 | 2,156 | 3,893 | 42,045 | 50,236 |
| Other financial liabilities | 3,346 | 486 | — | — | — | 3,832 |
| **Total financial liabilities** | **8,195** | **3,347** | **18,641** | **4,091** | **133,940** | **168,214** |
| **Net liquidity gap at 31 December 2008** | **39,457** | **19,934** | **16,281** | **67,749** | **(133,940)** | **9,481** |
| **Cumulative liquidity gap at 31 December 2008** | **39,457** | **59,391** | **75,672** | **143,421** | **9,481** | |

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of reporting period.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of TCS. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and different types. An unmatched position potentially enhances profitability but can also increase the risk of losses. 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 TCS and its exposure to changes in interest and exchange rates.

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment because TCS does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

# MANAGEMENT

TCS's management comprises various levels and sub-levels, each of which is responsible for different aspects of TCS's activities. The highest level of TCS's management and the ultimate decision-making body is the general shareholders' meeting. This is followed by the Board of Directors, which is responsible for the general management of TCS, including strategy coordination and general supervision. The Board of Directors elects the Management Board (which is the collective executive body of TCS) and the Chairman of the Management Board (who is the sole executive body of TCS) who are jointly responsible for the day-to-day management of TCS's activities.

A brief description of each of the general shareholders' meeting, the Board of Directors, the Management Board and the Chairman of the Management Board is set out below.

**General Shareholders' Meeting**

The general shareholders' meeting is TCS's highest governance body. TCS's shareholders' meetings are convened by TCS's Board of Directors at least once a year. The following matters can only be dealt with by the general shareholders' meeting and may not be delegated to other governance bodies of TCS:

- alteration of TCS's charter;
- reorganisation and liquidation of TCS, appointment of a liquidation committee and approval of interim and final liquidation balance sheets;
- determination of the composition of the Board of Directors, election of its members and early termination of their powers;
- determination of the amount, nominal value and type of authorised shares;
- increases and reductions in TCS's share capital;
- appointment of TCS's auditor;
- approval of dividends;
- approval of the annual statutory accounting and reports;
- approval of TCS's participation in financial groups, holdings and associations; and
- certain other matters provided for by law and under TCS's charter.

Since Egidaco is the sole shareholder of TCS, it decides on the above matters by issuing resolutions.

**Board of Directors**

The Board of Directors is responsible for general management matters, with the exception of those matters that are designated by law and by TCS's charter as being the exclusive responsibility of the general shareholders' meeting. TCS's Board of Directors meets as necessary, but not less than once a quarter, and makes its decisions, generally, by simple majority of those present provided that a quorum of at least half of the elected members of the Board of Directors is present. Members of the Board of Directors are elected for terms until the next annual general shareholders' meeting and may be re-elected an unlimited number of times.

TCS's Board of Directors currently has five members. The current members of the Board of Directors were elected by Egidaco on 3 June 2010. The name, position and certain other information for each member of the Board of Directors of TCS are set out below.

| Name | Title | Member of the Board Since |
|---|---|---|
| Oleg Tinkov | Chairman | June 2006 |
| Oliver Hughes | Member | October 2008 |
| George Chesakov | Member | June 2007 |
| Vadim Stasovsky | Member | June 2006 |
| Konstantin Aristarkhov | Member | June 2006 |

Unless otherwise indicated, members of TCS's Board of Directors do not hold positions with companies outside of the Group.

*Oleg Tinkov* (age 44) has been the Chairman of TCS's Board of Directors since June 2006. Previously, Mr. Tinkov owned and operated a number of businesses which were not related to the banking sector, including "Tinkoff" beer, "Tinkoff Restaurants" and "Daria".

*Oliver Hughes* (age 40) has been a member of TCS's Board of Directors since October 2008. He is also President of TCS conferred with all executive powers (the "**President**") since June 2007. Mr. Hughes previously headed Visa International's Moscow representative office. Mr. Hughes has a bachelor of arts degree from the University of Sussex. He has masters degrees from Leeds University and City University (MA and MSc). He holds a position as a non-executive director of Elecsnet.

*George Chesakov* (age 39) has been a member of TCS's Board of Directors since June 2007. He has also been the Chairman of TCS's Management Board since September 2010 and has been a member of TCS's Management Board since January 2007. Mr. Chesakov was previously Director of Business Development at Investsberbank, Head of Product Development at Russian Standard Bank, and a consultant at McKinsey & Company, Moscow. Mr. Chesakov holds an MA degree in computer science from Princeton University.

*Vadim Stasovsky* (age 40) has been a Member of TCS's Board of Directors since June 2006. He has also been Chief Financial Controller of TCS Group since February 2007. Mr. Stasovsky was previously General Director of OOO Tinkoff-Invest and a member of the Board of Directors of OOO Tinkoff Private Breweries. He graduated from Saint-Petersburg Institute of Cinema and Television in 1994 specialising in economics and took a management course in the International School of Management LETI-Lovanium in Saint-Petersburg in 1995.

*Konstantin Aristarkhov* (age 37) has been a Member of TCS's Board of Directors since June 2006. He has also been TCS's Head of Collections since 2006 and acting General Director of OOO T-Finance. He previously headed KonstaCorp Investments and was Investment Executive at Thomas F. White & Co. Mr. Aristarkhov has a bachelor degree in business and management from the University of Maryland and did his MBA at Far-East State University.

The business address of all members of the Board of Directors is Perviy Volokolamskiy proezd, 10, building 1, 123060 Moscow, Russian Federation.

There are no potential conflicts of interest between any duties of the members of the Board of Directors and their private interests and/or other duties.

**Management Board**

The Management Board is TCS's collective executive body and is elected by the Board of Directors. Members of the Management Board may be re-elected an unlimited number of times. The Management Board meets as necessary, but not less than twice a month, and makes its decisions by simple majority provided that a quorum of at least half of the elected members of the Management Board is present. The Management Board is responsible for TCS's day-to-day management and administration.

TCS's Management Board currently has 4 members. The name, position and other information for each member of the Management Board of TCS are set out below.

| Name | Title | Member of the Board Since |
|---|---|---|
| George Chesakov | Chairman, Chief Operating Officer | January 2007 |
| Ilya Pisemsky | Deputy Chairman,Chief Financial Officer | April 2010 |
| Dmitry Kobzar | Deputy Chairman,Chief Legal Counsel | April 2010 |
| Nataliya Izyumova | Member, Chief Accountant | February 2011 |

Unless otherwise indicated, members of TCS's Management Board do not hold positions with companies outside of the Group.

*George Chesakov* (age 39) has been Chairman of TCS's Management Board since September 2010 and has been the member of TCS's Management Board since January 2007. See "—*Board of Directors*".

*Ilya Pisemsky* (age 35) has been a member of TCS's Management Board since April 2010. He has also been Chief Financial Officer since June 2008. Mr Pisemsky was previously Deputy CFO of Bank Soyuz (Basic Element Group) and Manager in Ernst & Young. He graduated from the State Financial Academy in 1997 and has an MBA from F.W. Olin Business School at Babson College, USA (2002).

*Dmitry Kobzar* (age 31) has been a member of TCS's Management Board since April 2010. He has been Chief Legal Counsel since November 2008. Mr. Kobzar was previously a member of the Management Board and Head of Legal in City Mortgage Bank (Morgan Stanley Group) and Head of Legal in International Joint-Stock Bank. He graduated from Moscow State University in 2002 and obtained a PhD degree in law in 2005 from the same university.

*Nataliya Izyumova* (age 48) has been a member of TCS's Management Board since February 2011. She joined as Chief Accountant of TCS in February 2011. Mrs. Izyumova was previously Chief Accountant in CJSC Bank Sovetskiy, SKT Bank and Rusfinancebank (Societe General Group). She graduated from Moscow State University specialising in Economy and Cybernetics.

The business address of all members of the Management Board is Perviy Volokolamskiy proezd, 10, building 1, 123060 Moscow, Russian Federation.

There are no potential conflicts of interest between any duties to the issuing entity of the members of the Management Board and their private interests and/or other duties.

**Allocation of Responsibilities**

Within the joint responsibility of TCS's management and shareholders are such areas as strategy, development of business plans, strategic alliances and key executive appointments. TCS's management cannot adopt decisions within these areas without prior consultation with TCS's shareholders. For this purpose, the main strategic and business decisions are taken during monthly meetings of TCS's key officers with Oleg Tinkov and representatives of Goldman Sachs and Vostok Nafta. These meetings are informal, there is no chairman, but decisions taken at this meeting reflect shareholders' positions on different business matters and are executed by management. Responsibility for overseeing the various sub-levels of TCS's day-to-day management is divided between the President who is Mr. Hughes and the acting Chairman of the Management Board, Mr. Chesakov (the "**Chairman**").

The President is responsible for 10 business units (divisions). These include Marketing, Finance, Corporate Finance, Risks, Collections, Legal, HR, Information Security, IT, Administrative Facilities.

The Chairman is responsible for overseeing four departments, including the Customer Service Department, Payment Systems Department, Business Technologies Department, Business Development Department, and the cash desk.

In 2010, total remuneration of members of the key management amounted to US$ 7,738 thousand as compared to US$ 2,513 thousand in 2009 and US$2,405 thousand in 2008.

The annual remuneration of the Management Board and Board of Directors includes salaries, other short term bonuses and the annual bonus.

# SHAREHOLDERS

As of 28 February 2011, TCS's standalone authorised and issued share capital was RUB 1,472,000 thousands, comprised of 147,200,000 ordinary registered shares with a nominal value of RUB 10 each. In addition, TCS has 60,000 thousand authorised but unissued shares with a nominal value of 10 RUB.

Egidaco holds 100 per cent. of TCS's share capital. The following table sets forth Egidaco shareholders as of 28 February 2011.

| | Number of Shares | Percentage |
|---|---|---|
| Tadek Holding & Finance S.A.[1] | 3,861,351 | 61.45 |
| Tasos Invest & Finance Inc.[1] | 421,915 | 6.71 |
| Maitland Commercial Inc.[1] | 1 | 0.00 |
| Vizer Limited[1] | 1 | 0.00 |
| Norman Legal S.A.[1] | 1 | 0.00 |
| Vostok Komi (Cyprus) Ltd.[2] | 1,073,174 | 17.08 |
| ELQ Investors Limited[3] | 926,775 | 14.75 |
| **Total** | **6,283,218** | **100.00** |

(1) Mr. Oleg Tinkov indirectly owns 68.17 per cent. of shares in Egidaco by way of indirect holding of 100 per cent. of the shares in Tadek Holding & Finance S.A., Tasos Invest & Finance Inc., Maitland Commercial Inc., Vizer Limited and Norman Legal S.A.

(2) Vostok Komi (Cyprus) Ltd. is wholly owned by Vostok Nafta.

(3) ELQ Investors Limited is wholly owned by The Goldman Sachs Group, Inc.

### Rights of TCS's Shareholders

Under TCS's charter and Russian legislation, TCS's shareholders have the right to:

- participate and vote in the general shareholders' meeting on all matters which fall under the competence of the meeting;
- approve and receive dividends;
- receive a liquidation quota upon any liquidation of TCS;
- have access to information and documents relating to TCS's activities and financial condition;
- elect and be elected into TCS's management bodies;
- demand, in cases provided for by Russian legislation and TCS's charter, that part or all of shareholder's shares be repurchased by TCS; and
- exercise other rights provided by the Russian legislation and TCS's charter.

The above rights are exercised by Egidaco as the sole shareholder of TCS.

# RELATED PARTY TRANSACTIONS

The following describes transactions that TCS has entered into with related parties as defined in IAS 24, *Related Party Disclosures*. Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The following table sets forth the outstanding balances with related parties as of 31 December 2010, 2009 and 2008:

| | As of 31 December | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | | 2008 | |
| | *(In thousands of US dollars)* | | | | | | |
| | Key management personnel | Other related parties | Key management personnel | Other related parties | Parent company | Key management personnel | Other related parties |
| **ASSETS** | | | | | | | |
| Gross amounts of loans and advances to customers (contractual interest rate: 20.0 per cent. per annum (20 per cent. per annum in 2009; 1 per cent, per annum in 2008) | 43 | — | 67 | 240 | — | 66 | 7,835 |
| Impairment provisions for loans and advances to customers | — | — | — | (50) | — | — | (7,403) |
| **LIABILITIES** | | | | | | | |
| Customer accounts (contractual interest rate: 15 per cent. per annum (from 9 to 18 per cent. per annum in 2009; 1.5 per cent. per annum in 2008) | 1,235 | 2,766 | 72 | 1,730 | — | — | 4,300 |
| Debt securities in issue (subordinated tranche, contractual interest rate: 24 per cent. per annum)(1) | — | — | — | 9,334 | — | — | — |
| Syndicated loan (contractual interest rate: 20.5 per cent. per annum) | — | 8,445 | — | — | — | — | — |

(1) Debt securities in issue in the amount of US$ 9,334 thousand as of 31 December 2009 represent Tranche B of the debut Eurobonds (together with accrued interest) purchased in June 2009 by companies controlled by Mr. Oleg Tinkov.

The following table sets forth the income and expense items associated with TCS's related parties for the years ended 31 December 2010, 2009 and 2008:

| | Year ended of 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | 2008 | |
| | (In thousands of US dollars) | | | | | |
| | Key management personnel | Other related parties | Key management personnel | Other related parties | Key management personnel | Other related parties |
| Interest income | 37 | — | 3 | 70 | 19 | 1,027 |
| Interest expense | (21) | (1,596) | — | (1,749) | — | (64) |

Other related parties in the tables above are mainly entities which are under the control of the Group's ultimate beneficiary Mr. Oleg Tinkov.

In 2010, 2009 and 2008, the total renumeration of key management was comprised of only short-term benefits and amounted to US$ 7,738 thousand, US$ 2,513 thousand and US$ 2,405 thousand, respectively.

# THE ISSUER

## General

The Issuer was incorporated in Ireland on 29 March 2010, with registered number 482626 as a private company with limited liability under the Companies Acts 1963-2009 of Ireland (the "**Companies Acts**"). The registered office of the Issuer is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland and its phone number is +3531 680 6000.

## Corporate Purpose of the Issuer

The principal objects of the Issuer are set forth in clause 2 of its Memorandum of Association (as currently in effect) and permit the Issuer, *inter alia*, to lend money and give credit, secured or unsecured, to issue debentures and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use an amount equal to the proceeds of such issuance to advance the loans to TCS.

The Issuer has not previously carried on any business or activities other than those incidental to its incorporation, the authorisation and issue of the Notes, granting the Loan and activities incidental to the exercise of its rights and compliance with its obligations under the Notes, the Subscription Agreement, the Agency Agreement, the Trust Deed and the other documents and agreements entered into in connection with the issue of the Notes and the Loan.

## Corporate Services Provider

Deutsche International Corporate Services (Ireland) Limited (the "**Corporate Services Provider**"), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on 1 April 2011 between the Issuer and the Corporate Services Provider (the "**Corporate Services Agreement**"), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 90 days written notice to the other party. The Corporate Services Agreement contains provisions for the appointment of a replacement corporate services provider if necessary.

The Corporate Services Provider's principal office is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland.

## Recent Developments

There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position or prospects of the Issuer since the date of its incorporation. Save for the issue of Notes described above and the related arrangements, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

## Capital and Shareholders

The authorised share capital of the Issuer is EUR 100 divided into 100 ordinary shares of par value EUR 1 each. The Issuer has issued 1 share (the "**Share**"), which is fully paid and held on trust by Deutsche International Finance (Ireland) Limited (the "**Share Trustee**") under the terms of a declaration of trust (the "**Declaration of Trust**") dated 1 April 2011, under which the Share Trustee holds the Share on trust for charity. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Share. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

**Management**

The Issuer's Articles of Association provide that the Board of Directors of the Issuer will consist of at least two Directors.

The Directors of the Issuer and their business addresses are as follows:

Jennifer Coyne: 5 Harbourmaster Place, IFSC, Dublin 1, Ireland; and

Margaret Kennedy: 5 Harbourmaster Place, IFSC, Dublin 1, Ireland.

The Company Secretary is Deutsche International Corporate Services (Ireland) Limited.

The Directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares. The directorship of the Directors is provided as part of the Corporate Services Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement.

The Directors of the Issuer may engage in other activities and have other interests which may conflict with the interests of the Issuer.

**Financial Statements**

Since its date of incorporation, the Issuer has not commenced operations and no financial statements of the Issuer have been prepared as at the date of this Prospectus. The Issuer intends to publish its first audited financial statements in respect of the period ending on 31 December 2011. The Issuer will not prepare interim financial statements. The financial year of the Issuer ends on 31 December in each year.

Each year, a copy of the audited statement of comprehensive income and statement of financial position of the Issuer together with a report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection. The statement of comprehensive income and statement of financial position can be obtained free of charge from the registered office of the Issuer.

The auditors of the Issuer are MKO Partners, 6 The Courtyard Building, Carmanhall Road, Sandyford, Dublin 18, Ireland, who are chartered accountants and are members of the Institute of Chartered Accountants and registered auditors qualified to practise in Ireland.

# THE PARENT GUARANTOR

## General

The Parent Guarantor was incorporated in Cyprus on 31 December 1999, with registered number 107963 as a company limited by shares under the Cypriot Companies Law, Cap. 113. The shareholders of the Parent Guarantor resolved on 21 November 2008 by a special resolution that the articles of association of the Parent Guarantor be amended so as to, *inter alia*, allow the Parent Guarantor to be converted to a public company. They also resolved to change the name of the Parent Guarantor from Egidaco Investments Limited to Egidaco Investments PLC. The change of name became effective on 10 December 2008. The registered office of the Parent Guarantor is Arch. Kyprianou & Ag. Andreou, 2 G. Pavlides Court, 5th floor, Office 501. P.C. 3036, Limassol, Cyprus. The telephone number of the Parent Guarantor's registered office is +3572 527 27 27.

## Corporate Purpose of the Parent Guarantor

The principal objects of the Parent Guarantor are set forth in clause 3 of its Memorandum of Association (as currently in effect) permiting the Parent Guarantor, *inter alia*, to carry on the business of an investment company (including acquiring and holding shares, notes, bonds and other securities), carry commercial businesses, works or business of general trade, imports, exports purchases, sales and exchanges of goods, render business or management consultancy services, issue securities, borrow and lend money or secure obligations and other activities.

The Parent Guarantor holds 100 per cent. of TCS's share capital. The Parent Guarantor was established as an investment vehicle and holds and consolidates assets of the Group.

In addition to its holding company activities, the Parent Guarantor previously carried on other business and activities. In 2006, the Parent Guarantor entered into share purchase agreement and acquired 100 per cent. of TCS, former Khimmashbank, becoming a parent company of TCS. On 24 June 2008, the Parent Guarantor issued Euro-denominated bonds at nominal amount of EUR 70 million with contractual maturity on 24 June 2011 and with a coupon rate of 18 per cent. per annum payable semi-annually and exercised its rights and complied with its obligations under the transaction documents. Additionally, in 2007, 2008 and 2009 the Parent Guarantor participated in additional share issues of TCS in each case acquiring the whole amount of newly issued shares.

## Company Secretary

Altruco Secretarial Limited (the "**Company Secretary**"), a Cypriot company, acts as the company secretary for the Parent Guarantor since 17 December 2008. The office of the Company Secretary serves as the general business office of the Parent Guarantor. Through the office and pursuant to the terms of the corporate services agreement entered into on 17 December 2008 between the Parent Guarantor and the Company Secretary (the "**Corporate Services Agreement**"), the Company Secretary performs various management functions on behalf of the Parent Guarantor, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Parent Guarantor at rates agreed upon from time to time plus expenses.

The Company Secretary's principal office is G.Pavlides Court, 5th Floor 2, Arch. Kyprianou & Ayiou Andreou Street, 3036 Limassol, Cyprus, Mail: P.O. Box 50734, 3609, Limassol, Cyprus.

## Recent Developments

There has been no significant change in the financial or trading position of the Parent Guarantor and no material adverse change in the financial position or prospects of the Parent Guarantor since 31 December 2010. Save for the issue of Euro-denominated bonds described above and the related arrangements, the Parent Guarantor has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

## Capital and Shareholders

The issued share capital of the Parent Guarantor is comprised of 6,283,218 shares divided into 4,283,266 A shares of par value US$ 1 each, 926,775 B shares of par value US$ 1 each, 1,073,174 C shares of par value US$ 1 each and 3 ordinary shares of par value US$ 1 each. The share capital of the Parent Guarantor has been fully paid up by its shareholders.

The following table sets forth Egidaco shareholders as of 31 March 2011.

| | Number of Shares | Percentage |
|---|---|---|
| Tadek Holding & Finance S.A.[(1)] | 3,861,351 | 61.45 |
| Tasos Ivest & Finance Inc.[(1)] | 421,915 | 6.71 |
| Maitland Commercial Inc.[(1)] | 1 | 0.00 |
| Vizer Limited[(1)] | 1 | 0.00 |
| Norman Legal S.A.[(1)] | 1 | 0.00 |
| Vostok Komi (Cyprus) Ltd.[(2)] | 1,073,174 | 17.08 |
| ELQ Investors Limited[(3)] | 926,775 | 14.75 |
| **Total** | **6,283,218** | **100.00** |

(1) Mr. Oleg Tinkov indirectly owns 68.17 per cent. of shares in Egidaco by way of indirect holding of 100 per cent. shares in Tadek Holding & Finance S.A., Tasos Invest & Finance Inc., Maitland Commercial Inc., Vizer Limited and Norman Legal S.A.

(2) Vostok Komi (Cyprus) Ltd. is wholly owned by Vostok Nafta.

(3) ELQ Investors Limited is wholly owned by The Goldman Sachs Group, Inc.

### Management

The Parent Guarantor's Articles of Association provide that the number of Directors in the Board of Directors shall not be subject to any maximum and shall consist of minimum 5 Directors.

The Directors of the Parent Guarantor are Constantinos Economides, Maria Demetriou, Alexis Ioannides, Julian Charles Salisbury and Per Brilioth. Their business address is as follows: Arch. Kyprianou & Ag. Andreou, 2 G. Pavlides Court, 5th floor, Office 501. P.C. 3036, Limassol, Cyprus.

The Directors do not hold any direct, indirect, beneficial or economic interest in any of the shares of the Parent Guarantor. The Directors of the Parent Guarantor, provided that they have disclosed to the Board of Directors the nature and extent of their interest, may engage or otherwise be interested in any transaction or arrangement with the Parent Guarantor or in which the Parent Guarantor is otherwise interested in and have other interests and other appointments with other entities promoted by the Parent Guarantor or in which the Parent Guarantor is otherwise interested.

### Financial Statements

Since 2007 the Parent Guarantor with its subsidiaries publishes consolidated financial statements in respect of the relevant financial period ending on 31 December, prepared in accordance with IFRS as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113. The Parent Guarantor does not prepare interim financial statements. The financial year of the Parent Guarantor ends on 31 December.

For further information, please refer to "*Presentation of Financial and Other Data*".

# SUMMARY OF THE LOAN AGREEMENT

*The following is substantially all of the text of the Loan Agreement entered into among CJSC "Tinkoff Credit Systems Bank", Egidaco Investments PLC and the Issuer.*

This Loan Agreement is made on 19 April 2011 between:

(1) **CLOSED JOINT STOCK COMPANY "TINKOFF CREDIT SYSTEMS BANK"**, a closed joint stock company incorporated under the laws of Russia ("**TCS**");

(2) **EGIDACO INVESTMENTS PLC**, a public limited company duly incorporated and existing under the laws of Cyprus (with company number 107963), having its registered address at G. Pavlides Court, 5th Floor, 2, Arch. Kyprianou & Ayiou Andreou Street, 3036 Limassol, Cyprus (the "**Parent Guarantor**"); and

(3) **TCS FINANCE LIMITED**, a private limited liability company incorporated and existing under the laws of Ireland, having is registered office at 5 Harbourmaster Place, IFSC, Dublin 1, Ireland and registered number 482626 (the "**Lender**").

**Whereas**

(A) The Lender has, at the request of TCS, agreed to make available to TCS a loan facility in the amount of U.S.$175,000,000 on the terms and subject to the conditions of this Agreement.

(B) It is intended that, concurrently with the extension of the loan under this loan facility, the Lender will issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as such loan.

(C) In consideration of the Lender making the loan available to TCS under this Agreement, the Parent Guarantor has agreed to be party to this Agreement for the purpose of giving the guarantee and indemnity described in Clause 10, the representations and warranties described in Clause 11, and being bound by the covenants described in Clause 12.

Now it is hereby agreed as follows:

## 1. DEFINITIONS AND INTERPRETATIONS

### 1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated.

"**Account**"' means the account in the name of the Lender with the Principal Paying Agent at its specified office, account number 2892698400.

"**Additional Amounts**" has the meaning set forth in Clause 7.1.

"**Advance**" has the meaning set out in Clause 3.1.

"**Affiliate**" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purpose of this definition, "**control**" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing.

"**Agency**" means any agency, authority, central bank, department, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body.

"**Agency Agreement**" means the agency agreement to be dated on or about 21 April 2011 among the Lender, the Principal Paying Agent, the other agents named therein and the Trustee.

"**Agreed Form**" means that the form of the document in question has been agreed between the proposed parties thereto.

"**Agreement**" means this loan agreement as originally executed or as it may be amended, restated or supplemented from time to time.

"**Auditors**" means the auditors for the time being of the IFRS consolidated financial statements of the Group or, if they are unable or unwilling to carry out any action requested of them under this Agreement, such other internationally recognised firm of accountants as may be approved in writing by the Lender for this purpose.

"**Authorised Signatory**" means, in relation to the Parent Guarantor, any person who is duly authorised (in such manner as may be reasonably acceptable to the Lender) and in respect of whom the Lender has received a certificate signed by a director or another Authorised Signatory of the Parent Guarantor setting out the name and signature of such person and confirming such person's authority to act.

"**Board of Directors**" means, as to any Person, the board of directors or equivalent competent governing body of such Person, or any duly authorised committee thereof.

"**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each of Moscow, Dublin and New York City.

"**CBR Capital Adequacy Ratio**" means the N1 ratio as defined in the Central Bank of Russia Instruction No. 110-И.

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a Person other than a corporation, in each case whether now outstanding or hereafter issued.

"**Central Bank**" means the Central Bank of Russia.

A "**Change of Control**" shall be deemed to have occurred if Mr. Oleg Tinkov ceases to own (whether directly or indirectly) more than 50 per cent. of the issued ordinary share capital of TCS or if there is a sale of all or substantially all of the assets of the Group whether in a single transaction or a series of related transactions;

"**Change of Control Payment Date**" means the tenth Business Day after the expiration of the Put Period.

"**Change of Control Premium**" means 1 per cent. of the aggregate principal amount of the Notes (as notified to TCS by the Principal Paying Agent) in relation to which the Put Option has been duly exercised.

"**Closing Date**" means 21 April 2011.

"**Conditions**" has the meaning ascribed to it in the Trust Deed.

"**Consolidated Total Assets**" means, with respect to any date, the consolidated total assets of the Group for such date, as determined from the consolidated balance sheet of the Group as of the end of the most recent IFRS Fiscal Period.

"**Consolidated Total Capital**" as of any date of determination means the Group's total equity, as determined from the consolidated balance sheet of the Group as of the end of the most recent IFRS Fiscal Period.

"**Default**" means any event which is, or after notice given hereunder or passage of time or both would be, an Event of Default.

"**Disinterested Director**" means, with respect to any transaction or series of related transactions to be entered into by a Person, a member of that Person's Board of Directors who:

(a) does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions; and

(b) is not an Affiliate, or an officer, director or employee of any Person who has any direct or indirect financial interest in or with respect to such transaction or series of related transactions; and

(c) does not have a familial, financial, professional, employment or other relationship with a person who has a financial interest in the matters, which would reasonably be expected to adversely affect the objectivity of the director.

"**Dispute**" has the meaning assigned to it in Clause 20.1.

"**Event of Default**" has the meaning assigned to such term in Clause 13.1.

"**Exempt Transaction**" means:

(a) any transaction solely for the provision of credit scoring and/or information technology services; or

(b) any transaction solely for the provision of hedging services.

"**Exposure**" means:

(a) the aggregate risk-weighted principal or nominal amount owed to TCS, whether direct or contingent, by a counterparty, or, in the case of a Single Party, by a group of counterparties, in respect of money borrowed, equity or debt raised, guarantees, letters of credit or debt instruments issued or confirmed and other off-balance sheet engagements in the ordinary course of TCS's consumer lending business; less

(b) any such amount which is fully secured by rights of off-set against the Liquid Assets in equivalent amounts and comparable maturities placed with TCS.

"**Facility**" means the term loan facility granted by the Lender to TCS as specified in Clause 2.

"**Fair Market Value**" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors of TCS and evidenced by a resolution of such Board of Directors.

"**Finance Documents**" means this Agreement, the Trust Deed, the Notes and the Agency Agreement, in each case as amended from time to time.

"**Funded Exposure**" means any Exposure in the ordinary course of TCS's consumer lending business that the Parent Guarantor would, in accordance with IFRS, as consistently applied, include under "loans to customers" in the balance sheet of the Parent Guarantor prepared in accordance with IFRS.

"**Group**" means the Parent Guarantor and its Subsidiaries from time to time taken as a whole, and a "member of the Group" means any of the Parent Guarantor or any of its Subsidiaries from time to time.

"**Guarantee**" means any obligation, contingent or otherwise, of any Person directly or indirectly in any manner guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term "Guarantee" will not include endorsements of negotiable instruments for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"**IFRS**" means International Financial Reporting Standards, as adopted by the European Union.

"**IFRS Fiscal Period**" means any fiscal period for which the Group has produced financial statements in accordance with IFRS which have either been audited or reviewed by independent accountants of recognised international standing.

"**incur**" means issue, assume, Guarantee, incur or otherwise become liable for.

"**Indebtedness**" means any indebtedness, in respect of any Person for, or in respect of, monies borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any other similar instrument; any liability under any interest rate or currency hedging agreement (and the amount for such Indebtedness in relation to any such transaction shall be calculated by reference to the mark-to-market valuation of such transaction (if it shows a sum owed to the counterparty of the Parent Guarantor or any Subsidiary), at the relevant time); any amount raised under any other transaction (including any forward sale or purchase agreement) having the economic effect of a borrowing; and (without double counting) the amount of any liability in respect of any Guarantee or indemnity for any of the items referred to above.

"**Independent Appraiser**" means any expert in the matter to be determined of international standing selected by TCS and approved by the Trustee (such approval not to be unreasonably withheld), provided, however, that such Independent Appraiser is not an Affiliate of the Group.

"**Interest Payment Date**" means 21 April and 21 October of each year in which the Loan remains outstanding, being the last day of the corresponding Interest Period, commencing on 21 October and the last such date being the Repayment Date.

"**Interest Period**" has the meaning assigned to it in Clause 4.3.

"**Lien**" means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction) and any title retention agreement having a similar effect.

"**Liquid Assets**" means the aggregate (as of the relevant date for calculation) of TCS's cash, demand and overnight deposits and other deposits with a maturity of not more than thirty (30) calendar days, and marketable securities with a final maturity of less than one year issued or guaranteed by the Russian Federation, or an agency or subdivision thereof, and claims against the Central Bank with a final maturity of less than one year.

"**Loan**" means, at any time, an amount equal to the aggregate principal amount of the Facility advanced by the Lender pursuant to this Agreement and outstanding at such time.

"**Material Adverse Effect**" means a material adverse effect on:

(a) the business, operations, property, condition (financial or otherwise) or prospects of the Parent Guarantor, TCS or the Group taken as a whole; or

(b) TCS's or Parent's ability to perform or comply with its obligations under this Agreement; or

(c) the validity or enforceability of this Agreement or the rights or remedies of the Lender hereunder.

"**Material Subsidiary**" means any Subsidiary of the Parent Guarantor:

(a) which, for the most recent IFRS Fiscal Period, accounted for more than 10 per cent. of the consolidated revenues of the Group or more than 10 per cent. of the consolidated net income of the Group; or which, as of the end of the most recent IFRS Fiscal Period, was the owner of more than 10 per cent. of the consolidated assets of the Group, each as set forth in the most recent available consolidated financial statements of the Group for such IFRS Fiscal Period (with effect from the date of issuance of such statements); or

(b) to which are transferred substantially all of the assets and undertakings of a Subsidiary of the Parent Guarantor which immediately prior to such transfer was a Material Subsidiary (with effect from the date of such transaction).

Compliance with the conditions set out in paragraphs (a) and (b) above shall be determined by reference to the latest audited or unaudited consolidated annual or, as the case may be, audited or unaudited consolidated interim financial statements of that Subsidiary and the latest audited consolidated annual or, as the case may be, audited or unaudited consolidated interim financial statements of the Group, provided however, that an Officers' Certificate that a Subsidiary of the Parent Guarantor is or is not a Material Subsidiary, accompanied by a report by the Auditors addressed to the Board of Directors of the Parent Guarantor as to proper extraction of the figures used in the Officers' Certificate in determining the Material Subsidiaries of the Parent Guarantor and mathematical accuracy of the calculations shall, in the absence of manifest error, be conclusive and binding on all parties.

"**Net Asset Value**" means the amount by which the total value of the Group's consolidated assets exceeds the amount of its total consolidated liabilities, as defined in accordance with IFRS.

"**Noteholder**" means, in relation to a Note, the Person in whose name such Note is for the time being registered in the register of the Noteholders (or, in the case of a joint holding, the first named holder thereof).

"**Notes**" means the U.S.$175,000,000 11.5 per cent. loan participation notes due 2014 proposed to be issued by the Lender pursuant to the Trust Deed for the purpose of financing the Loan.

"**Officers' Certificate**" means a certificate signed on behalf of TCS by two officers of TCS, at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of TCS.

"**Opinion of Counsel**" means a written opinion from legal counsel reasonably acceptable to the Lender.

"**Original Financial Statements**" means:

(a) the most recent audited IFRS consolidated financial statements of the Group as at the Closing Date; and

(b) the most recent audited IFRS unconsolidated financial statements of the Group as at the Closing Date.

"**Paying Agent**" means the Principal Paying Agent or such other paying agent as may be appointed from time to time in connection with the Notes.

"**Permitted Liens**" means:

(a) any Lien over or affecting any asset acquired by a member of the Group after the date hereof and subject to which such asset is acquired, if:

  (i) such Lien was not created in contemplation of the acquisition of such asset by a member of the Group;

  (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the Group; and

  (iii) such Lien is removed or discharged within four calendar months of the date of acquisition of such asset;

(b) any Lien over or affecting any asset of any company which becomes a member of the Group after the date hereof, where such Lien is created prior to the date on which such company becomes a member of the Group, if:

  (i) such Lien was not created in contemplation of the acquisition of such company;

  (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company; and

  (iii) such Lien is removed or discharged within four calendar months of such company becoming a member of the Group;

(c) any netting or set-off arrangement entered into by any member of the Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances;

(d) any title transfer or retention of title arrangement entered into by any member of the Group in the normal course of its trading activities on the counterparty's standard or usual terms;

(e) any Lien arising by operation of law and in the normal course of business;

(f) Liens incurred, or pledges and deposits in connection with workers' compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;

(g) Liens for *ad valorem*, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Parent Guarantor has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;

(h) any Lien granted by any Subsidiary of TCS in favour of TCS or by any Subsidiary of the Parent Guarantor in favour of the Parent Guarantor;

(i) any Lien existing on the date of this Agreement;

(j) any other Lien or Liens where the aggregate value of the assets or revenues subject to such Lien or Liens does not exceed U.S.$5,000,000; and

(k) any Lien over assets or revenues which are the subject of a Permitted Securitisation; *provided that* all payment obligations secured by such Lien or having the benefit of such Lien are to be discharged solely from such assets or revenues;

(l) any extension, renewal of or substitution for any Lien permitted by any of the preceding paragraphs (a) through (k), provided, however, that such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien; with respect to Liens incurred pursuant to this paragraph (l) the principal amount secured has not increased (other than any increase representing costs, fees, expenses or commission associated with such extension, renewal or substitution) and the Liens have not been extended to any additional property or assets (other than the proceeds of the property or assets in question).

"**Permitted Securitisation**" means a secured or true-sale financing of credit card receivables which is originated by TCS on an arm's length basis and on commercially reasonable terms whereby all payment obligations are to be discharged solely from such receivables, provided that the aggregate value of such receivables, when added to the aggregate value of receivables subject to any Lien described under paragraph (k) of the definition of 'Permitted Liens' and permitted under the terms of this Agreement, does not at any time exceed 30 per cent. (by value) of TCS's gross credit card receivables, as determined at any such time by reference to the most recent quarterly balance sheet of TCS prepared in accordance with IFRS (or its equivalent in other currencies).

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

"**Principal Paying Agent**" means The Bank of New York Mellon, or any other principal paying agent appointed from time to time in connection with the Notes.

"**Prospectus**" means the prospectus dated 19 April 2011 relating to the issuance of the Notes.

"**Put Option**" means the put option granted to Noteholders pursuant to the Conditions.

"**Put Period**" has the meaning given to it in the Conditions.

"**Qualifying Jurisdiction**" means any jurisdiction which has a double taxation treaty with Russia under which the payment of interest by Russian borrowers to lenders in the jurisdiction in which the lender is incorporated is generally able to be made without deduction or withholding of Russian income tax upon completion of any necessary formalities required in relation thereto.

"**Rate of Interest**" has the meaning assigned to such term in Clause 4.1.

"**Related Party**" means with respect to any person:

(a) an Affiliate of such person; or

(b) any of its Affiliates; or

(c) a group of its Affiliates.

"**Repayment Date**" means 21 April 2014.

"**Rouble**" means the lawful currency from time to time of Russia.

"**Russia**" shall mean the Russian Federation and any province or political subdivision or Agency thereof or therein, and "Russian" shall be construed accordingly.

"**Russian GAAP**" means generally accepted accounting principles in Russia.

"**Same-Day Funds**" means U.S. Dollar funds settled through the New York Clearing House Interbank System or such other funds for payment in U.S. Dollars as the Lender may at any time determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby.

"**Security**" means the first fixed charge and assignment granted by the Lender to the Trustee pursuant to the Trust Deed.

"**Single Party**" means with respect to any counterparty such counterparty and all Related Parties of such counterparty.

"**Subscription Agreement**" means the subscription agreement dated 19 April 2011 relating to the issuance of the Notes.

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and IFRS, consolidated with those of the first Person, *provided that* neither the Lender nor any company established for the purpose of a Permitted Securitisation shall be a Subsidiary.

"**Tax Indemnity Amounts**" has the meaning set out in Clause 7.2.

"**Taxes**" means any tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other liabilities related thereto).

"**Taxing Authority**" has the meaning set out in Clause 7.1.

"**Trust Deed**" means the trust deed relating to the Notes to be dated the Closing Date between the Lender, the Parent Guarantor and the Trustee, as amended from time to time.

"**Trustee**" means BNY Mellon Corporate Trustee Services Limited, or any other Person appointed as trustee under the Trust Deed from time to time.

"**Trustee and Agents Side Letter**" has the meaning given to it in the Trust Deed.

"**U.S. Dollars**" and "**U.S.$**" means the lawful currency of the United States of America.

### 1.2 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

(a) all references to "**Clause**" or "**sub-Clause**" are references to a Clause or sub-Clause of this Agreement;

(b) the terms "**hereof**", "**herein**" and "**hereunder**" and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;

(c) words importing the singular number include the plural and vice versa;

(d) the headings are for convenience only and shall not affect the construction hereof;

(e) the "**equivalent**" on any given date in one currency (the "**first currency**") of an amount denominated in another currency (the "**second currency**") is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is (i) Roubles and the second currency is (ii) U.S. Dollars (or vice versa), by the Central Bank at or about 10.00 a.m. (New York time or, as the case may be, Moscow time) on such date for the purchase of the first currency with the second currency;

(f) any reference in this Agreement to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted;

(g) a cost, claim, loss, expense or liability shall be regarded as "**properly documented**" if it is supported by an itemised invoice from the Lender to TCS, on the headed paper of the Lender and signed by the authorised officer of the Lender, supported, to the extent available by documented evidence of the respective cost, loss, expense or liability;

(h) the "**Lender**" or "**TCS**" shall be construed so as to include it and any of its subsequent successors, assignees and chargees in accordance with their respective interests; and

(i) the "rights" of the lender in this Agreement shall be read as references to rights of the Trustee pursuant to the charge and assignment referred to in Clause 19.3 (No Assignment by Lender).

## 2. FACILITY

### 2.1 Facility

On the terms and subject to the conditions set forth herein, the Lender hereby grants to TCS a single disbursement term loan facility in an aggregate amount of U.S.$175,000,000.

### 2.2 Purpose

The net proceeds of the Advance will be used for general corporate purposes and, accordingly, TCS shall apply all amounts raised by it hereunder to fund such purposes, but the Lender shall not be concerned with the application thereof.

### 2.3 Facility Fee

In consideration of the Lender making the Advance, TCS shall pay to the Lender a facility fee (the "**Facility Fee**") in the amount set out in a side agreement entered into between TCS, the Lender and the Parent Guarantor on or about the date hereof.

## 3. DRAWDOWN

### 3.1 Drawdown

On the terms and subject to the conditions of this Agreement, on the Closing Date the Lender shall make an advance of U.S.$175,000,000 (the "**Advance**") to TCS and TCS shall make a single drawing in the full amount of the Advance.

### 3.2 Payment of Facility Fee

TCS agrees to pay the Facility Fee to the Lender by 10.00 a.m. (London time) on the Closing Date. In the event that the Lender has not received the Facility Fee by such time, an amount equal to the Facility Fee shall be deducted from the amount of the Advance. For the avoidance of doubt, any reference in this Agreement to the Advance shall be to the full amount of the Advance notwithstanding any deductions of amounts pursuant to this Clause 3.2.

### 3.3 Disbursement

Subject to the conditions set forth herein, on the Closing Date the Lender shall transfer the amount of the Advance (less the amount to be deducted in accordance with Clause 3.2 above) to TCS's account no. 30109840300000000623 (USD) with Sberbank Moscow, Russia, in Same-Day Funds.

### 3.4 Ongoing Fees and Expenses

In consideration of the Lender (i) making available the Advance hereunder to TCS and (ii) supporting such a continuing facility, TCS shall pay in one or more instalments on demand to the Lender each year a maintenance fee (the "**Maintenance Fee**") in respect of all ongoing properly incurred costs, charges, liabilities and taxes and expenses (including without limitation corporate service fees, audit fees, stock exchange fees, listing fees, legal fees and any anticipated winding up expenses) properly incurred by the Lender in relation to the Finance Documents, together with an amount in respect of any taxes of the Lender. The amount of the Maintenance Fee shall be calculated by the Lender and notified to TCS by an invoice.

## 4. INTEREST

### 4.1 Rate of Interest

TCS will pay interest in U.S. dollars to the Lender on the outstanding principal amount of the Loan from time to time at the rate of 11.5 per cent. per annum (the "**Rate of Interest**"). The amount of interest payable in respect of each Interest Period will be U.S.$10,062,500, except in respect of any Interest Period which is not 6 months (where the amount of interest payable will be calculated in accordance with Clause 4.3 (*Calculation of Interest*).

### 4.2 Payment of Interest

Interest at the Rate of Interest shall accrue from day to day, starting from (and including) the Closing Date and shall be paid in arrears not later than 10.00 a.m. (New York time) one New York Business Day prior to each Interest Payment Date. Interest on the Loan will cease to accrue from the due date for repayment or prepayment thereof unless payment of principal due on such date is withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to, but excluding, the date on which payment in full of the principal thereof is made.

### 4.3 Calculation of Interest

The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the Rate of Interest to the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any other period, it will be calculated on the basis of the number of calendar days elapsed in the relevant Calculation Period divided by 360 (the number of calendar days to be calculated on the basis of a year of 360 calendar days consisting of 12 months of 30 calendar days each and, in the case of an incomplete month, the number of calendar days elapsed on the basis of a month of 30 calendar days). "**Interest Period**" means each period beginning on (and including) (i) the Closing Date or (ii) any Interest Payment Date, and ending on (but excluding) the next Interest Payment Date. "**Calculation Period**" means any period for which interest is to be calculated, whether or not constituting an Interest Period.

## 5. REPAYMENT AND PREPAYMENT

### 5.1 Repayment

Except as otherwise provided herein, TCS shall repay the Loan not later than 10:00 a.m. (New York time) one New York Business Day prior to the Repayment Date.

### 5.2 Prepayment in the event of Taxes or Increased Costs

If TCS would have to or has been required to pay any Additional Amount as provided by Clause 7.1 or any Tax Indemnity Amount as provided by Clause 7.2, or if (for whatever reason) TCS would have to or has been required to pay additional amounts pursuant to Clause 9, and in any such case such obligation cannot be avoided by TCS taking reasonable measures available to it, then TCS may (without premium or penalty), upon not less than 20 calendar days' nor more than 90 calendar days' prior notice in writing to the Lender and to the Trustee (which notice shall be irrevocable), prepay the Loan in whole (but not in part) on the date specified in the notice, together with any amounts then payable under Clause 7.1, Clause 7.2 or Clause 9 and pay the accrued and unpaid interest on such outstanding principal amount up to and excluding such prepayment date. Prior to giving any such notice in the event of TCS being obliged to make an additional payment as referred to in this Clause 5.2, TCS shall address and deliver to the Lender and to the Trustee an Officers' Certificate and (if such payment is of an Additional Amount or Tax Indemnity Amount) an opinion of an independent tax adviser of international standing in the relevant jurisdiction confirming that TCS would be required to make such payment and that the obligation to make such payment cannot be avoided by TCS taking reasonable measures available to it.

### 5.3 Prepayment in the event of Illegality

If, at any time the Lender reasonably determines (such determination being accompanied, if so requested by TCS, by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by TCS) that it is unlawful or contrary to any applicable law, regulation, regulatory requirement or directive of any Agency for the Lender to allow all or part of the Loan or the Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement or the Security and/or to charge or receive or to be paid interest at the rate then applicable to the Loan (an "**Event of Illegality**"), then upon notice by the Lender to TCS in writing, with a copy to the Trustee (setting out in reasonable detail the nature and extent of the relevant circumstances), TCS and the Lender shall consult in good faith as to a basis which eliminates the application of such Event of Illegality; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 45 calendar days of the date on which the Lender so notified TCS. If such a basis has not been determined within such 45 calendar days, then upon written notice by the Lender to TCS (with a copy to the Trustee), the Lender shall prepay the Loan (without penalty or premium) in whole (but not in part) on the next Interest Payment Date or on such earlier date as the Lender shall certify to be necessary to comply with such requirements.

### 5.4 Reduction of Loan upon Cancellation of Notes

TCS or any other member of the Group may from time to time purchase Notes in the open market or by tender or by a private agreement at any price. If such Notes so purchased by TCS or any other member of the Group are delivered by TCS or such member to the Lender or to a Paying Agent for surrender and cancellation, the Loan shall be deemed to have been prepaid in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation, together with accrued interest and other amounts (if any) thereon and no further payment shall be made or required to be made by TCS in respect of such amounts.

### 5.5 Payment of Other Amounts and Costs of Prepayment

If the Loan is to be prepaid by TCS pursuant to any of the provisions of this Clause 5 (other than Clause 5.4), TCS shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by TCS pursuant to this Agreement.

### 5.6 Prepayment in the Event of Change of Control

(a) Promptly, and in any event within 10 calendar days after the date of any Change of Control, TCS shall deliver to the Trustee and the Lender a written notice in the form of an Officer's Certificate, which notice shall be irrevocable, stating that a Change of Control has occurred and stating the circumstances and relevant facts giving rise to such Change of Control.

(b) If, following a Change of Control, any Noteholder has exercised its Put Option, TCS shall on the Change of Control Payment Date, prepay the principal amount of the relevant Loan in an amount which corresponds to the aggregate principal amount of the Notes (as notified to TCS by the Principal Paying Agent) in relation to which the Put Option has been duly exercised together with interest received to the Put Settlement Date (if any) in accordance with the Conditions plus the Change of Control Premium.

### 5.7 Provisions Exclusive

TCS shall not prepay or repay all or any part of the amount of the Loan except at the times and in the manner expressly provided for in this Agreement. TCS shall not be permitted to re-borrow any amounts prepaid or repaid.

## 6. PAYMENTS

### 6.1 Making of Payments

All payments of principal and interest to be made by TCS under this Agreement shall be made unconditionally by credit transfer to the Lender not later than 10.00 a.m. (New York time) one New York Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be), and in the case of any prepayments made in connection with Clause 5 one New York Business Day prior to the date on which such prepayment is made, in Same-Day Funds to the Account.

TCS shall, before 10.00 a.m. (New York time) on the second New York Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be), and in the case of any prepayments made in connection with Clause 5 one New York Business Day prior to the date on which such prepayment is made, procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent by tested telex or authenticated SWIFT the irrevocable payment instructions relating to such payment.

The Lender agrees with TCS that the Lender will not deposit any other monies into the Account and that no withdrawals shall be made from the Account other than as provided for and in accordance with the Trust Deed and the Agency Agreement.

### 6.2 No Set-Off or Counterclaim

All payments to be made by TCS under this Agreement shall be made in full without set-off or counterclaim and shall be made free and clear of and without deduction for or on account of any set-off or counterclaim.

### 6.3 Alternative Payment Arrangements

If, at any time, it shall become impracticable, by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event, for TCS to make any payments hereunder in the manner specified in Clause 6.1, then TCS may agree with the Lender alternative arrangements for such payments to be made; provided that, in the absence of any such agreement, TCS shall be obliged to make all payments due to the Lender in the manner specified herein.

## 7. TAXES

### 7.1 Additional Amounts

All payments made by TCS and the Parent Guarantor under or in respect of this Agreement shall be made (except to the extent required by law) free and clear of and without deduction or withholding for or on account of any present or future Taxes imposed or levied on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein having the power to tax (each a "**Taxing Authority**") within Russia, Cyprus or Ireland. If: (a) the Lender, TCS or Parent Guarantor become subject at any time to any taxing jurisdiction other than or in addition to Russia, Cyprus or Ireland; or (ii) payments in connection with this Agreement are made through any other jurisdiction, as the case may be, references in this Clause 7.1 shall be construed as references to Russia and/or Cyprus and/or Ireland and/or such other jurisdiction.

If TCS or the Parent Guarantor is required by applicable law to make any deduction or withholding from any payment under or in respect of this Agreement for or on account of any such Taxes referred to in the preceding paragraph of this Clause 7.1, it shall, on the date such payment is made, pay such additional amounts ("**Additional Amounts**") as may be necessary to ensure that the Lender or the Trustee, as the case may be, receives and retains (net of tax) an amount in U.S. Dollars equal to the full amount which it would have received and retained had such payment not been made subject to such Taxes and shall deliver to the Lender or the Trustee, as the case may be, without undue delay evidence satisfactory to the Lender or the Trustee, as the case may be, of such deduction or withholding and of the accounting therefor to the relevant Taxing Authority.

For the avoidance of doubt, this Clause 7.1 is without prejudice to the obligations of the Lender pursuant to Clause 7.5.

### 7.2 Tax Indemnity

Without prejudice to the provisions of Clause 7.1, if the Lender notifies TCS (setting out in reasonable detail the nature and extent of the obligation with such evidence as TCS may reasonably require) that it is obliged to make any withholding or deduction for or on account of any Taxes from any payment in respect of the Notes, TCS agrees to pay to the Lender in Same Day Funds to the Account, no later than 10:00 a.m. (New York time) one New York Business Day prior to the date on which payment is due to the Noteholders, such additional amount as will ensure that the Lender receives and retains (net of tax) an amount equating to such additional amount as is required to be paid by the Lender pursuant to Condition 8 (*Taxation*) of the Conditions; provided, however, that the Lender shall immediately upon receipt from any Paying Agent of any sums paid pursuant to this provision, to the extent that the Noteholders are not entitled to such additional amounts pursuant to the Conditions, pay such additional amounts to TCS (it being understood that none of the Lender or any Paying Agent shall have any obligation to determine whether any Noteholder is entitled to such additional amounts).

Any notification by the Lender to TCS in connection with this Clause 7.2 shall be given promptly after the Lender becomes aware of any obligation on it to make any such withholding or deduction.

Any payments required to be made by TCS under this Clause 7.2 are collectively referred to as "**Tax Indemnity Amounts**". For the avoidance of doubt, the provisions of this Clause 7.2 shall not apply to any withholding or deductions of Taxes with respect to the Loan which are subject to payment of Additional Amounts under Clause 7.1.

If the Lender intends to make a claim for any Tax Indemnity Amounts, it shall promptly notify TCS thereof.

### 7.3 Tax Credits and Refunds

If an Additional Amount is paid under Clause 7.1 or a Tax Indemnity Amount is paid under Clause 7.2 by TCS and the Lender determines that it has received or been granted a credit against, a relief, remission for, or a repayment of any Taxes, then if and to the extent that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such increased payment under Clauses 7.1 or 7.2, the Lender shall, to the extent that it can do so without prejudice to its right to the amount of such credit, relief, remission or repayment, pay to TCS so much of such amount as will leave the Lender in substantially the same position as it would have been in had no Additional Amount or Tax Indemnity Amount been required to be paid by TCS pursuant to Clauses 7.1 or 7.2 as the case may be.

If TCS makes a withholding or deduction for or on account of Taxes from a payment under or in respect of this Agreement, TCS may apply on behalf of the Lender (having notified the Lender of such application) to the relevant Russian Taxing Authority for a payment to be made by such authorities to the Lender with respect to such Tax. If, whether following a claim made on its behalf by TCS or otherwise, the Lender receives such a payment ("**Russian Tax Payment**") from the Russian Taxing Authority with respect to such Taxes, it will as soon as reasonably possible notify TCS that it has received that payment (and the amount of such payment); whereupon, provided that TCS has notified the Lender in writing of the details of an account (the "**TCS Account**") to which a payment or transfer should be made, and that the Lender is able to make a payment or transfer under applicable laws and regulations, the Lender will pay or transfer an amount equal to the Russian Tax Payment less any applicable costs to the TCS Account.

**7.4 Tax Treaty Relief**

The Lender (to the extent it is able to do so under applicable law including Russian laws), at the expense of TCS, shall make reasonable and timely efforts to assist TCS to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty, if any, between Russia and the jurisdiction in which the Lender is incorporated, including pursuant to its obligations under Clause 7.5 (*Delivery of Forms*).

**7.5 Delivery of Forms**

The Lender shall (to the extent it is able to do so under applicable law including Russian laws), at the expense of TCS, no later than 15 calendar days before any payment by TCS under this Agreement (and thereafter as soon as possible at the beginning of each calendar year but not later than 15 calendar days prior to any payment by TCS under this Agreement in that year) or otherwise within 30 calendar days of the request of TCS, deliver to TCS a certificate issued and certified by the Revenue Commissioners of Ireland (or such Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) apostilled or otherwise legalised confirming the status of the Lender as a resident of Ireland for the appropriate year (or such Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), provided that the Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the Revenue Commissioners of Ireland or other relevant Taxing Authority, and (to the extent it is able to do so under applicable law including Russian laws), from time to time, deliver to TCS such duly completed forms and, if required, any other documents, together with a power of attorney in form and substance acceptable to TCS (acting reasonably) authorising TCS to make the relevant filings with the Russian tax authorities and such other information as may need to be duly completed and delivered by the Lender to enable TCS to apply to obtain relief from deduction or withholding of Russian tax after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian tax has not been obtained. The application form and, if required, other documents issued by the Lender referred to in this Clause 7.5 shall be duly signed by the Lender and stamped or otherwise approved by the Revenue Commissioners of Ireland and the power of attorney shall be duly signed and apostilled or otherwise legalised. If further to an application of TCS to the relevant Russian tax authorities the latter requests the Lender's Rouble bank account details, the Lender shall at the request of TCS (a) use reasonable efforts to procure that such Rouble bank account of the Lender is duly opened and maintained, and (b) thereafter furnish TCS with the details of such Rouble bank account. TCS shall pay for all costs associated, if any, with opening and maintaining such Rouble bank account. TCS and the Lender (using it best endeavours and in accordance with law) agree that, should the Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding change then the procedure referred to in this Clause 7.5 will be deemed changed accordingly.

## 7.6 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of TCS to make any deduction, withholding or payment as described in Clause 7.1 or Clause 7.2, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or TCS's obligations, under such clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that the parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstance, including in the case of the Lender (without limitation) by transfer of its rights or obligations under this Agreement (but only in accordance with the terms and conditions of the other Finance Documents). TCS agrees to reimburse the Lender for all costs (including, but not limited to, legal fees) incurred by the Lender in connection with this Clause, on terms that may be separately agreed between the Lender and TCS.

## 7.7 Lender Notification

The Lender agrees promptly, upon becoming aware thereof, to notify TCS if it ceases to be resident in Ireland or a Qualifying Jurisdiction or if any of the representations set forth in Clause 11.2 are no longer true and correct.

# 8. CONDITIONS PRECEDENT

The obligation of the Lender to make the Advance (less any deduction (if any) in accordance with Clause 3.2) shall be subject to the conditions precedent that as at the Closing Date:

(a) the Lender shall have received the full amount of the subscription monies for the Notes and those subscription monies shall be and remain available in full to be on-lent to TCS;

(b) the Lender shall have received in full the Facility Fee;

(c) the representations and warranties made and given by the Parent Guarantor and TCS in Clause 11.1 shall be true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing;

(d) no event shall have occurred and be continuing that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, a Default;

(e) neither TCS nor the Parent Guarantor shall be in breach of any of the terms, conditions and provisions of this Agreement;

(f) the Subscription Agreement, the Trust Deed, the Agency Agreement and the Trustee and Agents Side Letter, in each case, in the Agreed Form, shall have been executed and delivered;

(g) the Notes shall have been issued; and

(h) the Lender shall have received evidence satisfactory to it that all stamp duty required to be paid in respect of this Agreement has been paid.

# 9. CHANGE IN LAW; INCREASE IN COST

## 9.1 Compensation

In the event that after the date of this Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof, which:

(a) subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any Taxes payable by the Lender on its overall net income, capital gains or any Taxes referred to in Clauses 7.1 or 7.2); or

(b) increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any Taxes referred to in Clauses 7.1 or 7.2); or

(c) imposes or will impose on the Lender any other condition affecting this Agreement, or the Loan,

and if as a result of any of the foregoing:

(i) the cost to the Lender of making, funding or maintaining the Loan is increased; or

(ii) the amount of principal, interest or other amount payable to or received by the Lender hereunder is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from TCS hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan,

then subject to the following, and in each such case:

(a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to TCS, together with a certificate signed by two authorised officials of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and all relevant supporting documents evidencing the matters set out in such certificate; and

(b) TCS, in the case of sub-Clauses (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of sub-Clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return, *provided*, *however*, that the Lender shall not be entitled to such additional amount where such increased cost arises as a result of the negligence or wilful default of the Lender,

provided, however, that this Clause 9.1 will not apply to or in respect of any matter for which the Lender has already been compensated under Clause 7.1 or Clause 7.2.

**9.2 Lender Tax Event**

If, as a result of a change in the law, practice or interpretation of the law, the Lender is unable to obtain relief in computing its Irish tax liability for some or all of the interest payable on the Notes (having duly and timely claimed such relief and notwithstanding receipt of confirmation from the relevant tax authorities that such relief is available), TCS agrees to pay such additional amount to the Lender that the Lender reasonably determines will leave it in the same after tax position as if it were able to obtain tax relief for all of the interest payable on the Notes. TCS's obligation to pay such additional amounts shall survive the termination of this Agreement.

**9.3 Mitigation**

In the event that the Lender becomes aware that it is entitled to make a claim pursuant to Clause 9.1 or Clause 9.2 the Lender shall consult in good faith with TCS and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, TCS's obligations to pay any additional amount pursuant to such Clause, except that nothing in this Clause 9.3 shall obligate the Lender to incur any costs or expenses in taking any action hereunder which, in the reasonable opinion of the Lender, is prejudicial to its interests.

## 10. GUARANTEE AND INDEMNITY

### 10.1 Guarantee and indemnity

In consideration of the Lender making the Advance to TCS under this Agreement, the Parent Guarantor irrevocably and unconditionally:

(a) guarantees to the Lender punctual performance by TCS of TCS's obligations under this Agreement;

(b) undertakes with the Lender that whenever TCS does not pay any amount when due under or in connection with this Agreement, the Parent Guarantor shall immediately on demand pay that amount as if it was the principal obligor; and

(c) agrees with the Lender that if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal, it will, as an independent and primary obligation, indemnify the Lender immediately on demand against any cost, loss or liability it incurs as a result of TCS not paying any amount which would, but for such unenforceability, invalidity or illegality, have been payable by it under this Agreement on the date when it would have been due. The amount payable by the Parent Guarantor under this indemnity will not exceed the amount it would have had to pay under this Clause 10 if the amount claimed had been recoverable on the basis of a guarantee.

### 10.2 Continuing Guarantee

This guarantee is a continuing guarantee and will extend to the ultimate balance of sums payable by TCS under this Agreement, regardless of any intermediate payment or discharge in whole or in part.

### 10.3 Reinstatement

If any discharge, release or arrangement (whether in respect of the obligations of TCS or otherwise) is made by the Lender in whole or in part on the basis of any payment, security or other disposition which is avoided or must be restored in insolvency, liquidation, administration or otherwise, without limitation, then the liability of the Parent Guarantor under this Clause 10 will continue or be reinstated as if the discharge, release or arrangement had not occurred.

### 10.4 Waiver of defences

The obligations of the Parent Guarantor under this Clause 10 will not be affected by an act, omission, matter or thing which, but for this Clause 10, would reduce, release or prejudice any of its obligations under this Clause 10 (without limitation and whether or not known to it or the Lender) including:

(a) any time, waiver or consent granted to, or composition with, TCS or other person;

(b) the release of the Parent Guarantor or any other person under the terms of any composition or arrangement with any creditor of any member of the Group;

(c) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over assets of, TCS or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;

(d) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of TCS or any other person;

(e) any amendment, novation, supplement, extension restatement (however fundamental and whether or not more onerous) or replacement of a Finance Document or any other document or security including, without limitation, any change in the purpose of, any extension of or increase in any facility or the addition of any new facility under any Finance Document or other document or security;

(f) any unenforceability, illegality or invalidity of any obligation of any person under any Finance Document or any other document or security; or

(g) any insolvency or similar proceedings.

## 10.5 Parent Intent

Without prejudice to the generality of Clause 10.4, the Parent Guarantor expressly confirms that it intends that this guarantee shall extend from time to time to any (however fundamental) variation, increase, extension or addition of this Agreement.

## 10.6 Immediate recourse

The Parent Guarantor waives any right it may have of first requiring the Lender or, as the case may be, the Trustee to proceed against or enforce any other rights or security or claim payment from any person before claiming from the Parent Guarantor under this Clause 10. This waiver applies irrespective of any law or any provision of this Agreement to the contrary.

## 10.7 Appropriations

Until all amounts which may be or become payable by TCS under or in connection with this Agreement have been irrevocably paid in full, the Lender or, as the case may be, the Trustee may:

(a) refrain from applying or enforcing any other moneys, security or rights held or received by it (or any trustee or agent on its behalf) in respect of those amounts, or apply and enforce the same in such manner and order as it sees fit (whether against those amounts or otherwise) and the Parent Guarantor shall not be entitled to the benefit of the same; and

(b) hold in an interest-bearing suspense account any moneys received from the Parent Guarantor or on account of the Parent Guarantor's liability under this Clause 10.

## 10.8 Deferral of Parent's rights

Until all amounts which may be or become payable by TCS under or in connection with this Agreement have been irrevocably paid in full and unless the Lender otherwise directs, the Parent Guarantor will not exercise any rights which it may have by reason of performance by it of its obligations under this Agreement or by reason of any amount being payable, or liability arising, under this Clause 10:

(a) to be indemnified by TCS;

(b) to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of the Lender under this Agreement;

(c) to bring legal or other proceedings for an order requiring TCS to make any payment, or perform any obligation, in respect of which the Parent Guarantor has given a guarantee, undertaking or indemnity under Clause 10.1;

(d) to exercise any right of set-off against TCS; and/or

(e) to claim or prove as a creditor of TCS in competition with the Lender.

If the Parent Guarantor receives any benefit, payment or distribution in relation to such rights it shall hold that benefit, payment or distribution to the extent necessary to enable all amounts which may be or become payable to the Lender by TCS under or in connection with this Agreement to be repaid in full on trust for the Lender and shall promptly pay or transfer the same to the Lender or as it may direct.

## 10.9 Additional security

This guarantee is in addition to and is not in any way prejudiced by any other guarantee or security now or subsequently held by the Lender.

## 10.10 Fees

The Parent Guarantor confirms it has not received any fee for giving this Guarantee.

# 11. REPRESENTATIONS AND WARRANTIES

## 11.1 TCS's Representations and Warranties

TCS makes the representations and warranties to the Lender set out in this Clause 11.1 with the intent that such shall form the basis of this Agreement and acknowledges that the Lender has entered into this Agreement in reliance on these representations and warranties.

Each of the representations and warranties in this Clause 11.1 shall be deemed to be repeated by TCS on the date of the Advance.

(a) It is duly organised and incorporated and validly existing under the laws of Russia, is not in liquidation or receivership nor is actually aware of any steps having been taken to effect the same and has the corporate power and legal right to enter into and to perform its obligations under this Agreement and to borrow the Advance, and it has taken all necessary corporate, legal and other action required to authorise the borrowing of the Advance on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and the performance of this Agreement in accordance with its terms.

(b) This Agreement has been or will be duly executed and delivered by it and constitutes legal, valid and binding obligations of TCS enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and as to enforceability, (i) to general principles of equity, (ii) with respect to the enforceability of a judgment whether there is a treaty in force relating to the mutual recognition of foreign judgments; and (iii) to the fact that certain tax gross-up and tax indemnity provisions may not be enforceable under Russian law.

(c) The execution, delivery and performance by TCS of this Agreement will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in Russia, (ii) the constitutive documents, rules and regulations of TCS, (iii) any agreement or other undertaking or instrument to which TCS is a party or which is binding upon TCS or any of its assets, nor result in the creation or imposition of any Liens on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument, or (iv) the terms of TCS's banking licence.

(d) All consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of Russia (including, without limitation, the Central Bank), if any, in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of this Agreement (subject to a Russian legal requirement to provide to a Russian court a duly certified translation thereof into Russian) have been obtained or effected and are and shall remain in full force and effect, other than in each case, any such consent, licence, notification, authorisation, approval or filing required in relation to exchange control regulations which may only be obtained after the date of this Agreement.

(e) No event has occurred and is continuing that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default or a material default under any agreement or instrument evidencing any Indebtedness of TCS, and no such event will occur upon the making of the Loan.

(f) There are no judicial, arbitral or administrative actions, proceedings or claims (including, without limitation, with respect to Taxes) pending or, to the knowledge of TCS, threatened, against TCS or any Material Subsidiaries, which are reasonably likely to be adversely determined against TCS or such Material Subsidiary and the adverse determination of which would singly or in the aggregate (i) prohibit the execution and delivery of this Agreement or TCS's compliance with its obligations hereunder or (ii) have a Material Adverse Effect.

(g) TCS's obligations under the Loan rank at least *pari passu* with all of TCS's other unsecured and unsubordinated Indebtedness except for those whose claims are preferred by any bankruptcy, insolvency, liquidation, moratorium or similar laws of general application.

(h) The audited consolidated financial statements of the Group as at and for the year ended December 31, 2010 and the related notes thereto:

    (i) were prepared in accordance with IFRS and the report issued in connection therewith was made without qualification;

    (ii) disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Group as at that date in accordance with IFRS; and

(iii) save as disclosed therein, present fairly in all material respects the assets and liabilities as at that date and the results of operations of the Group during the relevant financial year in accordance with IFRS.

(i) No event or circumstance has occurred since December 31, 2010 (being the date of the most recent audited financial statements of the Group as of the date hereof) which has had a Material Adverse Effect.

(j) The execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within Russia or any political subdivision or Taxing Authority thereof or therein (other than state duty paid on any claim, petition or other application filed with a Russian court).

(k) Neither TCS nor its property has any right of immunity from suit, execution, attachment or other legal process in respect of any action or proceeding relating in any way to this Agreement.

(l) TCS and its Subsidiaries are in compliance in all material respects with all applicable provisions of law except where failure to be so in compliance would not have a Material Adverse Effect.

(m) TCS is in compliance with all applicable limits set by the Central Bank with respect to (i) loans to a single borrower or group of related borrowers; (ii) loans to a single economic sector or industry or group of economic sectors or industries; (iii) off-balance sheet exposures; and (iv) off-balance sheet transactions.

(n) There are no labour strikes, disturbances, lockouts, slowdowns or stoppages of employees, or other employment disputes, of or against TCS or any Material Subsidiaries which exist, are pending or, to TCS's knowledge, threatened or imminent, except for those that would not have a Material Adverse Effect.

(o) Under current laws and regulations of Russia and Ireland and any respective political subdivisions thereof, and based upon the representations of the Lender set forth in Clause 11.2 and compliance by the Lender with Clause 7.5, all payments of principal and/or interest, Additional Amounts, Tax Indemnity Amounts or any other amounts payable on or in respect of the Loan or this Agreement may be paid by TCS to the Lender in U.S. Dollars and will not be subject to Taxes under laws and regulations of Russia, or any political subdivision or Taxing Authority thereof or therein, respectively, and will otherwise be free and clear of any other Tax, duty, withholding or deduction in Ireland, Russia, or any political subdivision or Taxing Authority thereof or therein (provided, however, that TCS makes no representation as to any income or similar tax of Ireland (or any Qualifying Jurisdiction) which may be assessed thereon) and without the necessity of obtaining any governmental authorisation in Russia or any political subdivision or Taxing Authority thereof or therein.

(p) Except as disclosed in the Prospectus, any proceedings commenced in Russia in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced after compliance with the applicable procedural rules and other legal requirements in Russia.

(q) Except where failure to do so would not have a Material Adverse Effect, it has the corporate power and legal right to own its property and to conduct its business as currently conducted.

(r) All licences (including any banking licences), consents, examinations, clearances, filings, registrations and authorisations which are necessary to enable TCS or any of its Subsidiaries to own its assets and carry on its business are in full force and effect, except where their failure to be in full force and effect would not have a Material Adverse Effect.

(s) Except as disclosed in the Prospectus, none of TCS nor any of its Subsidiaries is materially overdue in the filing of any tax returns, reports and other information required to be filed by it with any appropriate Taxing Authority, and each such tax return, report or other information was, when filed, accurate and complete in all material respects; and each of TCS and its Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it (other than those it is contesting in good faith), and to the best of TCS's knowledge, no Tax deficiency is currently asserted against TCS or any of its Subsidiaries except, in each case, where any such failure to do so would not have a Material Adverse Effect.

**11.2 Parent's Representations and Warranties**

The Parent Guarantor makes the representations and warranties to the Lender set out in this Clause 11.2 with the intent that such shall form the basis of this Agreement and acknowledges that the Lender has entered into this Agreement in reliance on these representations and warranties.

Each of the representations and warranties in this Clause 11.2 shall be deemed to be repeated by the Parent Guarantor on the date of the Advance.

(a) It is duly organised and incorporated and validly existing under the laws of Cyprus, is not in liquidation or receivership nor is actually aware of any steps having been taken to effect the same and has the corporate power and legal right to enter into and to perform its obligations under this Agreement and it has taken all necessary corporate, legal and other action required to authorise the execution and delivery of this Agreement and the performance of this Agreement in accordance with its terms.

(b) This Agreement has been or will be duly executed and delivered by it and constitutes legal, valid and binding obligations of the Parent Guarantor enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and as to enforceability, (i) to general principles of equity, and (ii) with respect to the enforceability of a judgment whether there is a treaty in force relating to the mutual recognition of foreign judgments.

(c) The execution, delivery and performance by the Parent Guarantor of this Agreement will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in Cyprus, (ii) the constitutive documents, rules and regulations of the Parent Guarantor, (iii) any agreement or other undertaking or instrument to which the Parent Guarantor is a party or which is binding upon the Parent Guarantor or any of its assets, nor result in the creation or imposition of any Liens on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument.

(d) All consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of Cyprus, if any, in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of this Agreement have been obtained or effected and are and shall remain in full force and effect.

(e) No event has occurred and is continuing that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default or a material default under any agreement or instrument evidencing any Indebtedness of the Parent Guarantor, and no such event will occur upon the making of the Loan.

(f) There are no judicial, arbitral or administrative actions, proceedings or claims (including, without limitation, with respect to Taxes) pending or, to the knowledge of the Parent Guarantor, threatened, against the Parent Guarantor or any Material Subsidiaries, which are reasonably likely to be adversely determined against the Parent Guarantor or such Material Subsidiary and the adverse determination of which would singly or in the aggregate (i) prohibit the execution and delivery of this Agreement or the Parent Guarantor's compliance with its obligations hereunder or (ii) have a Material Adverse Effect.

(g) The audited consolidated financial statements of the Group as at and for the year ended December 31, 2010 and the related notes thereto:

(i) were prepared in accordance with IFRS and the report issued in connection therewith was made without qualification;

(ii) disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Group as at that date in accordance with IFRS; and

(iii) save as disclosed therein, present fairly in all material respects the assets and liabilities as at that date and the results of operations of the Group during the relevant financial year in accordance with IFRS.

(h) The execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within Cyprus or any political subdivision or Taxing Authority thereof or therein (other than stamp duty which may be payable in an amount not exceeding €17,086.01.

(i) No event or circumstance has occurred since December 31, 2010 (being the date of the most recent audited financial statements of the Group as of the date hereof) which has had a Material Adverse Effect.

(j) Neither the Parent Guarantor nor its property has any right of immunity from suit, execution, attachment or other legal process in respect of any action or proceeding relating in any way to this Agreement.

(k) The Parent Guarantor and its Subsidiaries are in compliance in all material respects with all applicable provisions of law except where failure to be so in compliance would not have a Material Adverse Effect.

(l) There are no labour strikes, disturbances, lockouts, slowdowns or stoppages of employees, or other employment disputes, of or against the Parent Guarantor or any Material Subsidiaries which exist, are pending or, to the Parent Guarantor's knowledge, threatened or imminent, except for those that would not have a Material Adverse Effect.

(m) Any proceedings commenced in Cyprus in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced after compliance with the applicable procedural rules and other legal requirements in Cyprus.

(n) Except where failure to do so would not have a Material Adverse Effect, it has the corporate power and legal right to own its property and to conduct its business as currently conducted.

(o) All licences (including any banking licences), consents, examinations, clearances, filings, registrations and authorisations which are necessary to enable the Parent Guarantor or any of its Subsidiaries to own its assets and carry on its business are in full force and effect, except where their failure to be in full force and effect would not have a Material Adverse Effect.

(p) All amounts payable on or in respect of the Loan or this Agreement by the Parent Guarantor may be paid to the Lender in U.S. Dollars and will not be subject to Taxes under laws and regulations of Cyprus, or any political subdivision or Taxing Authority thereof or therein, respectively, and will otherwise be free and clear of any other Tax, duty, withholding or deduction in Cyprus or any political subdivision or Taxing Authority thereof or therein

(q) None of the Parent Guarantor nor any of its Subsidiaries is materially overdue in the filing of any tax returns, reports and other information required to be filed by it with any appropriate Taxing Authority, and each such tax return, report or other information was, when filed, accurate and complete in all material respects; and each of the Parent Guarantor and its Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it (other than those it is contesting in good faith), and to the best of the Parent Guarantor's knowledge, no Tax deficiency is currently asserted against the Parent Guarantor or any of its Subsidiaries except, in each case, where any such failure to do so would not have a Material Adverse Effect.

**11.3 Lender's Representations and Warranties**

The Lender represents and warrants to TCS as follows:

(a) the Lender is duly incorporated under the laws of Ireland and has full power and capacity to execute this Agreement and the other Finance Documents to which it is a party and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary corporate action to approve and authorise the same;

(b) the execution of this Agreement and the other Finance Documents to which it is a party and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Ireland or any agreement or instrument to which it is a party or by which it is bound;

(c) this Agreement and the other Finance Documents to which it is a party have been or will be duly executed and delivered and constitute, or will constitute, legal, valid and binding obligations of the Lender enforceable in accordance with their terms subject, as to enforcement, to the laws of bankruptcy and the rights of creditors generally;

(d) all authorisations, consents and approvals required under Irish law by the Lender for or in connection with the execution of this Agreement and the other Finance Documents to which it is a party and the performance by the Lender of the obligations expressed to be undertaken by it therein have been obtained and are in full force and effect; and

(e) the Lender is a company incorporated under Ireland law, registered in the Companies Registration Office and having its registered office and its principal establishment in Ireland. The Lender is considered a resident of Ireland for taxation purposes and is not subject to taxation in Ireland merely on income from sources in Ireland or connected with property located in Ireland and it will be able to receive certification that it is resident in Ireland from the Irish tax authorities for the purposes of the double taxation treaty between Russia and Ireland. At the date hereof, the Lender does not have a permanent establishment in Russia save for that which may be created solely as a result of the Lender entering into this Agreement and the transactions contemplated herein.

## 12. COVENANTS

So long as any amount remains due from TCS or, as the case may be, the Parent Guarantor pursuant to this Agreement:

### 12.1 Negative Pledge

Neither TCS nor the Parent Guarantor shall, and the Parent Guarantor shall procure that none of its other Subsidiaries shall, directly or indirectly, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness, unless, at the same time or prior thereto, TCS's and Parent's obligations hereunder are, to the satisfaction of the Lender and the Trustee, secured equally and rateably with such other Indebtedness.

### 12.2 Mergers

(a) Neither TCS nor the Parent Guarantor shall, without the prior written consent of the Lender and the Trustee, enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian or Cypriot legislation, as these terms are construed by applicable Russian or Cypriot legislation) if any such reorganisation could reasonably result in a Material Adverse Effect.

(b) The Parent Guarantor shall ensure that, without the prior written consent of the Lender and the Trustee, none of its Material Subsidiaries (other than TCS):

(i) enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation), or

(ii) in the case of a Subsidiary incorporated in a jurisdiction other than Russia participates in any type of corporate reconstruction or other analogous event (as determined under the legislation of the relevant jurisdiction), if any such reorganisation or corporate reconstruction could reasonably result in a Material Adverse Effect.

**12.3 Disposals**

(a) Subject to paragraph (b) below, neither TCS nor the Parent Guarantor shall (and the Parent Guarantor shall procure that none of its Material Subsidiaries shall) sell, lease, transfer or otherwise dispose of, to a Person other than TCS or the Parent Guarantor, by one or more transactions or series of transactions (whether related or not), assets representing in aggregate 10 per cent. or more of the Consolidated Total Assets (as of the date of this Agreement) over the life of the Facility.

(b) Paragraph (a) shall not apply to:

(i) (without prejudice to Clause 12.11) the sale of non-performing loans by TCS which sale is/are:

(A) on terms that are no less favourable to TCS, the Parent Guarantor or such Material Subsidiary, as the case may be, than those that could be obtained in a comparable arm's length transaction with a person that is not an Affiliate of TCS, the Parent Guarantor, or such Material Subsidiary; and

(B) has/have been approved by a resolution of the Board of Directors of TCS, Parent or relevant Subsidiary (as applicable) resolving that the transaction complies with the requirements of this Clause 12.3 and such resolution has been adopted by a majority of the Disinterested Directors or, if there are insufficient Disinterested Directors, supported by a written opinion from an Independent Appraiser to the effect that such transaction(s) is/are on an arm's length basis and on commercially reasonable terms;

(ii) sales of stock in trade on an arm's length basis in the ordinary course of business; and

(iii) the disposal of any revenues or assets (or any part thereof) pursuant to a Permitted Securitisation.

**12.4 Transactions with Affiliates**

Neither TCS nor the Parent Guarantor shall, and the Parent Guarantor shall procure that none of its other Subsidiaries shall, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**") including, without limitation, intercompany loans unless such Affiliate Transaction is entered into in good faith and:

(a) (i) the terms of such Affiliate Transaction are no less favourable to the Parent Guarantor, TCS or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's length transaction with a person that is not an Affiliate of the Parent Guarantor, TCS or such Subsidiary; and

(ii) with respect to any Affiliate Transaction involving aggregate payments or the transfer of assets or provision of services, in each case having a value greater than U.S.$6,000,000 (or its equivalent in other currencies) within any 6 month period, TCS, the Parent Guarantor or the relevant Subsidiary has delivered a resolution of its board of directors resolving with the participation of the majority of the Disinterested Directors (or in the event that there is only one Disinterested Director, by the resolution of such Disinterested Director), that such transaction complies with subparagraph (i) above; and

(iii) with respect to any Affiliate Transaction (other than an Exempt Transaction) involving the transfer of assets or provision of services, in each case having a value greater than U.S.$12,000,000 (or its equivalent in other currencies) in any 6 month period, TCS shall deliver to the Lender and the Trustee a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction is fair, from a financial point of view, to the Parent Guarantor, TCS or the relevant Subsidiary, as the case may be; or

(b) such Affiliate Transaction is made pursuant to a contract existing on the date of this Agreement.

This Clause 12.4 does not apply to:

(i) customary directors' fees, indemnification and similar arrangements (including the payment of directors' and other officers' insurance premia), consulting fees, employee salaries, bonuses, employment arrangements, compensation or employee benefit arrangements, including stock options or legal fees, so long as the Board of Directors of the Parent Guarantor, TCS or relevant Subsidiary has approved the terms thereof in good faith and deemed the services therefore or thereafter to be performed for such compensation or payments to be fair consideration therefore; or

(ii) any Affiliate Transaction between the Parent Guarantor and its wholly-owned Subsidiaries and between the wholly-owned Subsidiaries of the Parent Guarantor.

**12.5 Maintenance of Authorisations**

The Parent Guarantor and TCS shall, and the Parent Guarantor shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things reasonably necessary, in the opinion of the Parent Guarantor, TCS or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business and TCS shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of the Loan Agreement or for the validity or enforceability thereof.

**12.6 Maintenance of Property**

The Parent Guarantor and TCS shall, and the Parent Guarantor shall ensure that its Material Subsidiaries will, cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgment of the Parent Guarantor, TCS or any Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times.

**12.7 Payment of Taxes and Other Claims**

The Parent Guarantor and TCS shall, and the Parent Guarantor shall ensure that its Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties:

(a) all Taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of, the Parent Guarantor and its Subsidiaries; and

(b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of the Parent Guarantor or any of its Subsidiaries;

provided, however, that none of the Parent Guarantor nor any Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such Tax, assessment, charge or claim:

(c) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS, as consistently applied or other appropriate provision has been made; or

(d) whose amount, together with all such other unpaid or undischarged Taxes, assessments, charges and claims, does not in the aggregate exceed U.S.$5,000,000 (or its equivalent in other currencies).

**12.8 Withholding Tax Exemption**

TCS shall give to the Lender all the assistance it reasonably requires to ensure that, prior to the first interest payment and at the beginning of each calendar year the Lender can provide TCS with the documents required under Russian laws for the relief of the Lender from Russian withholding tax in respect of payments hereunder.

**12.9 Financial Information**

(a) The Parent Guarantor shall as soon as the same become available, but in any event within 120 calendar days after the end of each of its financial years, deliver to the Lender and the Trustee the IFRS consolidated financial statements of the Group for such financial year, in each case audited by the Auditors.

(b) The Parent Guarantor shall as soon as the same become available, but in any event within 90 calendar days after the end of each half of each of its financial years, deliver to the Lender and the Trustee the IFRS consolidated financial statements of the Group for such period.

(c) The Parent Guarantor shall, so long as any amount remains outstanding under any Loan Agreement, deliver to the Lender and the Trustee, without undue delay, such additional management information regarding the business and financial condition of the Parent Guarantor, TCS or the Group as the Lender or the Trustee may reasonably require or such Officer's Certificate as either the Lender or the Trustee may request, including providing an Officer's Certificate as to the definition of ''Material Subsidiary''.

(d) The Parent Guarantor shall ensure that each set of IFRS consolidated financial statements of the Group delivered by it pursuant to this Clause 12.9 is:

(i) prepared on the same basis as was used in the preparation of its Original Financial Statements and in accordance with IFRS and consistently applied; and

(ii) in the case of the statements provided pursuant to paragraph (a) above, accompanied by a report thereon of the Auditors (including opinions of such Auditors with accompanying notes and annexes) in each case, in a form satisfactory to the Lender; and

(iii) in the case of the statements provided pursuant to paragraph (b) above, certified by an Authorised Signatory of the Parent Guarantor as giving a true and fair view of the Group's consolidated financial condition as at the end of the period to which those IFRS consolidated financial statements of the Group relate and of the results of the Group's operations during such period.

**12.10 Financial covenants**

(a) TCS shall (except as otherwise specifically provided or agreed by the Lender) at all times maintain:

(i) full compliance with prudential supervision ratios and other requirements of the Central Bank;

(ii) a CBR Capital Adequacy Ratio of:

(A) at any time during the period from and including the Closing Date to but excluding the first anniversary of the Closing Date, not less than 12 per cent.; and

(B) at any time on or after the first anniversary of the Closing Date, not less than:

(1) at any time that (I) the foreign long term bank deposit rating (or its equivalent) of TCS by Moody's is below Ba3 or by Fitch is below BB-, or (II) neither Moody's nor Fitch is rating TCS, not less than 13 per cent.; or

(2) at any time that the foreign long term bank deposit rating (or its equivalent) of TCS by Moody's is at or above Ba3 and by Fitch is at or above BB-, not less than 12 per cent.;

(iii) a ratio of Exposure to any single borrower which is not a Related Party (excluding under arrangements in effect as at the Closing Date (but not replacements, extensions or renewals thereof)), to Net Asset Value of not more than 30 per cent; and

(A) 30 per cent.; and

(B) if such single borrower has an investment grade rating from Fitch, Moody's or Standard & Poor's, 50 per cent.;

(iv) a ratio of Funded Exposure to any single borrower which is not a Related Party, to Net Asset Value of not more than 10 per cent.

**12.11 Change of business**

The Parent Guarantor shall procure that no substantial change is made to the general nature of the business of itself or the Group from that carried on at the date of this Agreement.

**12.12 Ranking of Claims**

TCS shall ensure that at all times the claims of the Lender against it under the Loan Agreement rank at least *pari passu* with the claims of all its other unsecured creditors, save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

**12.13 Distributions**

(a) Subject to paragraph (b) below, the Parent Guarantor shall not (and shall procure that none of its Subsidiaries shall):

(i) declare, make or pay any dividend or other distribution (or interest on any unpaid dividend or other distribution) (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital);

(ii) repay or distribute any dividend or share premium reserve; or

(iii) voluntarily purchase, redeem or otherwise retire for value any capital stock; or

(iv) make or pay any other similar distribution (including the making of any payment in respect of indebtedness) to or to the order of the shareholders of the Parent Guarantor,

any such action being referred to herein as a "**Restricted Payment**".

(b) Notwithstanding paragraph (a) above, the Parent Guarantor and any of its Subsidiaries may make a Restricted Payment:

(i) which is the payment of a dividend to the Parent Guarantor or any of its wholly-owned Subsidiaries; or

(ii) if at the time of such payment:

(A) no Default or Event of Default has occurred or would result therefrom; and

(B) the aggregate amount of all Restricted Payments in any fiscal year does not exceed 50% of the Group's consolidated net profit (calculated in accordance with IFRS) for such fiscal year.

**12.14 Notes Held by the Parent Guarantor or any of its Subsidiaries**

At any time after the Parent Guarantor or any of its Subsidiaries shall have purchased any Notes and retained such Notes for its own account, TCS shall notify the Trustee and the Lender to that effect and thereafter deliver to the Trustee and the Lender as soon as practicable after being so requested in writing by the Trustee a certificate of TCS signed by an authorised signatory of TCS setting out the total number of Notes which, at the date of such certification, are held by the Parent Guarantor or any of its Subsidiaries.

**13. EVENTS OF DEFAULT**

**13.1 Events of Default**

If one or more of the following events of default (each, an "**Event of Default**") shall occur, the Lender or the Trustee, as applicable, shall be entitled to the remedies set forth in Clause 13.3.

(a) TCS fails to pay any amount payable under the Loan Agreement as and when such amount becomes payable in the currency and in the manner specified herein, provided such failure to pay continues for more than five Business Days.

(b) TCS or the Parent Guarantor fails to perform or observe any covenant or agreement under the Loan Agreement to be performed or observed by it, provided such failure continues for more than 30 Business Days.

(c) Any representation or warranty of the Parent Guarantor or TCS or any statement deemed to be made by the Parent Guarantor or TCS in connection with the Loan Agreement or any other document, certificate or notice delivered by the Parent Guarantor or TCS in connection with the Loan Agreement or the issue of Notes proves to have been inaccurate, incomplete or misleading in any material respect in the opinion of the Lender at the time it was made or repeated or deemed to have been made or repeated.

(d) (i) Any Indebtedness of the Parent Guarantor or any of its Material Subsidiaries is not paid when due (after the expiry of any applicable grace period); or

(ii) any such Indebtedness becomes due and payable prior to its stated maturity as a result of an event of default (however described),

provided that the amount of Indebtedness referred to in subparagraph (i) and/or subparagraph (ii) above, individually or in the aggregate, exceeds U.S.$3,000,000 (or its equivalent amount in any other currency or currencies).

(e) The occurrence of any of the following events:

(i) any of the Parent Guarantor or any of its Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of any of the Parent Guarantor or any of its Material Subsidiaries as the case may be;

(ii) the presentation or filing of a petition in respect of any of the Parent Guarantor or its Material Subsidiaries in any court of competent jurisdiction, arbitration court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Parent Guarantor or its Material Subsidiaries (ignoring any petition that is not accepted by such court or agency for review on its merits), unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous;

(iii) the institution of the supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovlenie*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) over the Parent Guarantor or any of its Material Subsidiaries;

(iv) the entry by the Parent Guarantor or any of its Material Subsidiaries into, or the agreeing by the Parent Guarantor or any of its Material Subsidiaries to enter into, amicable settlement (*mirovoe soglashenie*) with its creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 (as amended or replaced from time to time);

(v) the institution of the financial rehabilitation (*finansovoye ozdorovlenie*), pursuant to the request of the Central Bank, temporary administration (*vremennoye upravleniye*) or reorganisation (*reorganizatsiya*) with respect to the Parent Guarantor or any of its Material Subsidiaries as such terms are defined in the Federal Law of the Russian Federation No- 40-FZ "On Insolvency (Bankruptcy) of Credit Organisations" dated 25 February 1999 (as amended or replaced from time to time);

(vi) any judicial liquidation in respect of the Parent Guarantor or any of its Material Subsidiaries; and/or

(vii) revocation of the general banking licence or the licence for taking deposits from individuals of the Parent Guarantor or, if applicable, of any of its Material Subsidiaries.

(f) With respect to the Parent Guarantor any of the following occurs:

(i) any step is taken with a view to the suspension of payments, a moratorium or a composition, compromise, assignment or similar arrangement with any of its creditors;

(ii) a meeting of its shareholders, directors or other officers is convened for the purpose of considering any resolution for, to petition for or to file documents with a court or any registrar for, its winding-up, administration or dissolution or any such resolution is passed;

(iii) any person presents a petition, or files documents with a court or any registrar, for its winding-up, administration, dissolution or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);

(iv) any security interest is enforced over any of its assets;

(v) an order for its winding-up, administration or dissolution is made;

(vi) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, receiver and manager, administrator or similar officer is appointed in respect of it or any of its assets; or

(vii) its shareholders, directors or other officers request the appointment of, or give notice of their intention to appoint, a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer.

(g) The Parent Guarantor or any of its Material Subsidiaries is, or is deemed to be for the purposes of any applicable law, unable or admits inability to pay its debts as they fall due (or, in respect of the Parent Guarantor, it is deemed to be unable to pay its debts within the meaning of section 212 of the Cyprus Companies Law, Cap. 113), generally suspends making payments on its debts or announces an intention to do so or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its Indebtedness; the value of the assets of any of the Material Subsidiaries is less than its liabilities; and/or a moratorium is declared in respect of any Indebtedness of any of the Parent Guarantor or its Material Subsidiaries.

(h) Any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part of, the property, undertaking, revenues or assets of the Parent Guarantor or any of its Material Subsidiaries.

(i) Any governmental authorisation necessary for the performance of any obligation of the Parent Guarantor or TCS under the Loan Agreement fails to be in full force and effect.

(j) Any government, Agency or court takes any action that, in the reasonable opinion of the Lender, has a Material Adverse Effect on the Parent Guarantor or any of its Material Subsidiaries, including, without prejudice to the foregoing:

(i) the authority of any member of the Group in the conduct of its business is wholly or partially curtailed; or

(ii) all or a majority of the issued shares of any member of the Group or the whole or any part (the book value of which is 20 per cent. or more of the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or

(iii) TCS's banking licence or its licence for taking deposits from individuals is revoked.

(k) The shareholders of the Parent Guarantor or TCS shall have approved any plan of liquidation or dissolution of the Parent Guarantor or TCS.

(l) The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against the Parent Guarantor and other Material Subsidiaries in the aggregate exceeds U.S.$3,000,000, or the equivalent thereof in any other currency or currencies and there is a period of 60 calendar days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 10 calendar days after the notice specified in Clause 13.2.

(m) At any time it is or becomes unlawful for the Parent Guarantor or TCS to perform or comply with any or all of its obligations under the Loan Agreement or any of such obligations are not, or cease to be, legal, valid, binding and enforceable.

(n) The Parent Guarantor or any of its Material Subsidiaries ceases to carry on the principal business it carried on at the date hereof.

(o) The Parent Guarantor or TCS repudiates or evidences an intention to repudiate the Loan Agreement as a whole.

(p) The charter of the Parent Guarantor or TCS is amended in a way which would contravene or result in the contravention of any material provision of the Loan Agreement.

(q) The Parent Guarantor or any of its Subsidiaries redeems, repurchases, defeases, retires or repays any of its share capital, or resolve to do so, other than where necessary or desirable in order to make payments to the Parent Guarantor or any of its wholly-owned Subsidiaries.

(r) Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing Clauses.

**13.2 Notice of Default**

TCS shall deliver to the Lender and the Trustee, immediately upon becoming aware of the same, written notice in the form of an Officers' Certificate of any event which is a Default or an Event of Default, its status and what action TCS or the relevant Subsidiary, as the case may be, is taking or proposes to take with respect thereto. Upon receipt of a written request from the Lender or the Trustee, TCS shall confirm to the Lender and the Trustee that save as previously notified ot the Lender or as notified in such confirmation no Event of Default or Potential Event of Default has occurred.

**13.3 Default Remedies**

If any Event of Default shall occur and be continuing, the Lender or the Trustee, as applicable may, by notice to TCS, declare all amounts payable hereunder by TCS to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by TCS; provided, however, that if any event of any kind referred to in Clause 13.1(e) occurs with respect to TCS, all amounts payable hereunder by TCS that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by TCS.

**13.4 Rights Not Exclusive**

The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

**14. INDEMNITY**

**14.1 Indemnification**

TCS undertakes to the Lender that if the Lender or any director, officer or employee of the Lender (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, expense (including, without limitation, Taxes, legal fees and expenses and any applicable stamp duties, capital duties and other similar duties payable, including any interest and penalties thereon or in connection therewith), demand, action and damages (a "**Loss**") as a result of or in connection with the Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or such Notes being outstanding, TCS shall pay to the Lender on demand an amount equal to such Loss and all properly incurred out-of-pocket costs, charges and expenses which may be incurred as a result of or arising out of or in relation to any failure to pay by TCS or delay by TCS in paying the same, unless such Loss was either caused by such indemnified party's negligence or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained in this Agreement.

**14.2 Independent Obligation**

Clause 14.1 constitutes a separate and independent obligation of TCS from its other obligations under or in connection with this Agreement and the other Finance Documents to which it is a party or any other obligations of TCS in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

**14.3 Currency Indemnity**

Each reference in this Agreement to U.S. Dollars is of the essence. To the fullest extent permitted by applicable law, the obligation of TCS in respect of any amount due in U.S. Dollars under this Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in U.S. Dollars that the party entitled to receive such payment may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in U.S. Dollars that may be so purchased for any reason falls short of the amount originally due, TCS hereby agrees to indemnify and hold harmless the Lender (and the Trustee) against any deficiency in U.S. Dollars. Any obligation of TCS not discharged by payment in U.S. Dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect. If the amount of U.S. Dollars that may be so purchased exceeds the amount originally due, the Lender shall promptly pay the amount of the excess to TCS.

**15. SURVIVAL**

The obligations of TCS and the Lender pursuant to Clause 7, Clause 14.1 and Clause 14.3 shall survive the execution and delivery of this Agreement, the drawdown of the Facility and the repayment of the Loan.

**16. GENERAL**

**16.1 Evidence of Debt**

The entries made in the Account referred to in Clause 6.1 shall constitute prima facie evidence of the existence and amounts of TCS's obligations recorded therein.

**16.2 Stamp Duties**

(a) TCS shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on TCS by any Person in Russia, Cyprus or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and the other Finance Documents and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by TCS to pay such taxes or similar charges upon presentation by the Lender to TCS of documentary evidence of such costs and expenses.

(b) TCS agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or similar charges (if any) imposed by any Person in Russia, Cyprus or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and the other Finance Documents, TCS shall reimburse the Lender on demand, upon the Lender providing TCS with an itemised invoice (supported by copies of the relevant documents evidencing payment by the Lender), an amount equal to such stamp or other documentary taxes or duties and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by TCS to procure the payment of such taxes or similar charges.

**16.3 Waivers**

No failure to exercise and no delay in exercising, on the part of the Lender, the Trustee or TCS, any right, power or privilege hereunder and no course of dealing between TCS and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights, or remedies provided by applicable law.

### 16.4 Prescription

Subject to the Lender having previously received from TCS the relevant principal amount or interest amount, the Lender shall repay to TCS the principal amount or the interest amount in respect of any Notes upon the relevant certificates pertaining thereto becoming void pursuant to Condition 9 (as confirmed to the Lender by the Trustee).

## 17. FEES, COSTS AND EXPENSES

### 17.1 Costs Relating to Preservation of Rights

TCS shall, from time to time on demand of the Lender (or the Trustee), reimburse the Lender or, as the case may be, the Trustee for all properly incurred and documented reasonable out-of-pocket costs and expenses (including legal fees) together with any VAT incurred in or in connection with the preservation or the enforcement of any of the rights of the Lender (or the Trustee) under this Agreement.

### 17.2 Lender's Costs

TCS shall, from time to time on demand of the Lender (and without prejudice to the provisions of Clause 17.1) compensate the Lender for all properly documented reasonable out-of-pocket costs and expenses (including legal fees, telephone, fax, copying and travel costs) it may incur, in connection with the Lender taking such action as it may consider appropriate in connection with:

(a) the granting or proposed granting of any waiver or consent requested under this Agreement by TCS;

(b) the occurrence of any event which is a Default or an Event of Default; or

(c) any amendment or proposed amendment to this Agreement requested by TCS.

### 17.3 Invoices and Acts of Delivery and Acceptance

(a) In connection with all payments to be made under this Clause 17, before such payment is made by TCS, the Lender (or the Trustee, as the case may be) shall submit, within 60 calendar days of the relevant cost or expense being incurred by the Lender, an invoice to TCS providing, in reasonable details, the nature and calculation of the relevant payment or expense with respect to the amounts paid. Each invoice shall specify the net amount paid or due to be paid by TCS, including any applicable Ireland taxes.

(b) If required by TCS for purposes of enabling TCS to comply with the requirements of applicable Russian legislation in relation to amounts paid or due to be paid by TCS under this Clause 17 or if required by TCS for any internal or external accounting purposes, TCS shall prepare, sign and deliver to the Lender (or the Trustee, as the case may be), and the Lender (or the Trustee, as the case may be) shall counter-sign, a delivery and acceptance act with respect to such amounts. Each delivery and acceptance act shall separately specify: (i) the net amount paid or due to be paid by TCS, (ii) any applicable Russian taxes and (iii) the resulting total tax-inclusive amount.

## 18. NOTICES

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given in writing (in English) by email, facsimile, by hand or by courier addressed as follows:

(a) if to TCS:

1st Volokolamsky Proezd,
10, bld. 1,
Moscow,
Russia,
123060

Fax: +7 (495) 645 5909

Attention: Sergey Pirogov

Email: s.pirogov@tcsbank.ru

(b) if to the Parent Guarantor:

2 Arch. Kyprianou & Ayiou Andreou Street.
G. Pavlides Court, 5th Floor
3036 Limassol, Cyprus
Mail: P.O.Box 50734,
3609, Limassol, Cyprus

Fax: +357 25272728

Attention: Constantinos Economides

Email: ceconomides@fidelico.com

(c) if to the Lender:

5 Harbourmaster Place,
IFSC
Dublin 1
Ireland

Attention: The Directors

(d) if to the Trustee:

One Canada Square
London
E14 5AL

or to such other address or fax number as any party may hereafter specify in writing to the other. Every notice or other communication sent in accordance with this Clause 18 shall be effective upon receipt by the addressee on a Business Day in the city of the recipient, provided however, that any such notice or other communication which would otherwise take effect after 4.00 p.m. on any particular day shall not take effect until 10.00 a.m. on the immediately succeeding Business Day in the place of the addressee.

**19. ASSIGNMENT**

**19.1 Binding Agreement**

This Agreement shall inure to the benefit of and be binding upon the parties hereto, their respective successors and any permitted assignee or transferee of some or all of such party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the assignment pursuant to the grant of the Security referred to in Clause 19.3 below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any discussions between the Lender and TCS or any agreements of the Lender or TCS pursuant to Clause 7.3 or Clause 9 unless specifically required by the terms of this Agreement.

**19.2 No Assignment by TCS or Parent**

Neither TCS nor the Parent Guarantor shall be entitled to assign or transfer all or any part of its rights or obligations hereunder to any other party.

**19.3 No Assignment by Lender**

The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except:

(a) to the Trustee by granting the Security or as provided in Clause 4 (*Security Interests*) of the Trust Deed; or

(b) if the provisions of Clause 18 (*Substitution*) of the Trust Deed are complied with.

**20. GOVERNING LAW, JURISDICTION AND ARBITRATION**

**20.1** This Agreement and any dispute arising out of or in connection with it, or any of the transactions contemplated therein, or the subject matter or formation thereof (including non-contractual obligations arising out of or in connection with this Agreement) (a "**Dispute**") shall be governed by and construed in accordance with the laws of England and Wales.

**20.2** Any Dispute shall be referred to and finally resolved by arbitration in accordance with Clause 20.3 below under the Arbitration Rules (the "Rules") of the London Court of International Arbitration (the "**LCIA**").

**20.3** In relation to a Dispute being resolved by arbitration:

(a) The Dispute shall be referred to and finally resolved by arbitration under the Rules, which Rules are deemed to be incorporated by reference into this Clause 20, except that any provisions in those Rules which relate to the nationality of arbitrators shall be disapplied in their entirety.

(b) The number of arbitrators shall be three. The claimant and the respondent to an arbitration in respect of a Dispute shall each be entitled to nominate one arbitrator, in the "Request for Arbitration" and the "Response" respectively. The third arbitrator, who shall be the chairman of the tribunal, shall be nominated by the two party-nominated arbitrators within fifteen (15) days of the last of their appointments. In the event of a failure to nominate an arbitrator by either party or a failure to agree the chairman of the tribunal, the LCIA shall, at the written request of either party, make such appointments forthwith in accordance with the Rules.

(c) If all the parties to an arbitration so agree, there shall be a sole arbitrator appointed by the LCIA within fifteen (15) days of such agreement.

(d) The seat of arbitration shall be London, England. The procedural law of arbitration shall be the law of England and Wales. The language of any arbitral proceedings shall be English.

(e) Fees of the arbitration (excluding each party's preparation, travel, attorneys' fees and similar cost) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that the failure of a party to comply with the decision of the arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including reasonable attorneys' fees.

(f) The arbitrators shall have no authority to award punitive or other punitive type damages.

**20.4** For the purposes of arbitration pursuant to this Clause, the Parties waive any right of application to determine a preliminary point of law or appeal on a point of law under sections 45 or 69 of the Arbitration Act 1996.

**20.5** Notwithstanding Clauses 20.2 and 20.3 above, the Parties hereby agree that before the Lender has filed a Response (as defined in the Rules of the LCIA), the Lender may, by notice in writing to TCS and/or to the Parent Guarantor, require that all Disputes or a specific Dispute be heard by the courts of England and Wales. If the Lender gives such notice, the Dispute to which such notice refers shall be determined in accordance with Clause 20.6 below. For the avoidance of doubt, this Clause 20.5 is for the sole benefit of the Lender.

**20.6** This Clause 20.6 applies where the Lender has exercised their option to refer a Dispute to the courts of England and Wales pursuant to Clause 20.5 above.

(a) The courts of England and Wales have exclusive jurisdiction to settle any Disputes;

(b) The Parties hereby agree that the courts of England and Wales are the most appropriate and convenient courts to settle any Dispute and accordingly will not argue to the contrary.

**20.7** The Lender, TCS and the Parent Guarantor have irrevocably appointed Aquila International Services Ltd. at 2nd Floor, Berkeley Square House, Berkeley Square, London W1Y 6BD, United Kingdom as their authorised agent for service of process in relation to any proceedings before the English courts in connection with any Dispute. If the Process Agent ceases to act as Process Agent for the Lender, TCS and/or the Parent Guarantor, the Lender, TCS and/or the Parent Guarantor (as appropriate) agrees to appoint a new process agent in England acceptable to the other parties to this letter within 14 days a copy of a written acceptance of appointment by the new process agent. Nothing in this letter shall affect the right to serve process in any manner permitted by law.

**20.8** The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Lender to take proceedings in any other court of competent jurisdiction, nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

**20.9** The Lender and TCS consent generally in respect of any proceedings to the giving of any relief or the issue of any process in connection with such proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such proceedings.

**20.10** To the extent that TCS or the Parent Guarantor may, in relation to any Dispute, claim in any jurisdiction, for itself or its assets or revenues, immunity from the jurisdiction of any court or tribunal, service of process, injunctive or other interim relief, or any process for execution of any award or judgment against its property, TCS and the Parent Guarantor irrevocably waive such immunity.

## 21. SEVERABILITY

In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

## 22. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

A person who is not a party to this Agreement, other than the Trustee, has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

## 23. AMENDMENTS

Except as otherwise provided by its terms, this Agreement may not be varied except by an agreement in writing signed by the parties hereto.

## 24. COUNTERPARTS

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

## 25. LIMITED RECOURSE

Each of TCS and the Parent Guarantor hereby agree that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, actually received from TCS and the Parent Guarantor (and retained (net of tax)) by or for the account of the Lender pursuant to this Agreement (the "**Lender Assets**"), subject always (i) to the Security Interests (as defined in the Trust Deed) and (ii) to the fact that any claims of the Managers (as defined in the Subscription Agreement) shall rank in priority to the claims of TCS and the Parent Guarantor hereunder, and that any such claim by any and all such Managers, TCS or the Parent Guarantor shall be reduced *pro rata* so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither TCS, the Parent Guarantor nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum.

## 26. NON-PETITION

Neither TCS, the Parent Guarantor nor any other person acting on their behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

# TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the Terms and Conditions of the Notes, which contains summaries of certain provisions of the Trust Deed and which will be attached to the Notes in definitive form, if any, and (subject to the provisions thereof) apply to the Global Certificate.*

The US$ 175,000,000 11.5 per cent. loan participation notes due 2014 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 and forming a single series therewith) of TCS Finance Limited (the "**Issuer**," which expression shall include any entity substituted for the Issuer from time to time pursuant to Condition 12.3 and the Trust Deed) are constituted by, are subject to and have the benefit of, a trust deed (as amended or supplemented from time to time, the "**Trust Deed**") dated 21 April 2011 between the Issuer and BNY Mellon Corporate Trustee Services Limited as trustee (the "**Trustee**," which expression includes all persons from time to time appointed as trustee or trustees under the Trust Deed). The Issuer has authorised the creation and issue of the Notes for the sole purpose of financing the U.S.$175,000,000 loan (the "**Loan**") to Closed Joint Stock Company "Tinkoff Credit Systems" Bank ("**TCS**"). The Issuer and TCS have recorded the terms of the Loan in an agreement (as amended or supplemented from time to time, the "**Loan Agreement**") dated 19 April 2011 among the Issuer (in its capacity as lender), Egidaco Investments PLC (the "**Parent Guarantor**") and TCS.

In each case where amounts of principal, interest and additional amounts, if any, due pursuant to Condition 8 are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders (as defined in Condition 3) on each date upon which such amounts of principal, interest and additional amounts, if any, are due in respect of the Notes, for an amount equivalent to the sums of principal, interest, Additional Amounts (as defined in the Loan Agreement) and Tax Indemnity Amounts (as defined in the Loan Agreement), if any, actually received and retained (net of tax) by, or for the account of, the Issuer pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights (as defined below). Noteholders shall have no direct recourse to any assets of the Issuer except pursuant to the Security Interests (as defined below).

**Security**

The Issuer (as lender) has charged by way of a first fixed charge in favour of the Trustee for the benefit of the Trustee and the Noteholders:

(a) all its rights, interests and benefits in and to principal, interest and other amounts paid and payable now or at any time to it under the Loan Agreement; and

(b) all its rights, interests and benefits in and to receipt of all sums which may be or become payable by TCS or, as the case may be, the Parent Guarantor to the Issuer under any claim, award or judgment relating to the Loan Agreement (other than its right to amounts in respect of any rights, interests and benefits of the Issuer under the following clauses of the Loan Agreement: Clause 2.3 (*Facility Fee*), 3.2 (*Payment of Facility Fee*), 3.4 (*Ongoing Fees and Expenses*), 5.5 (*Payment of Other Amounts and Costs of Prepayment*), 7.2 (*Tax Indemnity*) (to the extent that the Issuer has received amounts thereunder to which the Noteholders are not entitled), 9 (*Change in Law, Increase in Cost*), 14 (*Indemnity*) (limited in the case of Clause 14.3 to the extent that the Issuer's claim is in respect of sums due under one of the aforementioned clauses of the Loan Agreement) and 17 (*Fees, Costs and Expenses*) (to the extent that the Issuer's claim is in respect of one of the aforementioned clauses of the Loan Agreement) (such rights referred to herein as the "**Reserved Rights**"));

(c) charged by way of a first fixed charge to the Trustee all of its rights, interests and benefits in and to all sums held on deposit from time to time, in an account in the name of the Issuer with the Principal Paying Agent (as defined below) together with the debts represented thereby (other than interest from time to time earned thereon and the Reserved Rights) (the "**Account**") pursuant to the Trust Deed; and

(d) assigned absolutely to the Trustee by way of security all of the Issuer's administrative rights, interests and benefits whatsoever, both present and future, whether proprietary, contractual or otherwise under or arising out of, evidenced by or pursuant to the Loan Agreement (including, without limitation, the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of TCS thereunder) (save for those rights expressed to be charged or excluded in (i) above and the Reserved Rights) (the "**Loan Administration Transfer**"), collectively, the "**Security Interests**."

In certain circumstances, the Trustee (subject to it being indemnified and/or secured to its satisfaction) may be required by Noteholders holding at least one-quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising in connection with the Security Interests).

**Guarantee**

Under the Loan Agreement, the Parent Guarantor will agree to guarantee (the "**Guarantee**") TCS's obligations under the Loan Agreement and the due and punctual payment of all amounts payable under the Loan, including principal, premium, if any, interest and any other amounts payable under the Loan. Neither TCS nor any of its direct or indirect Subsidiaries will provide any guarantees in respect of the Loan or the Notes. The Parent Guarantor's Guarantee will:

- be the senior obligation of the Parent Guarantor;
- be senior in right of payment to all of the existing and future subordinated debt of the Parent Guarantor;
- be equal in right of payment to all of the Parent Guarantor's existing and future senior debt;
- be effectively subordinated to all existing and future secured debt of the Parent Guarantor to the extent of the value of the collateral securing such debt; and
- be structurally subordinated to all existing and future debt of the subsidiaries of the Parent Guarantor.

**Agency Agreement**

The Notes are the subject of an agency agreement dated 21 April 2011 (as amended or supplemented from time to time, the "**Agency Agreement**") among the Issuer, The Bank of New York Mellon (Luxembourg) S.A. as registrar (the "**Registrar**," which expression shall include any successors), The Bank of New York Mellon as principal paying agent (the "**Principal Paying Agent**," which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**" which expression shall include any successors), and any additional paying agents appointed from time to time in connection with the Notes (together with the Principal Paying Agent the "**Paying Agents**") and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, any Transfer Agent and any Paying Agent and any reference to an "**Agent**" is to any one of them.

Certain provisions of these Conditions are summaries or restatements of the Trust Deed, the Loan Agreement and the Agency Agreement and are subject to their detailed provisions. The Noteholders are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Loan Agreement and the Agency Agreement applicable to them. Copies of the Trust Deed, the Loan Agreement and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof, One Canada Square, London E14 4AL, and at the Specified Offices (as defined in the Agency Agreement) of the Principal Paying Agent and at the registered office of the Issuer (being at the date hereof 5 Harbourmaster Place, I.F.S.C., Dublin 1, Ireland). The initial Specified Offices of the initial Agents are set out below.

## 1. FORM AND DENOMINATION

The Notes are issued in registered form in the denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each an "**Authorised Holding**").

## 2. STATUS AND LIMITED RECOURSE

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance and advance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest, Additional Amounts and Tax Indemnity Amounts, if any, actually received and retained (net of tax) by, or for the account of, the Issuer pursuant to the Loan Agreement (other than any amounts in respect of the Reserved Rights).

The right to receive such sums is being charged by way of security to the Trustee by virtue of the Security Interests as security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes.

Payments in respect of the Notes equivalent to the sums actually received and retained (net of tax) by, or for the account of, the Issuer by way of principal, interest, Additional Amounts or Tax Indemnity Amounts, if any, under the Loan Agreement (less any amounts in respect of the Reserved Rights) will be made *pro rata* among all Noteholders (subject to Condition 8) on the payment dates on which such payments are due in respect of the Notes subject to the conditions attaching to, and in the currency of, the corresponding payment made in accordance with the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed.

Noteholders shall be deemed to have accepted that:

(a) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or liability, or obligation in respect of the performance and observance by TCS of its obligations under the Loan Agreement or (save as otherwise expressly provided in the Trust Deed and paragraph (g) below) the recoverability of any sum of principal, interest, Additional Amounts, Tax Indemnity Amounts or other amounts, if any, due or to become due from TCS or, as the case may be, the Parent Guarantor under the Loan Agreement, provided that nothing in this Condition shall absolve the Trustee from responsibility and liability for performance of its trusts, duties and obligations pursuant to, and subject to the terms of, the Trust Deed;

(b) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of TCS or, as the case may be, the Parent Guarantor;

(c) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, any misrepresentation or breach of warranty or any act, default or omission of TCS or, as the case may be, the Parent Guarantor, under or in respect of the Loan Agreement;

(d) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, any other Paying Agent, the Registrar or the Transfer Agents of their respective obligations under the Agency Agreement;

(e) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon the performance by TCS or, as the case may be, the Parent Guarantor of their respective obligations under the Loan Agreement, their covenant to pay under the Loan Agreement and their credit and financial standing;

(f) the Issuer (and, pursuant to the Loan Administration Transfer, the Trustee) will be entitled to rely on self-certification by TCS and the Parent Guarantor and certification by third parties as a means of monitoring whether TCS or, as the case may be, the Parent Guarantor is complying with its obligations under the Loan Agreement and shall not otherwise be responsible for investigating any aspect of TCS's and the Parent Guarantor's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make any investigations which might be made by a security holder in relation to the property which is expressed to be the subject of the Security Interests for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the Secured Property (as defined in the Trust Deed) whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security expressed to be created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee will have no responsibility for the value of such security; and

(g) the Issuer will not be responsible for any withholding or deduction or for any payment on account of Taxes (as defined in the Loan Agreement) required to be made by the Issuer on or in relation to any sum received by it under the Loan Agreement which will or may affect payments made or to be made by TCS or, as the case may be, the Parent Guarantor under the Loan Agreement save to the extent that it has actually received Additional Amounts, Tax Indemnity Amounts or other amounts from TCS or, as the case may be, the Parent Guarantor under the Loan Agreement in respect of such withholding or deduction and then only to the extent of those amounts actually received; the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deductions or withholdings other than those set out in this context in Clause 7 (*Taxes*) of the Loan Agreement.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to TCS or the Parent Guarantor except through action by the Trustee under the Security Interests. The Trustee shall not be required to take proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or prefunded and/or secured by the Noteholders to its satisfaction and without limitation against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

As provided in the Trust Deed, and notwithstanding any other provisions hereof, the obligations of the Issuer are solely to make payments of amounts in aggregate equivalent to each sum actually received and retained (net of tax) by or for the account of the Issuer from TCS or, as the case may be, the Parent Guarantor in respect of principal, interest, Additional Amounts, Tax Indemnity Amounts or other amounts, if any, as the case may be, pursuant to the Loan Agreement (less any amount in respect of the Reserved Rights), the right to which is being charged by way of security to the Trustee as aforesaid. Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Loan Agreement and the credit and financial standing of TCS and the Parent Guarantor. The obligations of the Issuer to make payments as stated in this paragraph constitute direct and general obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Payments made by TCS or, as the case may be, the Parent Guarantor under the Loan Agreement to, or to the order of, the Trustee or (before such time that the Issuer has been required by the Trustee, pursuant to the terms of the Trust Deed, to pay to or to the order of the Trustee) the Principal Paying Agent will satisfy *pro tanto* the obligations of the Issuer in respect of the Notes.

Notwithstanding any other provisions of these Terms and Conditions and the provisions in the Trust Deed, the Trustee and the Noteholders shall have recourse only to the Secured Property (as defined in the Trust Deed) in accordance with the provisions of the Trust Deed. After realisation of the security which has become enforceable and application of the proceeds in accordance with Clause 8 (*Application of Monies Received by the Trustee*) of the Trust Deed, the obligations of the Issuer with respect to the Trustee and the Noteholders in respect of the Notes shall be satisfied and none of the foregoing parties may take any further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums shall be extinguished.

None of the Noteholders or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgement as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreements entered into or made by the Issuer in respect of the Notes, other than in the case of fraud.

## 3. REGISTER, TITLE AND TRANSFERS

### 3.1 Register.

The Registrar will maintain a register outside the United Kingdom (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the "**holder**" of a Note or "**Noteholder**" means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each a "**Certificate**") will be issued to each Noteholder upon request (at the expense of the Issuer) in respect of its registered holding. Each Certificate will be serially numbered with an identifying number which will be recorded in the Register.

### 3.2 Title.

The holder of any Note shall (except as ordered by a court of competent jurisdiction or otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Certificate) and no person shall be liable for so treating such holder.

### 3.3 Transfers.

Subject to the provisions of paragraphs 3.6 and 3.7 of this Condition, a Note may be transferred upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Notes will be issued to the transferor.

### 3.4 Registration and Delivery of Certificates.

Within five business days of the surrender of a Certificate in accordance with paragraph 3.3 of this Condition, the Registrar will register the transfer in question and deliver a new Certificate of like principal amount to the Notes transferred to each relevant holder for collection at its specified office or, as the case may be, the specified office of any Transfer Agent or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or the relevant Transfer Agent has its specified office.

### 3.5 No Charge.

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

### 3.6 Closed Periods.

The Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

### 3.7 Regulations Concerning Transfers and Registration.

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

## 4. ISSUER'S COVENANT

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (each as defined in the Trust Deed), agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and any such amendment or modification shall be notified by the Issuer to the Noteholders (with a copy to the Trustee) in accordance with Condition 15.

Save as provided above, so long as any of the Notes remain outstanding, the Issuer shall not, without the prior written consent of the Trustee, *inter alia*, incur any other indebtedness for borrowed moneys (other than issuing further loan participation notes on a limited recourse basis, with an equivalent status to that described in Condition 2 for the sole purpose of making further loans to TCS), engage in any other business (other than granting security interests substantially similar to the Security Interests in connection with the issue of any further loan participation notes as mentioned above and performing any act incidental to or necessary in connection with any such issue), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person (otherwise than as contemplated in these Terms and Conditions, the Trust Deed or the Loan Agreement), issue any shares (other than (a) as required in order to convert the Issuer's status to that of a public limited company or (b) any shares in issue at the date of the Trust Deed), redeem or buy back any of its shares, give any guarantee, or, subject to the laws of Ireland, petition for any winding-up or bankruptcy.

## 5. INTEREST

On each Interest Payment Date, or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan Agreement is equal to 11.5 per cent. per annum as set out in Clause 4 (*Interest*) of the Loan Agreement (the "**Interest Rate**").

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the holders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable per Calculation Amount on each Interest Payment Date (as defined below) shall be U.S.$11,500. If interest is to be calculated in respect of any Calculation Period which is shorter or longer than an Interest Period (or in respect of an Interest Period which is longer or shorter than 6 months), it will be calculated on the basis of the number of days in the relevant Calculation Period, from and including the date from which interest begins to accrue to, but excluding, the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last)/the number of days elapsed in the relevant Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days).

In this Condition 5:

"**Calculation Amount**" means U.S.$200,000 in principal amount of the Notes;

"**Calculation Period**" means any period for which interest is to be calculated, whether or not constituting an Interest Period;

"**Interest Payment Date**" means 21 April and 21 October of each year commencing on 21 October 2011; and

"**Interest Period**" means each period beginning on (and including) (i) the Closing Date or (ii) any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

## 6. REDEMPTION AND PURCHASE

### 6.1 Final redemption:

Unless previously prepaid or repaid, TCS will be required to repay the Loan on its due date as provided in the Loan Agreement and, subject to such repayment, all the Notes outstanding will be redeemed at their principal amount on 21 April 2014, subject to the requirement to present and surrender the relevant Certificate as provided in Condition 7.

### 6.2 Redemption by the Issuer:

The Notes shall be redeemed by the Issuer in whole, but not in part, at any time, on giving not less than 20 days' nor more than 60 days' prior notice to the Noteholders, the Trustee, the Principal Paying Agent and TCS (which notice shall be irrevocable and shall specify a date for redemption, being the same date as that set out in the notice of prepayment) in accordance with Condition 15) at the principal amount thereof, together with interest accrued and unpaid to the date fixed for redemption and any additional amounts in respect thereof (to the extent that such amounts are received by the Issuer pursuant to the Loan Agreement) pursuant to Condition 8, if, immediately before giving such notice, the Issuer provides the Trustee with satisfactory evidence that the Issuer has received a notice of prepayment from TCS pursuant to Clause 5.2 (Prepayment in the event of Taxes or Increased Costs) of the Loan Agreement or that the Issuer has issued a notice of prepayment to TCS pursuant to Clause 5.3 (*Prepayment in the event of Illegality*) of the Loan Agreement.

Prior to the publication of any notice of redemption referred to in this Condition 6.2, the Issuer shall deliver to the Trustee a certificate signed by two directors or other officers of the Issuer stating that the Issuer is entitled to effect such redemption in accordance with this Condition 6.2. A copy of TCS's notice of prepayment or details of the circumstances contemplated by Clause 5.2 (*Prepayment in the event of Taxes or Increased Costs*) or Clause 5.3 (*Prepayment in the event of Illegality*) of the Loan Agreement (as the case may be) and the date fixed for redemption shall be set out in the notice.

The Trustee shall be entitled to accept without further enquiry any notice or certificate delivered by the Issuer in accordance with this Condition 6.2 as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice given by the Issuer to the Trustee on behalf of the Noteholders as is referred to in this Condition 6.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 6.2, subject to the requirement to present and surrender (or, in the case of part payment only, to endorse) the relevant Certificate as provided in Condition 7.

### 6.3 No other redemption:

Except where the Loan is accelerated pursuant to Clause 13.3 (*Default Remedies*) of the Loan Agreement, the Issuer shall not be entitled to redeem the Notes prior to their due date otherwise than as provided in Condition 6.2 above or Condition 6.6 below.

### 6.4 Purchase:

The Loan Agreement provides that the Parent Guarantor, TCS or any of their respective subsidiaries may at any time purchase Notes in the open market or otherwise and at any price. Such Notes may be held, reissued, resold or delivered to the Issuer or to a Paying Agent for surrender and cancellation whereupon the Issuer shall instruct the Registrar to cancel such Notes. Upon such cancellation by or on behalf of the Registrar, the Loan shall be deemed to have been prepaid in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation, together with accrued interest (if any) thereon, and no further payment shall be made or required to be made by the Issuer in respect of such Notes. Notes held by the Issuer, TCS, the Parent Guarantor and their respective subsidiaries will cease to carry the right to attend and vote at meetings of Noteholders and will not be taken into account, *inter alia*, for the purposes of Conditions 12 and 13.

**6.5 Cancellation:**

All Notes purchased by TCS, the Parent Guarantor or any of their respective subsidiaries and surrendered to the Issuer or to a Paying Agent pursuant to Clause 5.4 (*Reduction of Loan upon Cancellation of Notes*) of the Loan Agreement shall be cancelled.

**6.6** If a Put Event (as defined below) shall have occurred, the holder of a Note will have the option (the "**Put Option**") to require the Issuer to redeem such Note on the Put Settlement Date (as defined below) at its principal amount together with accrued interest (if any) to the Put Settlement Date (as defined below) and the Change of Control Premium (as defined in the Loan Agreement).

Promptly upon TCS giving notice to the Issuer pursuant to Clause 5.6 (Prepayment in the Event of Change of Control) of the Loan Agreement that a Put Event has occurred, the Issuer shall give notice (a "**Put Event Notice**") to the Noteholders in accordance with Condition 15, specifying the details relating to the occurrence of the Put Event and the procedure for exercising the Put Option.

In order to exercise the Put Option, the holder of a Note must deliver no later than 30 days after the Put Event Notice is given (the "**Put Period**"), to the specified office of the Principal Paying Agent, evidence satisfactory to the Principal Paying Agent of such holder's entitlement to such Note and a duly completed put option notice (a "**Put Option Notice**") specifying the principal amount of the Notes in respect of which the Put Option is exercised, in the form obtainable from the Principal Paying Agent or any Paying Agent. The Principal Paying Agent will provide such Noteholder with a non-transferable receipt. On the Business Day following the end of the Put Period, the Principal Paying Agent shall notify in writing the Issuer and TCS of the exercise of the Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Put Option. Provided that the Notes that are the subject of any such Put Option Notice have been delivered to the Principal Paying Agent prior to the expiry of the Put Period, then the Issuer shall (subject to the receipt of sufficient funds to do so from TCS) redeem all such Notes on the date falling ten Business Days after the expiration of the Put Period (the "**Put Settlement Date**"). No Put Option Notice, once delivered in accordance with this Condition 6.6, may be withdrawn.

"**Change of Control**" has the meaning given to it in the Loan Agreement.

"**Put Event**" means a Change of Control has occurred.

## 7. PAYMENTS

**7.1 Principal:**

Payments of principal (whenever due) and interest due on redemption shall be made by the Paying Agents by U.S. dollar cheque drawn on a bank in New York City, or, upon application by a holder to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by a payee with, a bank in New York City and shall only be made upon presentation and surrender of the relevant Certificates at the Specified Office of any Paying Agent.

**7.2 Interest:**

Payments of interest (other than interest due on redemption) shall be made by U.S. dollar cheque drawn on, or upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by a payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

**7.3 Payments subject to Applicable Law:**

Payments in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

**7.4 Payment on Business Days:**

A holder shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any delay in payment if (A) the due date for a payment is not a business day, or (B) a cheque in U.S. dollars mailed in accordance with Condition 7.1 or Condition 7.2 arrives after the due date for payment or is lost in the mail. In this Condition, "**business day**" means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

**7.5 Record Date:**

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's specified office) on the fifteenth day before the due date for such payment (the "**Record Date**"), whether or not a business day. Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date.

**7.6 Initial Principal Paying Agent:**

The names of the initial Principal Paying Agent and Registrar and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee and TCS, at any time to vary or terminate the appointment of any Agent and to appoint successor or additional Agents in accordance with the provisions of the Agency Agreement provided that it will at all times maintain:

(a) a Paying Agent in a Member State of the European Union that will not be obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income; and

(b) a Principal Paying Agent and a Registrar.

Notice of any termination or appointment of any Agent and of any changes in specified offices will be given to the Noteholders promptly by or on behalf of the Issuer in accordance with Condition 15.

**7.7 Account:**

Save as directed by the Trustee pursuant to the Trust Deed, the Issuer will require TCS to make all payments of principal and interest to be made pursuant to the Loan Agreement to the Account. Under the Security Interests, the Issuer will charge by way of first fixed charge all its rights, title and interest in and to all sums of money then or in the future deposited in such account in favour of the Trustee for the benefit of the Noteholders.

**8. TAXATION**

All payments by, or on behalf of, the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature ("**Taxes**") imposed or levied by Ireland or the Russian Federation or any governmental or political subdivision or any authority thereof or agency therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall, subject as provided below, pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made. No such additional amounts shall be payable in respect of any Note:

(a) held by a holder which is liable for such Taxes in respect of such Note by reason of its having some connection with Ireland or the Russian Federation other than the mere holding of such Note; or

(b) to a holder in respect of Taxes that are imposed or withheld by reason of the failure of the holder to comply with a request of, or on behalf of, the Issuer addressed to the holder (i) to provide information concerning the nationality, residence or identity of such holder, or (ii) to make any declaration or similar claim or satisfy any information or reporting requirement, which is required or imposed by a statute, treaty, regulation, protocol or published administrative practice as a precondition to exemption from all or part of such Taxes; or

(c) where a Certificate is surrendered for payment more than 30 days after a Relevant Date except to the extent that such additional payment would have been payable if such Certificate had been presented for payment on the last day of such period of 30 days; or

(d) where such withholding or deduction is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or to any law implementing or complying with, or introduced in order to conform to, such directives; or

(e) held by or on behalf of a holder who would have been able to avoid such withholding or deduction by arranging to receive payment through another Paying Agent in a Member State of the European Union.

Notwithstanding the foregoing provisions, the Issuer shall only make payments of additional amounts to the Noteholders pursuant to this Condition 8 to the extent and at such time as it shall have actually received and retained (net of tax) an equivalent amount for such purposes from TCS under the Loan Agreement, by way of Additional Amounts or Tax Indemnity Amounts or otherwise.

To the extent that the Issuer receives a lesser sum, in respect of an additional amount from TCS for the account of the Noteholders, the Issuer shall account to each Noteholder, entitled to receive such additional amount pursuant to this Condition 8 for an additional amount equivalent to a *pro rata* portion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement, in the currency of, and subject to any conditions attaching to, the payment to the Issuer of such additional amount.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders in accordance with Condition 15.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 8 or any undertaking given in addition to or in substitution of this Condition 8 pursuant to the Trust Deed or the Loan Agreement.

If the Issuer becomes subject at any time to any taxing jurisdiction other than Ireland references in these Conditions to Ireland shall be construed as references to Ireland and/or such other jurisdiction.

## 9. PRESCRIPTION

Notes will be prescribed and will become void unless the relevant Certificates are presented for payment within periods of ten years (in the case of principal) and five years (in the case of interest) from the Relevant Date.

## 10. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and stock exchange requirements, at the Specified Office of the Registrar or the Transfer Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require.

Mutilated or defaced Certificates must be surrendered before replacements will be issued.

## 11. TRUSTEE AND AGENTS

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances. The Trustee is also entitled to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, TCS, the Parent Guarantor and any entity related to the Issuer, TCS or the Parent Guarantor without accounting for any profit, fees, commissions, interest, discounts or share of brokerage earned, arising or resulting from any such contracts or transactions or trusteeships and the Trustee shall also be at liberty to retain the same for its benefit and is entitled to exercise its rights and perform its obligations in relation to such transactions without regard to the interests of, or consequences for, the Noteholders.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee, TCS, the Parent Guarantor or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders. Under the Agency Agreement, the Agents are entitled to be indemnified and relieved from responsibility in certain circumstances.

As provided in the Trust Deed, any Trustee for the time being may retire at any time upon giving not less than 45 days' prior notice in writing to the Issuer and TCS without assigning any reason therefor and without being responsible for any liabilities or claims occasioned by such retirement. The retirement of any Trustee shall not become effective unless there remains a new trustee (being a trust corporation) in office after such retirement. In the event of a Trustee giving such notice, the Issuer shall use all reasonable endeavours to procure that another trust corporation be appointed as soon as practicable thereafter. If, in such circumstances, no appointment of another trustee has become effective within 30 days of the date of such notice, the Trustee shall be entitled to appoint a trust corporation as trustee.

The Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees for the time being hereof. The removal of any trustee shall not become effective unless TCS has given its prior written consent thereto and there remains a trustee hereof (being a trust corporation) in office after such removal. For so long as the Notes are admitted to trading on the Irish Stock Exchange and the Irish Stock Exchange so requires, notice of any change in the Trustee shall promptly be given to the Noteholders by the Issuer in accordance with Condition 15.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee and TCS) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or additional or successor Agents in accordance with the provisions of the Agency Agreement. Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders by the Issuer in accordance with Condition 15.

## 12. MEETINGS OF NOTEHOLDERS; MODIFICATION AND WAIVER; SUBSTITUTION

### 12.1 Meetings of Noteholders:

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of the Loan Agreement or any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution (as defined in the Trust Deed). Such a meeting will be convened on no less than 14 days' notice by the Trustee, TCS or the Issuer or by the Trustee at the request in writing of Noteholders holding not less than one-fourth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons present in person holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons present in person holding Notes in definitive form or voting certificates or being proxies (whatever the principal amount of the Notes so held or represented); provided however, that certain proposals (including any proposal to alter the terms and conditions relating to the maturity, redemption and repayment of the Notes, to change any date fixed for payment of interest in respect of the Notes, to reduce the amount of principal or interest payable in respect of the Notes, to alter the method of calculating the rate or amount of interest in respect of the Notes, to change the currency of payments under the Notes, to reduce the amount of principal or interest payable under the Loan Agreement, to change the currency of payment under the Loan Agreement, to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution, to or to give directions regarding certain enforcement actions (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons present holding or representing not less than two-thirds or, at any adjourned meeting, one-quarter, of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders whether present or not.

In addition, a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of all Notes who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

Affiliates of TCS who are also Noteholders shall not be allowed to vote on or be included in a quorum for purposes of Extraordinary Resolutions.

### 12.2 Modification and waiver:

The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions, the Trust Deed or, pursuant to the Loan Administration Transfer, the Loan Agreement (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders or which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders and without prejudice to its rights in respect of any subsequent or other breach, condition, event or act, in writing and on such terms and conditions (if any) as shall seem expedient to it, authorise or waive any breach or proposed breach of these Terms and Conditions or the Trust Deed by the Issuer or, pursuant to the Loan Administration Transfer, the Loan Agreement by TCS or, as the case may be, the Parent Guarantor or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such (other than a proposed breach or breach relating to a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Any such authorisation, modification or waiver shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders in accordance with Condition 15 as soon as practicable thereafter.

### 12.3 Substitution:

The Trust Deed and the Loan Agreement contain provisions under which the Issuer may, without the consent of the Noteholders, transfer the obligations of the Issuer as principal debtor under the Trust Deed and the Notes and as lender under the Loan Agreement to a third party provided that certain conditions specified in the Trust Deed are fulfilled. Notice of such substitution shall be given to the Noteholders in accordance with Condition 15.

## 13. ENFORCEMENT

At any time after an Event of Default (as defined in the Loan Agreement) or Relevant Event (as defined below) shall have occurred and be continuing but subject to the non-petition covenant in Condition 2, the Trustee may, at its absolute discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the holders of at least one half in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or prefunded and/or provided with security to its satisfaction and without limitation against all liabilities, proceedings, actions, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

No Noteholder may proceed directly against the Issuer, TCS or the Parent Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing. The Trust Deed also provides that, in the case of an Event of Default or a Relevant Event, the Trustee may, and shall if requested to do so in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or prefunded and/or indemnified to its satisfaction, (i) require the Issuer to declare all amounts payable under the Loan Agreement by TCS to be due and payable (in the case of an Event of Default) or (ii) enforce the security created in the Trust Deed in favour of the Noteholders (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof together with interest accrued to the date fixed for redemption together with any additional amounts due in respect thereof pursuant to Condition 8 and thereupon shall cease to be outstanding.

For the purposes of these Conditions, "**Relevant Event**" means any of the following events pertaining to the Issuer:

(i) the failure by the Issuer to make any payment of principal or interest on the Notes on the due date for payment thereof;

(ii) bankruptcy, pre-insolvency composition, moratorium, controlled management, suspension of payments, general settlement with creditors, liquidation, reorganisation, examinership, administration, dissolution and any other similar legal proceedings affecting the Issuer or a liquidator, receiver, examiner or administrator or any similar officer is appointed as a consequence of the financial difficulties affecting the Issuer; or

(iii) the taking of any action in furtherance of dissolution of the Issuer.

## 14. FURTHER ISSUES

The Issuer may from time to time, with the prior written consent of the Trustee and TCS but without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue price, issue date and/or first payment of interest) so as to form a single series with the Notes. The purpose of the creation and issue of further notes shall be to finance and increase the principal amount of the Loan or a further loan to TCS. The Issuer is required to notify the Rating Agencies (as defined in the Loan Agreement) of the creation and issue of such further notes.

## 15. NOTICES

Notices to Noteholders shall be valid if sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register or as otherwise required by any competent authority, stock exchange and/or quotation system on which the Notes are listed, quoted or admitted to trading. Any such notice shall be deemed to have been given on the date of such mailing.

In case by reason of any other cause it shall be impracticable to give any notice to Noteholders as provided above, then such notification to such Noteholders as shall be given with the prior written approval of the Trustee shall constitute sufficient notice to such Noteholders for every purpose hereunder.

## 16. GOVERNING LAW AND JURISDICTION

### 16.1 Governing law:

The Trust Deed, the Agency Agreement, the Notes, the Loan Agreement, all other agreements entered into in connection therewith and any non-contractual obligations arising out of or in connection therewith are governed by, and shall be construed in accordance with, English law.

### 16.2 Jurisdiction:

The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England.

## 17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

# SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

*The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Certificate which will apply to, and in some cases modify, the Conditions while the Notes are represented by the Global Certificate.*

**The Global Certificate**

The Notes will be evidenced on issue by a Global Certificate deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg. Beneficial interests in the Global Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*-Book-Entry Procedures for the Global Certificate*". By acquisition of a beneficial interest in the Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is located outside the United States (within the meaning of Regulation S), that it is not a US person (as defined in Regulation S), that it is not purchasing the Notes for the account or benefit of US persons, and that it understands that the Notes have not been and will not be registered under the Securities Act and will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S.

Beneficial interests in Global Certificate will be subject to certain restrictions on transfer set forth therein and in the Trust Deed and the Paying Agency Agreement.

Except in the limited circumstances described below, owners of beneficial interests in Global Certificate will not be entitled to receive physical delivery of Definitive Certificates. The Notes are not issuable in bearer form.

In addition, the Global Certificate will contain a provision which modifies the Conditions as they apply to the Notes evidenced by the Global Certificate. The following is a summary of this provision:

**Notices**

Notwithstanding Condition 15 (*Notices*) of the Notes, so long as the Global Note is held by or on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to Noteholders represented by the Global Note may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System, provided that, for so long as the Notes are admitted to trading on the Market, the Issuer will also publish notices in accordance with the rules of the Irish Stock Exchange.

**Exchange for Definitive Certificates**

***Exchange***

The Global Certificate will be exchangeable, free of charge to the holder, on or after its Exchange Date (as defined below), in whole but not in part, for Notes in definitive form if: (i) Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent, or (ii) the Issuer would suffer a material disadvantage in respect of the Notes as result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 (*Taxation*) of the Terms and Conditions of the Notes which would not be suffered were the Notes in definitive form and a note to such effect signed by two Members of the Board of Directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the Global Certificate for Definitive Certificates on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date the holder of the Global Certificate may surrender the Global Certificate to or to the order of the Registrar or any Transfer Agent. In exchange for the Global Certificate, as provided in the Paying Agency Agreement, the Registrar will deliver or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Certificates in or substantially in the form set out in the relevant Schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, the Global Certificate for Definitive Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the relevant Transfer Agent is located.

***Delivery***

In such circumstances, the Global Certificate shall be exchanged in full for Definitive Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in the Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes.

**Book-entry procedures for the Global Certificate**

Custodial and depository links have been established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*—Book-Entry Ownership—Settlement and Transfer of Notes*". Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Certificates directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

**Book-entry ownership**

***Euroclear and Clearstream, Luxembourg***

The Global Certificate will have the International Securities Identification Number ("**ISIN**") and a Common Code and will be registered in the name of a nominee for, and deposited with The Bank of New York Mellon as common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

***Relationship of Participants with clearing systems***

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a Note evidenced by the Global Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear and Clearstream, Luxembourg, as applicable. The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by the Global Certificate, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in the Global Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by the Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of the Global Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

***Settlement and transfer of Notes***

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in Notes held within the clearing system will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in the Global Certificate held within a clearing system are exchanged for Definitive Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited.

***Trading between Euroclear and/or Clearstream, Luxembourg Participants***

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

# SUBSCRIPTION AND SALE

Citigroup Global Markets Limited and Goldman Sachs International (the "**Lead Managers**"), have, pursuant to the terms and conditions set out in the subscription agreement dated 19 April 2011 in connection with the Notes (the **"Subscription Agreement"**), agreed with the Issuer, on a joint and several basis, subject to the satisfaction of certain conditions set forth in the Subscription Agreement, to subscribe and pay for the Notes at the issue price of 100 per cent. of the aggregate principal amount of the Notes. TCS has agreed to pay certain commissions, fees, costs and expenses in connection with the Loan and the offering of the Notes and to reimburse the Lead Managers, the Issuer and the Trustee for certain of their expenses in connection with the offering of the Notes. The Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Issuer.

## Selling Restrictions

### *United States*

The Notes and the Loan have not been and will not be registered under the Securities Act or the securities laws of any State or other jurisdiction of the United States and may not be offered or sold within the United States, or to or for the account or benefit of US persons, except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Lead Manager has represented, warranted and agreed that, it has not offered or sold, and will not offer or sell, any Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the Offering and the date of the closing of the Offering, within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells Notes during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, US persons. The Notes are being offered and sold only outside of the United States to non-US persons in reliance upon Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the Offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act.

### *United Kingdom*

Each Lead Manager has also represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### *Russian Federation*

Each Lead Manager has represented and agreed that the Notes have not been and will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of Russian Federation unless and to the extent otherwise permitted under Russian law.

### *Ireland*

Each Lead Manager has represented, warranted and agreed that:

(a) it will not underwrite the issue of, or place the Notes, otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3), including, without limitation, Regulations 7 and 152 thereof and any codes of conduct issued in connection therewith and the provisions of the Investor Compensation Act 1998;

(b) it will not underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Central Bank Acts 1942 - 2010 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;

(c) it will not underwrite the issue of, place or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Central Bank; and

(d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/ EC) Regulations 2005 and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank.

**General**

Other than the approval of this Prospectus by the Central Bank, no action has been or will be taken in any jurisdiction by the Issuer, TCS, the Parent Guarantor or either Lead Manager that would, or is intended to, permit a public offer of the Notes or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer, TCS, the Parent Guarantor and the Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

Each Lead Manager has agreed that it has (to the best of its knowledge and belief) complied and will comply with all applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Prospectus (and any amendments thereof or supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer, the Parent Guarantor or TCS.

**Other Relationships**

The Lead Managers and their affiliates have performed certain investment banking and advisory and general financing and banking services for members of the Group from time to time for which they have received customary fees and expenses. The Lead Managers and their affiliates may, from time to time, engage in future transactions with and perform services for members of the Group in the ordinary course of their business.

TCS expects to enter into a currency derivatives contract with either or both of the Lead Managers and third parties to hedge the US dollar-denominated proceeds of the Loan from the Issuer and may also in the future enter into other currency option contracts with either or both of the Lead Managers to manage its foreign exchange risk. In addition, an affiliate of Goldman Sachs International is an indirect shareholder of TCS. See "*Risk Factors—Risks relating to TCS's Business and the Russian Banking Sector—The Interests of TCS's major shareholders may conflict with those of Noteholders*", "*Business—History*" and "*Shareholders*".

# TAX CONSIDERATIONS

*The following summary describes certain Russian and Irish tax consequences for holders of the Notes. This discussion is not intended as tax advice to any particular investor. It is also not a complete analysis or listing of all potential Russian and Irish tax consequences related to your investment in the Notes. We urge you to consult your own tax adviser regarding the specific Russian, Irish and other tax consequences of an investment in the Notes in your own particular factual circumstances.*

## Russian Taxation

### General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes as well as taxation of interest payments on the Loan. The summary is based on the laws of Russia in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date (possibly with retroactive effect). The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. This summary also does not seek to address the availability of double tax treaty and the eligibility of double tax treaty relief in respect of the Notes, and it should be noted that there may be practical difficulties, including satisfying certain documentation requirements, involved in claiming and obtaining such double tax treaty relief.

Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes in their own particular circumstances. No representation with respect to the Russian tax consequences of investing, owning or disposing of the Notes to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty and lack interpretive guidance. Further, the substantive provisions of Russian tax law applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets or more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

For the purposes of this summary, a "**Non-Resident Noteholder**" means:

- an individual Noteholder actually present in Russia for an aggregate period of less than 183 calendar days (including days of arrival to Russia and including days of departure from Russia) in any period comprising 12 consecutive months. Presence in Russia for tax residency purposes is not considered interrupted for an individual's short term departure (less than 6 months) from Russia for medical treatment or education, in any period comprising 12 months; or
- a legal entity or an organisation, in each case not organised under Russian law, which purchases, holds and/or disposes of the Notes otherwise than through a permanent establishment in Russia (as defined by Russian tax law).

A "**Resident Noteholder**" means any Noteholder (including any individual and any legal entity or organisation) who is not a Non-Resident Noteholder.

Russian tax residency rules may be affected by the applicable double tax treaty. Based on published comment of the Russian authorities, it is anticipated that the Russian tax residency rules applicable to legal entities may change in the future.

The Russian tax treatment of interest payments made by TCS to the Issuer (or to the Trustee, as the case may be) under the Loan Agreement may affect the Noteholders. See Section "*—Taxation of Interest on the Loan*" below.

## Taxation of the Notes

### *Non-Resident Noteholders*

A Non-Resident Noteholder should not be subject to any Russian taxes in respect of the purchase of Notes, payments of interest and repayments of principal on the Notes received from the Issuer, subject to what is stated in "*Taxation of Interest on the Loan*".

A Non-Resident Noteholder also generally should not be subject to any Russian taxes in respect of gains or other income realised on redemption, sale or other disposition of the Notes outside Russia, provided that the proceeds from such redemption, sale or other disposition are not received from a source within Russia.

In the event that proceeds from a sale, redemption or disposition of the Notes are received from a source within Russia, a Non-Resident Noteholder, that is a legal entity or organisation, generally should not be subject to Russian withholding tax on any gain on the sale or other disposition of the Notes, although there is some residual uncertainty regarding the treatment of the portion of the proceeds, if any, that is attributable to accrued interest on the Notes. If the payment upon sale or other disposal of the Notes is received from within Russia, accrued interest may be distinguished from the total gain and taxed at a rate of 20 per cent. Russian withholding tax. The separate taxation of the interest accrued may create a tax liability in relation to interest even in a situation of a capital loss on the disposal of the Notes. The withholding tax on any part of the payment relating to interest may potentially be reduced or eliminated under the terms of an applicable double tax treaty depending on the residence of the Non-Resident Noteholder.

If income from a sale, redemption or disposition of the Notes is received from a source within Russia, a Non-Resident Noteholder who is an individual will generally be subject to personal income tax at a rate of 30 per cent. on the gain from such disposal (the gain generally being calculated as the gross proceeds from such disposal less any available cost deduction which includes the purchase price of the Notes), subject to any available double tax treaty relief. According to Russian tax legislation, income received from a sale, redemption or disposition of the Notes should be treated as having been received from a Russian source if such sale, redemption or disposition occurs in Russia. Russian tax law gives no clear indication as to how to identify the source of income received from a sale, redemption or disposition of securities except that income received from the sale of securities "in Russia" will be treated as having been received from a Russian-source. Pursuant to the recent clarifications of the Russian Ministry of Finance, a sale, redemption or disposition would be deemed to have occurred in Russia if, for example, the Notes were sold (i) to a Russian resident individual or entity, (ii) to a Russian - registered presence of a non-Russian entity, (iii) through a Russian licensed financial intermediary or (iv) pursuant to an agreement that is physically concluded in Russia. The taxable base should be calculated in Roubles and, therefore, may be affected by changes in the exchange rate between the currency of acquisition of the Notes, the currency of disposition of the Notes and Roubles. The tax may be withheld at source of payment or, if the tax is not withheld, the Non-Resident Noteholder may be liable to declare its income in Russia and to pay the tax.

Non-Resident Noteholders should consult their own tax advisers with respect to the tax consequences of a disposition of the Notes and the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a disposition of the Notes.

***Double tax treaty relief***

Where proceeds from the disposition of the Notes are received from a source within Russia, withholding tax on interest or on capital gains (if applicable under Russian domestic tax law) may be reduced or eliminated in accordance with the provisions of an applicable double tax treaty. Advance treaty relief should be available for those eligible, subject to the requirements of the laws of the Russian Federation. In order for a Non-Resident Noteholder, whether an individual, legal entity or organisation, to enjoy the benefits of an applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed. Currently, to rely on tax treaty benefits, a Non-Resident Noteholder which is a legal entity or organisation would need to provide a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of the first payment of income in each calendar year. This certificate should be apostilled or legalised and needs to be renewed on an annual basis. A notarised Russian translation of the certificate would also be required. A Non-Resident Noteholder who is an individual must (together with other documents) provide to the tax authorities a tax residency certificate and a confirmation of the relevant foreign tax authorities of income received and the tax payment made outside Russia on income with respect to which treaty benefits are claimed. Because of uncertainties regarding the form and procedures for providing such documentary proof, individuals in practice may not be able to obtain an advance relief on receipt of proceeds from a source within Russia and obtaining a refund can be extremely difficult.

Non-Resident Noteholders should consult their own tax advisers regarding possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed on proceeds received from a disposition of the Notes.

***Refund of tax withheld***

Where double tax treaty relief is available but Russian income tax has nevertheless been withheld at source by the payer of the proceeds, an application for the refund of the taxes withheld may be filed within three years from the end of the tax period in which the tax was withheld for Non-Resident Noteholders.

In order to obtain a refund, the Non-Resident Noteholder would need to file with the Russian tax authorities a duly notarised, apostilled and translated certificate of tax residence issued by the competent tax authority of the relevant treaty country, as well as documents confirming receipt of income and withholding of Russian tax. In addition, a Non-Resident Noteholder who is an individual would need to provide appropriate documentary proof of tax payments made outside of Russia on income with respect to which tax refund is claimed. The supporting papers shall be provided within one year after the year to which the treaty benefits relates for Non-Resident Noteholders who are individuals. The Russian tax authorities may, in practice, require a wide variety of documentation confirming a Noteholder's right to benefit under a double tax treaty. Such documentation, in practice, may not be explicitly required by the Tax Code. Obtaining a refund of Russian tax withheld may be a time consuming process and can involve considerable practicable difficulties.

Noteholders whether individuals or legal entities or organisations should consult their own tax advisers should they need to obtain refund of tax withheld on any payments from the Notes.

***Resident Noteholders***

A Resident Noteholder will generally be subject to all applicable Russian taxes in respect of income received on the Notes, including gains from a disposition of the Notes and interest received on such Notes. Resident Noteholders should consult their own tax advisers with respect to their tax position regarding the Notes.

***Taxation of interest on the Loan***

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal entity or organisation are subject to Russian withholding tax at a rate of 20 per cent., subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on the professional advice it has received, TCS believes that payments of interest on the Loan made by TCS to the Issuer should not be subject to withholding tax under the terms of the double tax treaty between Russia and Ireland, provided the Russian tax documentation requirements (annual advance confirmation of the Issuer's tax residency) are satisfied. However, there can be no assurance that treaty relief will be available and/or that such relief will continue to be obtained in practice during the term of the Notes.

If interest under the Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the double tax treaty between Russia and Ireland will cease and payments of interest may be subject to Russian withholding tax at a rate of 20 per cent. (or, potentially, at a rate of 30 per cent. in respect to Non-Resident Noteholders who are individuals) or such other rate as may be in force at the time of payment. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty under such circumstances. In such cases, Noteholders may seek reduction or a refund of withholding tax under double taxation treaties entered into between their countries of residence and Russia, where such treaties exist and to the extent they are applicable. There is no assurance that treaty relief will be available.

Application of tax benefits under the double tax treaty could be influenced by the recently proposed changes to Russian tax legislation (as discussed in "*Risk factors*"). Currently, it is not clear when or if such changes will come into force and how they will be applied in practice. At this time it is not possible to determine the extent to which such amendments could impact the application of the double tax treaty benefits to the interest payments made by our company under the Loan. Therefore, there can be no assurance that such double tax treaty relief will continue to be available.

If payments under the Loan are subject to any withholding taxes (as a result of which the Issuer would reduce payments under the Notes, as the case may be, by the amount of such withholding taxes), TCS is obliged (subject to certain conditions) to increase payments as may be necessary so that the Issuer receives the net amount equal to the full amount it would have received in the absence of such withholding. It should be noted, however, that the tax gross-up provisions may not be enforceable under Russian law. In the event that TCS fails to make increased payments, such failure would constitute an Event of Default (as defined in the Trust Deed). In such case, the Issuer may, at its discretion and without further notice, institute proceedings in the manner and to the extent contemplated by the applicable Russian law of the insolvency (bankruptcy) of the Borrower and/or to prove for its debt, and claim, in any consequent liquidation of the Borrower.

*Value added tax (VAT)*

Russian VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore, no VAT will be payable in Russia in respect of interest and principal payments under the Loan.

## IRELAND

### Introduction

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

## TAXATION OF NOTEHOLDERS

### Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent.) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

(a) the Notes are Quoted Eurobonds i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as the Irish or Luxembourg Stock Exchanges) and which carry a right to interest; and

(b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:

  (i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or

  (ii) the Noteholder is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and

(c) one of the following conditions is satisfied:

  (i) the Noteholder is resident for tax purposes in Ireland; or

  (ii) the Noteholder is a pension fund, government body or other person (other than a person described in paragraph (c)(iv) below), who is resident in a relevant territory and who, under the laws of that territory, is exempted from tax that generally applies to profits, income or gains in that territory; or

  (iii) the Noteholder is subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a relevant territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or

  (iv) the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:

    (A) from whom the Issuer has acquired assets;

    (B) to whom the Issuer has made loans or advances; or

(C) with whom the Issuer has entered into a swap agreement,

where the aggregate value of such assets, loans, advances or swap agreements represents not less than 75 per cent. of the assets of the Issuer,

where for these purposes, the term:

"relevant territory" means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty; and

"swap agreement" means any agreement, arrangement or understanding that–

(1) provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest or other rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and

(2) transfers to a person who is a party to the agreement, arrangement or understanding or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in an asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

Thus, so long as the Notes continue to be quoted on the Irish Stock Exchange, are held in DTC, Euroclear and/or Clearstream, Luxembourg, and one of the conditions set out in paragraph (c) above is met, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland and one of the conditions set out in paragraph (c) above is met.

**Encashment Tax**

Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

**Income Tax and Levies**

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of section 110 of the TCA, the recipient is not resident in Ireland and is resident in a relevant territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its business are exempt from income tax provided the recipient is not resident in Ireland and is a company which is either resident in a relevant territory which imposes a tax that generally applies to interest receivable in that relevant territory by companies from sources outside that relevant territory or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a relevant territory. For these purposes, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

**Capital Gains Tax**

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless such holder is either resident or ordinarily resident in Ireland or carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held.

**Capital Acquisitions Tax**

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 25 per cent. if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland)).

**Stamp Duty**

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Irish Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

**EU Directive on the Taxation of Savings Income**

Ireland has implemented the EC Council Directive 2003/48/EC on the taxation of savings income into national law.

The Issuer shall be entitled to require Noteholders to provide any information regarding their tax status, identity or residency in order to satisfy the disclosure requirements in Directive 2003/48/EC and Noteholders will be deemed by their subscription for Notes to have authorised the automatic disclosure of such information by the Issuer or any other person to the relevant tax authorities.

**Cyprus Taxation**

Any payments made by the Parent Guarantor to the Issuer under the Guarantee (i.e. principal, interest, and any additional amounts, including but not limited to facility and maintenance fees, "change of control" premium, or indemnity amounts) will not be subject to Cyprus withholding tax based on the assumptions that the Issuer is not a Cyprus tax resident and does not have a permanent establishment in Cyprus.

Under the Cyprus Income Tax Law 118(I)/2002, a company is considered to be a resident in Cyprus if its management and control is exercised in Cyprus.

Article 2 of the above mentioned law defines permanent establishment as "a fixed place of business through which the business of an enterprise is wholly or partially carried on" and states that this term, in particular, includes a place of management, a branch and an office.

# GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code for the Notes is 061984534. ISIN for the Notes is XS0619845349.

2. Application has been made to list the Notes on the Irish Stock Exchange by the Issuer, through the Listing Agent, Arthur Cox Listing Services Limited ("**ACLSL**"). ACLSL is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List or trading on the Market of the Irish Stock Exchange. It is expected that listing of the Notes will be granted on or before 21 April 2011. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

3. The issue of the Notes and the execution and performance by the Issuer of the Loan Agreement and the other documents to be entered into by the Issuer in relation to the Notes have been approved and authorised by a resolution at a meeting of the Board of Directors of the Issuer dated 18 April 2011.

4. The Loan Agreement and the other documents to be entered into by TCS in relation to the issue of the Notes have been approved and authorised by a resolution of the sole shareholder of TCS dated 18 April 2011.

5. The Loan Agreement and the other documents to be entered into by the Parent Guarantor in relation to the issue of the Notes have been approved and authorised by a resolution at a meeting of the Board of Directors of the Parent Guarantor dated 18 April 2011.

6. Since 31 December 2010, there has been no material adverse change in the prospects of TCS or the Parent Guarantor or any significant change in the financial or trading position of TCS or the Parent Guarantor and its subsidiaries.

7. Since the date of the incorporation of the Issuer on 29 March 2010, there has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position and prospects of the Issuer. The Issuer has no subsidiaries.

8. Each of the Issuer, TCS and the Parent Guarantor has obtained all necessary consents, approvals and authorisations in connection with the issue of the Notes and the execution and performance by it of the Loan Agreement and the other documents to be entered into by it in connection with the issue of the Notes.

9. No consents, approvals, authorisations or orders of any regulatory authorities in Ireland, the Russian Federation or Cyprus are required by the Issuer, TCS or the Parent Guarantor for its entry into, and the performance of its obligations under, the Loan Agreement or for the issue and performance of the Notes.

10. There have been no governmental, legal or administrative or arbitration proceedings (including any such proceedings which are pending or threatened of which, TCS or the Parent Guarantor is aware) during the 12 months prior to the date of this Prospectus, which may have or have had in the recent past, a significant effect on the financial position or profitability of TCS or the Parent Guarantor and its subsidiaries.

11. Since the date of the incorporation of the Issuer, the Issuer is not and has not been involved in any governmental, legal or arbitration proceedings that may have, or have had in the recent past, a significant effect on the Issuer's financial position of profitability, nor is the Issuer aware that any such proceedings are pending or threatened.

12. The Trust Deed provides, *inter alia*, that the Trustee may act and/or rely on the opinion or advice of or a certificate of any information obtained from any lawyer, banker, valuer, surveyor, broker, auctioneer, or other expert (whether or not addressed to the Trustee), notwithstanding that such opinion, advice, certificate or information contains a monetary or other limit on the liability of any of the above-mentioned persons in respect thereof.

13. The consolidated financial statements of Egidaco Investments PLC Group as of and for the years ended 31 December 2010 and 2009, included in this Prospectus, have been audited by PricewaterhouseCoopers Limited is Julia House, 3 Themistocles Dervis Street, CY-1066 Nicosia, Cyprus, PO Box 21612, CY-14591 Nicosia, Cyprus, as stated in their reports appearing herein. PricewaterhouseCoopers Limited is a member of the Institute of Certified Public Accountants of Cyprus

14. For as long as the Notes are outstanding, copies (and certified English translations where the documents at issue are not in English) of the following documents may be inspected in physical form at the registered office of the Issuer and the office of the Principal Paying Agent in London during usual business hours on any weekday (Saturdays and public holidays excepted).
    (a) a copy of this Prospectus, together with any supplement to this Prospectus;
    (b) the memorandum and articles of association of the Issuer;
    (c) the Charter of TCS;
    (d) the articles of association of the Parent Guarantor;
    (e) the Parent Guarantor's 2010 and 2009 stand alone Financial Statements;
    (f) the Loan Agreement;
    (g) the Guarantee;
    (h) the Agency Agreement; and
    (i) the Trust Deed, which includes the forms of the Global Certificate and the Definitive Certificates.
15. The Issuer does not intend to provide any post-issuance transaction information regarding the Notes or the Loan.
16. The Bank of New York Mellon (Luxembourg) S.A. will act as Registrar in relation to the Notes.
17. The Notes are expected to be rated B2 by Moody's and B by Fitch.
18. The expenses in connection with the admission of the Notes to the Official List and to trading on the Market are expected to amount to approximately EUR 5,000.
19. The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

# INDEX TO EGIDACO'S FINANCIAL STATEMENTS

# *Egidaco Investments PLC Group*

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

31 December 2010

## CONTENTS

# Board of Directors and other officers

**Board of Directors**

Constantinos Economides (appointed 21 November 2008)
Maria Demetriou (appointed 21 November 2008)
Alexis Ioannides (appointed 21 November 2008)
Julian Charles Salisbury (appointed 9 February 2009)
Per Brilioth (appointed 20 January 2010)

**Company Secretary**

**Altruco Secretarial Limited**

G. Pavlides Court, 5th Floor
2, Arch. Kyprianou & Ayiou Andreou Street.
3036 Limassol, Cyprus
Mail: P.O.Box 50734,
3609, Limassol, Cyprus

**Registered office**

G. Pavlides Court, 5th Floor
2, Arch. Kyprianou & Ayiou Andreou Street.
3036 Limassol, Cyprus
Mail: P.O.Box 50734,
3609, Limassol, Cyprus

## Report of the Board of Directors

1 The Board of Directors presents its report together with the audited consolidated financial statements of Egidaco Investments PLC (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2010.

**Principal activities**

2 The Group's principal activity is retail banking operations within the Russian Federation through its subsidiary CJSC "Tinkoff. Credit Systems" Bank (the "Bank").

3 The Bank is a retail bank that specialises in credit cards. The Bank is fully licensed by the Central Bank of Russia, is a member of the Deposit Insurance System, and launched its operations in the summer of 2007. The founder and controlling shareholder of the Bank is Oleg Tinkov. In late 2007 Goldman Sachs became a minority shareholder in the Company (which is a 100% owner of the Bank) and in mid-2008 the Swedish Investment Fund, Vostok Nafta, also acquired a minority stake in the Company.

4 The Bank operates a flexible business model. Its virtual network enables it to speed business up or slow customer acquisition down depending on the availability of funding and seasonality. The Bank's primary customer acquisition channel is direct mail (DM), but it also uses Direct Sales Agents (DSA), partnerships (cobrands), and the Internet to acquire new customers. The Bank employs a "By invitation only" origination model, which combined with the Bank's virtual network, affords it a geographic reach across all of Russia's regions resulting in a highly diversified portfolio. While credit cards are the mainstay of the Bank business, a retail deposit pilot was conducted successfully in 2009 in order to diversify the Bank's funding base, and this programme is now being rolled out across Russia.

5 The profit of the Group for the year ended 31 December 2010 was USD 9,125 thousand (2009: profit of USD 18,222 thousand). On 31 December 2010 the total assets of the Group were USD 405,136 thousand (2009: USD 211,614 thousand) and the net assets were USD 43,865 thousand (2009: USD 35,040 thousand). Management considers that the financial position, development and performance of the Group as presented in these consolidated financial statements are satisfactory given the start up nature of the business in 2007-2008 and the impact of global financial crisis.

**Principal risks and uncertainties**

6 The Group conducts its activities in Russia through its subsidiaries; it has been affected by the uncertainties of the Russian economic environment, and global credit crunch that have had an impact on the Group's business and financial position.

7 Other risks and uncertainties, which affect the Group, are presented in Notes 2, 24 and 26 of the consolidated financial statements.

**Future developments**

8 The Board of Directors does not expect any significant changes or developments in the operations, financial position, and performance of the Group in the near future.

**Results**

9 The Group's results for the year are set out on page 5 of the consolidated financial statements.

**Share capital**

10 In December 2010 the Company issued 376,993 shares that were distributed to the lenders of the syndicated loans after they exercised their warrants for the purchase of 6% of share capital (Refer to Note 14 and Note 17 of the consolidated financial statements). In February 2011 the Group purchased 100% ownership of previously controlled and consolidated subsidiary LLC "TCS" (Note 31).

## Report of the Board of Directors (Continued)

**Board of Directors**

11 The members of the Board of Directors as of 31 December 2010 and at the date of this report are presented on page 1. Mr Constantinos Economides, Maria Demetriou, Alexis Ioannides were appointed as Directors on 21 November 2008. Mr Julian Charles Salisbury was appointed as Director on 9 February 2009, Mr Per Brilioth was appointed as Director on 20 January 2010. Mr Ion Dimitris Dagtoglou de Carteret was reappointed on 16 October 2009 as Vostok Nafta Director, and resigned on 20 January 2010.

12 There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

**Auditors**

13 The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

Constantinos Economides
Director
Limassol
9 March 2011

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## Independent Auditor's Report
## To the Members of Egidaco Investments Plc

### Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Egidaco Investments Plc (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Board of Directors' Responsibility for the Consolidated Financial Statements*

The Company's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

*PricewaterhouseCoopers Ltd, Julia House, 3 Themistocles Dervis Street, CY-1066 Nicosia, Cyprus*
*P O Box 21612, CY-1591 Nicosia, Cyprus*
*T: +357 22 - 555 000, F: +357 - 22 555 001, www.pwc.com/cy*

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Egidaco Investments Plc and its subsidiaries as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

**Report on Other Legal Requirements**

Pursuant to the requirements of the Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

**Other Matter**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Companies Law, Cap. 113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

PricewaterhouseCoopers

PricewaterhouseCoopers Limited
Chartered Accountants
Nicosia, 9 March 2011

| *In thousands of USD* | Note | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | 50,892 | 18,946 |
| Mandatory cash balances with the CBRF | | 2,463 | 1,182 |
| Loans and advances to customers | 8 | 316,418 | 173,735 |
| Financial derivatives | 27 | - | 2,361 |
| Current income tax assets | | 409 | - |
| Deferred income tax assets | 22 | 529 | - |
| Mastercard guarantee deposit | | 12,555 | 2,004 |
| Fixed assets | 9 | 4,427 | 3,864 |
| Intangible assets | 9 | 4,646 | 4,027 |
| Other financial assets | 10 | 10,501 | 3,633 |
| Other non-financial assets | 10 | 2,296 | 1,862 |
| **TOTAL ASSETS** | | **405,136** | **211,614** |
| **LIABILITIES** | | | |
| Due to banks | 11 | - | 4,977 |
| Customer accounts | 12 | 174,149 | 12,621 |
| Debt securities in issue | 13 | 143,591 | 86,632 |
| Syndicated loan | 14 | 31,378 | 60,402 |
| Provisions for liabilities and charges | 15 | 4,747 | 6,850 |
| Current income tax liability | | - | 1,723 |
| Deferred tax liability | 22 | - | 257 |
| Other financial liabilities | 16 | 6,424 | 2,253 |
| Other non-financial liabilities | 16 | 982 | 859 |
| **TOTAL LIABILITIES** | | **361,271** | **176,574** |
| **EQUITY** | | | |
| Share capital | 17 | 6,283 | 5,905 |
| Share premium | 17 | 66,641 | 65,148 |
| Obligation under warrants | 17 | - | 1,871 |
| Accumulated deficit | | (20,380) | (29,505) |
| Translation reserve | | (8,679) | (8,379) |
| **TOTAL EQUITY** | | **43,865** | **35,040** |
| **TOTAL LIABILITIES AND EQUITY** | | **405,136** | **211,614** |

Approved for issue and signed on behalf of the Board of Directors on 9 March 2011.

Constantinos Economides
Director

Maria Demetriou
Director

The notes set out on pages 8 to 54 from an integral part of these consolidated financial statements.

| *In thousands of USD* | **Note** | **2010** | **2009 (Restated)** |
|---|---|---|---|
| Interest income | 18 | 138,693 | 105,341 |
| Interest expense | 18 | (43,110) | (31,606) |
| **Net interest income** | | **95,583** | **73,735** |
| Provision for loan impairment | 8 | (27,965) | (18,342) |
| **Net interest income after provision for loan impairment** | | **67,618** | **55,393** |
| Customer acquisition expense | 20 | (17,121) | (3,359) |
| Foreign exchange translation gains less losses/ (losses less gains) | | 7,993 | (3,906) |
| Gain from sale of bad debts | 8 | 2,268 | 1,406 |
| Fee and commission expense | 19 | (2,726) | (1,631) |
| Administrative and other operating expenses | 21 | (44,954) | (23,755) |
| Losses less gains from financial derivatives | | (1,849) | (1,442) |
| Release/(charge) of provision for tax risks | 15 | 1,786 | (1,302) |
| Other operating income | | 283 | 583 |
| (Losses)/gains on repurchase of debt securities in issue | 13 | (359) | 4,872 |
| Remeasurement of net assets attributable to minority participant | | - | 199 |
| **Profit before tax** | | **12,939** | **27,058** |
| Income tax expense | 22 | (3,814) | (8,836) |
| **Profit for the year** | | **9,125** | **18,222** |
| Other comprehensive (loss)/income: | | | |
| Exchange differences on translation to presentation currency | | (300) | 350 |
| **Other comprehensive (loss)/income for the year** | | **(300)** | **350** |
| **Total comprehensive income for the year** | | **8,825** | **18,572** |

| *In thousands of USD* | Note | Share capital | Share premium | Obligation under warrants | Accumulated deficit | Translation reserve | Total |
|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2008** | | **5,905** | **65,148** | **1,871** | **(47,727)** | **(8,729)** | **16,468** |
| Profit for the year | | - | - | - | 18,222 | - | 18,222 |
| Other comprehensive income: | | | | | | | |
| - currency translation differences | | - | - | - | - | 350 | 350 |
| Total comprehensive income for 2009 | | - | - | - | 18,222 | 350 | 18,572 |
| **Balance at 31 December 2009** | | **5,905** | **65,148** | **1,871** | **(29,505)** | **(8,379)** | **35,040** |
| Profit for the year | | - | - | - | 9,125 | - | 9,125 |
| Other comprehensive loss: | | | | | | | |
| - currency translation differences | | - | - | - | - | (300) | (300) |
| Total comprehensive income for 2010 | | - | - | - | 9,125 | (300) | 8,825 |
| Share issue | 17 | 378 | 1,493 | (1,871) | - | - | - |
| **Balance at 31 December 2010** | | **6,283** | **66,641** | **-** | **(20,380)** | **(8,679)** | **43,865** |

| *In thousands of USD* | Note | 2010 | 2009 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 139,386 | 90,680 |
| Interest paid | | (24,564) | (25,610) |
| Cash received from sale of bad debts | 8 | 2,268 | 1,406 |
| Fees and commissions paid | | (2,340) | (1,631) |
| Other operating income received | | 283 | 583 |
| Administrative and other operating expenses paid | | (40,094) | (22,324) |
| Customers acquisition expenses paid | | (17,086) | (3,172) |
| Income tax paid | | (6,710) | (4,198) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **51,143** | **35,734** |
| **Changes in operating assets and liabilities** | | | |
| Net increase in Central Bank mandatory reserves | | (1,281) | (884) |
| Net increase in loans and advances to customers | | (168,256) | (38,281) |
| Sell/(purchase) of derivative financial instruments | | 510 | (3,848) |
| Net increase in other financial assets | | (7,014) | (3,541) |
| Net (increase)/decrease in Mastercard guarantee deposit | | (10,551) | 1,750 |
| Net (increase)/decrease in other non-financial assets | | (434) | 679 |
| Net (decrease)/increase in due to banks | | (4,977) | 4,615 |
| Net increase in customer accounts | | 163,519 | 4,134 |
| Net increase/(decrease) in other financial liabilities | | 4,171 | (1,421) |
| Net increase/(decrease) in other non-financial liabilities | | 123 | (842) |
| **Net cash received from/(used in) operating activities** | | **26,953** | **(1,905)** |
| **Cash flows from investing activities** | | | |
| Acquisition of fixed assets | 9 | (3,388) | (272) |
| Acquisition of intangible assets | 9 | (1,928) | (484) |
| **Net cash used in investing activities** | | **(5,316)** | **(756)** |
| **Cash flows from financing activities** | | | |
| Proceeds from debt securities in issue | | 137,064 | 368 |
| Repayment of debt securities in issue | | (85,997) | (11,027) |
| Repayment of syndicated loan | | (40,708) | - |
| **Net cash from/(used) in financing activities** | | **10,359** | **(10,659)** |
| Effect of exchange rate changes on cash and cash equivalents | | (50) | 1,359 |
| **Net increase/(decrease) in cash and cash equivalents** | | **31,946** | **(11,961)** |
| **Cash and cash equivalents at the beginning of the year** | 7 | **18,946** | **30,907** |
| **Cash and cash equivalents at the end of the year** | 7 | **50,892** | **18,946** |

The notes set out on pages 8 to 54 from an integral part of these consolidated financial statements.

## 1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2010 for Egidaco Investments PLC (the "Company") and its subsidiaries (together referred to as the "Group" or "Egidaco Investments PLC Group"), and in accordance with the requirements of the Cyprus Companies Law, Chap.113.

The Company was incorporated, and is domiciled, in Cyprus in accordance with the provisions of the Companies Law, Chap.113.

Board of Directors of the Company: Constantinos Economides, Maria Demetriou, Alexis Ioannides, Julian Charles Salisbury, and Per Brilioth.

Company Secretary: Altruco Secretarial Limited, G. Pavlides Court, 5th Floor 2, Arch. Kyprianou & Ayiou Andreou Street, 3036 Limassol, Cyprus, Mail: P.O.Box 50734, 3609, Limassol, Cyprus (starting from 21 November 2008).

As at 31 December 2010 and 2009 the shareholders of the Company were:

| | 31 December 2010 | 31 December 2009 | Country of Incorporation |
|---|---|---|---|
| Tadek Holding and Finance S.A. | 61% | 64% | British Virgin Islands |
| Vostok Komi (Cyprus) Limited | 17% | 15% | Cyprus |
| ELQ Investor Limited | 15% | 14% | United Kingdom |
| Tasos Invest and Finance Inc. | 7% | 7% | British Virgin Islands |
| Vizer Limited | 0%* | 0%* | British Virgin Islands |
| Maitland Commercial Inc. | 0%* | 0%* | British Virgin Islands |
| Norman Legal S.A. | 0%* | 0%* | British Virgin Islands |
| **Total** | **100%** | **100%** | |

Vizer Limited, Maitland Commercial Inc and Norman Legal S.A. own 1 share* of the Group each (2009: 1 share*).

As at 31 December 2010 and 2009 the ultimate beneficiaries of the Group are the Russian entrepreneur Oleg Tinkov (68% and 71%, respectively), the global investment firm Goldman Sachs (15% and 14%, respectively) and investment fund Vostok Nafta (17% and 15%, respectively).

Subsidiaries included in these consolidated financial statements are listed below:

| | | 2010 | | 2009 | | |
|---|---|---|---|---|---|---|
| **Name** | **Nature of business** | **Percentage of ownership** | **Percentage of voting rights** | **Percentage of ownership** | **Percentage of voting rights** | **Country of registration** |
| CJSC "Tinkoff. Credit Systems" Bank | Bank operations | 100% | 100% | 100% | 100% | Russian Federation |
| LLC "TCS" | Services | - | 100% | - | 100% | Russian Federation |
| LLC "T-Finance" | Assets holding | 100% | 100% | 100% | 100% | Russian Federation |

In June 2009 the Group purchased 100% ownership of LLC "T-Finance" from a related party. In February 2011 the Group purchased 100% ownership of LLC "TCS" (Note 31).The operations of LLC TCS and LLC T-Finance are fully controlled by the Group. These companies bear the expenses of the Group related to the issue of credit card loans, some administrative expenses and intangible assets.

## 1 Introduction (Continued)

***Principal activity.*** The Group's principal business activity is retail banking operations within the Russian Federation through the subsidiary CJSC "Tinkoff. Credit Systems" Bank (the "Bank"). The Bank has operated under a full banking license N. 2673 issued by the Central Bank of the Russian Federation ("CBRF") since 8 December 2006. Before that date and going back to 28 January 1994 the Bank operated under the name of CJSC "Khimmashbank" under the same full banking license N. 2673 issued by the CBRF on 28 January 1994. The Bank was acquired by the Company on 17 November 2006 and was subsequently renamed CJSC "Tinkoff. Credit Systems" Bank.

The Bank participates in the state deposit insurance scheme, which was introduced by the Federal Law N. 177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF-imposed moratorium on payments.

***Registered address and place of business.*** The Company's registered address is Arch. Kyprianou & Ag. Andreou, 2 G. Pavlides Court, 5th floor P.C. 3036, Limassol, Cyprus. The Bank's registered address is 1-st Volokolamsk passage, 10, building 1, 123060, Moscow, Russian Federation. The Group's principal place of business is the Russian Federation.

***Presentation currency.*** These consolidated financial statements are presented in thousands of USD.

## 2 Operating Environment of the Group

***Russian Federation.*** The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates.

The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased money market liquidity levels.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes (Note 26). The need for further developments in the bankruptcy laws, formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments continue to contribute to the challenges faced by banks operating in the Russian Federation.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

Management is unable to predict all developments which could have an impact on the banking sector and wider economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

## 3 Summary of Significant Accounting Policies

**Basis of preparation.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law Cap.113.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by revaluation of derivatives carried at fair value The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

***Consolidated financial statements.*** Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The cost of acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

***Financial instruments - key measurement terms.*** Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

*Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**3 Summary of Significant Accounting Policies (Continued)**

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

***Initial recognition of financial instruments***. Derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

***Derecognition of financial assets.*** The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

***Cash and cash equivalents.*** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

***Mandatory cash balances with the CBRF.*** Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

**3 Summary of Significant Accounting Policies (Continued)**

***Loans and advances to customers.*** Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

***Impairment of financial assets carried at amortised cost.*** Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired is its overdue status.

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

In the course of business the Group sells bad debts to third parties, and the difference between the carrying amount of bad debt and the consideration received is recorded in profit and loss at the settlement date.

**3 Summary of Significant Accounting Policies (Continued)**

***Credit related commitments.*** The Group enters into credit related commitments including unused limits on credit cards loans. Commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each reporting date, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

***Fixed assets.*** Fixed assets are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of fixed assets items are capitalised and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of fixed assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit and loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year.

***Depreciation.*** Depreciation of each item of fixed assets is calculated using the straight-line method to allocate its cost to its residual value over its estimated useful life as follows:

| | **Useful lives in years** |
|---|---|
| Equipment | 3 to 10 |
| Vehicles | 5 |
| Leasehold improvements | Shorter of their useful economic life and the term of the underlying lease |

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

***Intangible assets.*** The Group's intangible assets have definite useful life and include capitalised computer software and development of software.

Computer software licenses acquired are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 5 years.

***Operating leases.*** Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense within administrative and other operating expenses) on a straight-line basis over the period of the lease.

***Due to other banks.*** Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, the liability 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 gains or losses arising from early retirement of debt.

**3 Summary of Significant Accounting Policies (Continued)**

***Customer accounts.*** Customer accounts are non-derivative liabilities to corporate entities and individuals and are carried at amortised cost.

***Debt securities in issue***. Debt securities in issue include bonds issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are 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 gains/(losses) arising from early retirement of debt.

***Syndicated loans***. Syndicated loans are non-derivative instruments, which are stated at amortised cost. A substantial modification of the terms of existing syndicated loans or a part of it is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least ten per cent different from the discounted present value of the remaining cash flows of the original financial liability.

***Derivative financial instruments.*** Derivative financial instruments represented by foreign currency swaps and options are carried at their fair value.

Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting.

***Income taxes.*** Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation and Cyprus legislation enacted or substantively enacted by the end of the reporting period. The income tax (charge)/credit comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, where the Group controls the subsidiary’s dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

***Uncertain tax positions.*** The Group's uncertain tax positions are assessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely that not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted at the end of reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

**3 Summary of Significant Accounting Policies (Continued)**

***Provisions for liabilities and charges.*** Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

***Trade and other payables.*** Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

***Share capital.*** Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

***Income and expense recognition.*** Interest income and expense are recorded for all debt instruments on an accruals basis using the effective interest method. This method defers, as part of interest income or expense, all fees 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.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, negotiating the terms of the instrument, for servicing of account, and cash withdraw. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

Customer acquisition costs represented by the expenses paid by the Group on services related to attraction of the credit card borrowers (mailing of advertising materials, processing of the responses etc) are expensed on the basis of the actual services provided.

All other fees, commissions and other income and expense items are generally recorded on an accruals basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

***Foreign currency translation.*** The functional currency of each of the Group's consolidated entities is the Russian Rouble ("RR"), which is the currency of the primary economic environment in which each entity operates. The Group's presentation currency, selected for management purposes, is the national currency of the United States of America, US Dollars ("USD").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

## 3 Summary of Significant Accounting Policies (Continued)

The results and financial position of each group entity are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses 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);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

At 31 December 2010 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.4769 (2009: USD 1 = RR 30.2442), and the principle average rate of exchange used for translating income and expenses was USD 1= RR 30.3692 (2009: USD 1= RR 31.2621).

***Offsetting.*** Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

***Staff costs and related contributions.*** Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructing obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

***Segment reporting*.** Operating segment is reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker.

***Restatement of 2009 financial statements.*** During 2010 management of the Group performed a detailed review of the Bank's 2009 IFRS financial statements and accounting policies. This review exercise identified an error in the application of effective interest rate accounting policy that resulted in a grossed up presentation of non-recoverable accrued interest income and corresponding provision for loan impairment for the amount of USD 18,677 thousands (2008: USD 6,080 thousands). As a result, the following adjustments were made in these financial statements in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors":

***Restatement of comprehensive income for the year ended 31 December 2009***

| *In thousands of USD* | **As originally recorded** | **Adjustment** | **Restated** |
|---|---|---|---|
| Interest income | 124,018 | (18,677) | 105,341 |
| **Net interest income** | **92,412** | **(18,677)** | **73,735** |
| Provision for loan impairment | (37,019) | 18,677 | (18,342) |
| **Net interest income after provision for loan impairment** | **55,393** | **-** | **55,393** |
| **Profit for the year** | **18,222** | **-** | **18,222** |

The above adjustments did not lead to changes in the Group's equity, net profit or comprehensive income for the year in the consolidated statement of comprehensive income for 2009.

The restatement had an impact on information in the Notes 8 and 18 and had no impact on any other captions in the consolidated financial statements and related notes disclosures.

## 3 Summary of Significant Accounting Policies (Continued)

***Changes in presentation.*** Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

The effect of reclassification for presentation purposes as at 31 December 2009 is as follows:

| *In thousands of USD* | **As originally presented** | **Reclassifications** | **As presented** |
|---|---|---|---|
| **Consolidated statement of financial position** | | | |
| Mastercard guarantee deposit | - | 2,004 | 2,004 |
| Other financial assets | 5,637 | (2,004) | 3,633 |
| **Consolidated statement of comprehensive income** | | | |
| Release/(charge) of provision for tax risk | - | (1,302) | (1,302) |
| Administrative and other operating expenses | (25,057) | 1,302 | (23,755) |

The reclassification had an impact on information in Notes 10, 15, 21 and had no impact on any other captions in the financial statements and related note disclosure.

The revised IAS 1 which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ('opening statement of financial position'), when the entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements. Therefore, an entity that makes such a prior period adjustment or reclassification normally presents, as a minimum, three statements of financial position, two of each of the other statements, and related notes. As described above in 2010, the Group made a restatement of 2009 financial statements that had no impact on the consolidated statement of financial position as at 31 December 2009 and made a reclassification of certain financial asset lines that had no material impact on the consolidated statement of financial position of the Group. In these circumstances, management considered whether omitting the opening consolidated statement of financial position at 1 January 2009 would represent a material omission of information. In management's opinion, the omission of the opening consolidated statement of financial position, is not material and is therefore permitted. Management considered that materiality of an omission is measured against its ability to influence the economic decisions of the users of the consolidated financial statements.

***Changes in accounting estimates.*** In 2010 the Group moved from a six months statistics horizon to a twelve months statistics horizon used in determining an estimation its provision for credit card loans, as starting from 1 January 2010 the Group achieved sufficient year to year statistical information on credit card losses. Management considers that using a twelve months statistics horizon in estimating its provision for loan impairment eliminates the impact of monthly fluctuations in a loan loss provision and provides better information for analysis and monitoring of credit cards losses. The change in an accounting estimate in 2010 resulted in an increase of provision for loan impairment in the amount of USD 6,845 thousand.

***Amendments of the financial statements after issue.*** The Board of Directors of the Group have the power to amend the financial statements after issue.

## 4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements 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 judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

***Impairment losses on loans and advances.*** The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The primary factor that the Group considers as objective evidence of impairment is the overdue status of the loan. In general, loans where there are no breaches in loan servicing are considered to be unimpaired. Given the nature of the borrowers and the loans it is the Group's view and experience that the time lag between a possible loss event that could lead to impairment and the non or under payment of a monthly instalment is minimal. 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. In accordance with internal methodology for the provision estimation the Group uses all available loss statistics for the whole period of its operations. Starting from 2010 management use a twelve month horizon for assessment of probabilities of default in calculating the provision for impairment as these statistics provide better information to estimate and project credit card losses.

To the extent that the incurred losses as at 31 December 2010 resulting from future cash flows change by 10% (2009: 10%) from the historic loss pattern, the provision would be approximately USD 3,813 thousand (2009: USD 2,605 thousand) higher or USD 3,813 thousand (2009: USD 2,605 thousand) lower.

***Offsetting of intercompany transactions transferred through third parties based on the substance of transactions.*** Management applies judgment in assessing whether intercompany transactions performed via non-related third parties should be off-set in the consolidated financial statements based on the substance of the transactions. The principal considerations that the Group analyses are the substance of transactions, the management intention to settle these transactions simultaneously after the year end, matching maturity, currency and interest rates of the respective financial assets and liabilities, level of credit and liquidity risks, and underlying business reasons of the transactions. Management believes that offsetting of intercompany transactions transferred through third parties in the consolidated financial statements showing net financial result of the deal, i.e. the administration fee of the third party, will not detract users' ability both to understand the transactions and conditions that have occurred and to assess the entity's future cash flows. Financial assets and liabilities attributable to intercompany transactions performed via non-related intermediary entities that were off-set in the consolidated financial statements for the year ended 31 December 2010 comprise USD 45,116 thousands, with an interest rate ranging from 4% to 7% and maturity ranging from 26 January 2011 to 23 August 2011. The Group incurred administrative fees for these transactions in the amount of USD 386 thousand, recorded within banking and other fee expenses.

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

***Entities controlled in substance, but not in form.*** Judgement is applied in determining that certain entities, though not legally owned, were controlled by the Group in substance, and are therefore consolidated, as described in Note 1. Management considers that, although the Group has no legal title to the entities' assets, the substance of the relationships between the Group and the entities, is such that the Group has the power to govern the financial and operating policies of the entities.

***Initial recognition of related party transactions.*** In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 30.

***Tax legislation.*** Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 26.

## 5 Adoption of New or Revised Standards and Interpretations

***(a) Standards effective for annual periods beginning on or after 1 January 2010***

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2010 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provision of IAS 39 "Financial instruments: Recognition and Measurement" relating to portfolio hedge accounting".

The following new standards and interpretations became effective for the Group from 1 January 2010:

***IFRIC 17, Distributions of Non-Cash Assets to Owners*** (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these financial statements.

***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 requires 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 previous standard required 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 has to be measured at its fair value.

The Group has changed its accounting policy for the accounting for loss of control or significant influence from 1 January 2010.

The Group has applied the new accounting policies prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

**5 Adoption of New or Revised Standards and Interpretations (Continued)**

***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 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or 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, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are 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. The revised IFRS 3 is not relevant to the Group in 2009 and 2010. It might have an impact in future if business combinations occur.

***Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment*** (effective for annual periods beginning on or after 1 January 2010, shall be accounted retrospectively). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have a material impact on these financial statements.

***Eligible Hedged Items - Amendment to IAS 39, Financial Instruments: Recognition and Measurement*** (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have an impact on these financial statements as the Group does not apply hedge accounting.

***IFRS 1, First-time Adoption of International Financial Reporting Standards*** (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have an impact on these financial statements.

***Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS*** (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have an impact on these financial statements.

## 5 Adoption of New or Revised Standards and Interpretations (Continued)

***Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010).*** The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these financial statements.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

## 6 New Accounting Pronouncements

The following new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted.

***Classification of Rights Issues - Amendment to IAS 32*** (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendments to have any material effect on its financial statements.

***Amendment to IAS 24, Related Party Disclosures*** (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group does not expect the amendments to have any material effect on its financial statements.

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

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

**6 New Accounting Pronouncements (Continued)**

***Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1*** (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7*, Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendments will not have any effect on its financial statements.

***Improvements to International Financial Reporting Standards*** (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements.

The following new standards and interpretations have been issued that are not endorsed by EU for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted.

***IFRS 9, Financial Instruments Part 1: Classification and Measurement.*** IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

**6 New Accounting Pronouncements (Continued)**

Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

***Disclosures—Transfers of Financial Assets – Amendments to IFRS* 7** (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's consolidated statement of financial position. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is not expected to have any impact on the Group's consolidated financial statements.

***Recovery of Underlying Assets – Amendments to IAS 12*** (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012)***.*** The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

***Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1*** (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

## 6 New Accounting Pronouncements (Continued)

The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes.

The Group does not expect the amendments to have any effect on its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

## 7 Cash and Cash Equivalents

| *In thousands of USD* | **2010** | **2009** |
|---|---|---|
| Cash on hand | 452 | 485 |
| Cash balances with the CBRF (other than mandatory reserve deposits) | 8,066 | 5,024 |
| Placements with other banks with original maturities of less than three months, including: | | |
| *- AAA rated* | 400 | - |
| *- AA- to AA+ rated* | 15,859 | - |
| *- A- to A+ rated* | 19,845 | - |
| *- Rated lower than from A-* | 4,954 | 12,580 |
| *Unrated* | 1,316 | 857 |
| **Total Cash and Cash Equivalents** | **50,892** | **18,946** |

The Group evaluates the quality of cash and cash equivalents on the basis of Fitch national ratings and in case of their absence uses Standard & Poor's or Moody's ratings adjusting them to Fitch's categories using a reconciliation table.

Cash and cash equivalents are not impaired and not past due. Refer to Note 28 for the disclosure of the fair value of other financial assets.

Interest rate, maturity and geographical risk concentration analysis of cash and cash equivalents is disclosed in Note 24.

## 8 Loans and Advances to Customers

| *In thousands of USD* | 2010 | 2009 (Restated) |
|---|---|---|
| **Loans to individuals:** | **339,385** | **188,613** |
| *Credit card loans* | 339,385 | 188,375 |
| *Other loans to individuals* | - | 238 |
| **Corporate loans, broken down by borrower's activity classes:** | **2,238** | **3,712** |
| *Development* | 1,659 | 1,668 |
| *Finance* | 579 | 581 |
| *Trading* | - | 1,223 |
| *Leasehold operations* | - | 240 |
| **Total loans and advances to customers before impairment:** | **341,623** | **192,325** |
| Less: Provision for loan impairment | (25,205) | (18,590) |
| **Total loans and advances to customers** | **316,418** | **173,735** |

Credit cards are issued to customers for cash withdrawals or payment for goods or services, within the range of limits established by the Group. These limits may be increased or decreased from time-to-time.

Presented below is an analysis of issued, activated and utilised cards based on their credit card limits as at the end of the reporting year:

| *In thousands of USD* | 2010 | 2009 |
|---|---|---|
| **Credit card limits** | | |
| Up to 10 RR thousand | 6,192 | 3,048 |
| 10-20 RR thousand | 48,007 | 31,489 |
| 20-30 RR thousand | 90,982 | 65,637 |
| 30-40 RR thousand | 107,265 | 59,178 |
| 40-50 RR thousand | 68,921 | 39,092 |
| 50-60 RR thousand | 62,482 | 26,987 |
| 60-80 RR thousand | 72,183 | 10,333 |
| 80-100 RR thousand | 31,751 | 9,893 |
| More than 100 RR thousand | 15,564 | 1,831 |
| **Total cards** | **503,347** | **247,488** |

## 8 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment are as follows:

| *In thousands of USD* | As at 31 December 2009 (Restated) | Effect of translation | Write-off of bad debts | Sales of bad debts | Provision for/(Recovery of) impairment during the period | As at 31 December 2010 |
|---|---|---|---|---|---|---|
| **Loans to individuals:** | | | | | | |
| *Credit card loans* | 16,343 | (220) | - | (19,667) | 27,993 | 24,449 |
| *Other loans to individuals* | 238 | (27) | (211) | - | - | - |
| **Corporate loans, broken down by creditors' activity classes:** | | | | | | |
| *Development* | 599 | - | - | - | - | 599 |
| *Finance* | 157 | - | - | - | - | 157 |
| *Trading* | 1,223 | (5) | (1,218) | - | - | - |
| *Leasehold operations* | 30 | (2) | - | - | (28) | - |
| **Total provision for loan impairment** | **18,590** | **(254)** | **(1,429)** | **(19,667)** | **27,965** | **25,205** |

| *In thousands of USD* | As at 31 December 2008 (Restated) | Effect of translation (Restated) | Write-off of bad debts | Sales of bad debts (Restated) | Provision for/(Recovery of) impairment during the period (Restated) | As at 31 December 2009 (Restated) |
|---|---|---|---|---|---|---|
| **Loans to individuals:** | | | | | | |
| *Credit card loans* | 14,774 | (402) | - | (18,537) | 20,508 | 16,343 |
| *Other loans to individuals* | 235 | (7) | - | - | 10 | 238 |
| **Corporate loans, broken down by creditors' activity classes:** | | | | | | |
| *Trading* | 8,945 | (256) | (7,466) | - | - | 1,223 |
| *Development* | 2,397 | (71) | - | - | (1,727) | 599 |
| *Finance* | 655 | (19) | - | - | (479) | 157 |
| *Leasehold operations* | - | - | - | - | 30 | 30 |
| *Other corporate entities* | 7 | - | (7) | - | - | - |
| **Total provision for loan impairment** | **27,013** | **(755)** | **(7,473)** | **(18,537)** | **18,342** | **18,590** |

In 2010 the Group sold bad debts to third parties (external debt collection agencies) with gross amount of USD 19,667 thousand (2009: USD 18,537 thousand), and provision for impairment of USD 19,667 thousand (2009: USD 18,537 thousand). The difference between the carrying amount of these loans and the consideration received was recognised in profit or loss as gain from the sale of bad debts in the amount of USD 2,268 thousand (2009: USD 1,406 thousand). The criteria for bad debts qualifying for the sale to external debt collection agencies are disclosed in Note 24.

## 8 Loans and Advances to Customers (Continued)

Information on collateral held in respect of loans to individuals is as follows:

| *In thousands of USD* | 2010 Credit card loans | 2010 Other loans to individuals | 2009 Credit card loans (Restated) | 2009 Other loans to individuals |
|---|---|---|---|---|
| Unsecured loans | 339,385 | - | 188,375 | - |
| Loans collateralised by: | | | | |
| *- land plots* | - | - | - | 238 |
| **Total loans to individuals** | **339,385** | **-** | **188,375** | **238** |

Information on collateral held in respect of corporate loans at 31 December 2010:

| *In thousands of USD* | Development | Finance | Total |
|---|---|---|---|
| Loans collateralised by land plots | 1,659 | 579 | 2,238 |
| **Total corporate loans** | **1,659** | **579** | **2,238** |

Information on collateral held in respect of corporate loans at 31 December 2009:

| *In thousands of USD* | Development | Trading | Finance | Leasehold operations | Total |
|---|---|---|---|---|---|
| Loans collateralised by: | | | | | |
| *- land plots* | 1,668 | - | 581 | - | 2,249 |
| *- equipment* | - | 1,223 | - | 240 | 1,463 |
| **Total corporate loans** | **1,668** | **1,223** | **581** | **240** | **3,712** |

Analysis by credit quality of loans to individuals is as follows:

| *In thousands of USD* | 2010 Credit card loans | 2010 Other loans to individuals | 2009 Credit card loans | 2009 Other loans to individuals |
|---|---|---|---|---|
| Loans collectively assessed for impairment (gross): | | | | |
| *- non-overdue* | 302,361 | - | 156,254 | - |
| *- less than 30 days overdue* | 17,901 | - | 9,664 | - |
| *- 30 to 90 days overdue* | 7,771 | - | 9,136 | - |
| *- 90 to 180 days overdue* | 5,432 | - | 6,385 | - |
| *- 180 to 360 days overdue* | 5,210 | - | 6,068 | - |
| *- over 360 days overdue* | 710 | - | 868 | 238 |
| Less: Provision for loan impairment | (24,449) | - | (16,343) | (238) |
| **Total loans to individuals** | **314,936** | **-** | **172,032** | **-** |

The Bank assesses non-overdue loans for impairment collectively as a homogeneous population with similar credit quality as disclosed above.

The Bank considers overdue loans as impaired.

## 8 Loans and Advances to Customers (Continued)

In 2010 the Group introduced a restructuring program for delinquent borrowers who demonstrate a willingness to settle their debt by switching to fixed monthly repayments of outstanding amounts ("installment loans"). The amount of installment loans as at 31 December 2010 was USD 6,786 thousand (2009: none) and presented in the table above in accordance with respective debt servicing.

Analysis by credit quality of corporate loans outstanding at 31 December 2010 is as follows:

| *In thousands of USD* | Develop-ment | Finance | Total |
|---|---|---|---|
| Loans individually determined to be impaired (gross): | | | |
| *- over 360 days overdue* | 1,659 | 579 | 2,238 |
| Less: Provision for loan impairment | (599) | (157) | (756) |
| **Total corporate loans** | **1,060** | **422** | **1,482** |

Analysis by credit quality of corporate loans outstanding at 31 December 2009 is as follows:

| *In thousands of USD* | Develop-ment | Trading | Finance | Leasehold operations | Total |
|---|---|---|---|---|---|
| Loans individually determined to be impaired: | | | | | |
| *- current and impaired* | - | - | - | 240 | 240 |
| *- over 360 days overdue* | 1,668 | 1,223 | 581 | - | 3,472 |
| Less: Provision for loan impairment | (599) | (1,223) | (157) | (30) | (2,009) |
| **Total corporate loans** | **1,069** | **-** | **424** | **210** | **1,703** |

The primary factors that the Group considers in assessing whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an analysis by age of loans that are individually and collectively determined to be impaired.

The fair value of collateral in respect of corporate loans at 31 December 2010 was as follows:

| *In thousands of USD* | Develop-ment | Finance | Total |
|---|---|---|---|
| Fair value of collateral (land plots) - individually impaired loans: | 1,060 | 422 | 1,482 |
| **Total** | **1,060** | **422** | **1,482** |

The fair value of collateral in respect of corporate loans at 31 December 2009 was as follows:

| *In thousands of USD* | Develop-ment | Finance | Leasehold operations | Total |
|---|---|---|---|---|
| Fair value of collateral - individually impaired loans: | | | | |
| *- land plots* | 1,069 | 424 | - | 1,493 |
| *- equipment* | - | - | 97 | 97 |
| **Total** | **1,069** | **424** | **97** | **1,590** |

Refer to Note 28 for the estimated fair value of each class of loans and advances to customers.

Interest rate, maturity and geographical risk concentration analysis of loans and advances to customers is disclosed in Note 24. Information on related party balances is disclosed in Note 30.

## 9 Fixed and Intangible Assets

| *In thousands of USD* | Equipment | Leasehold improvements | Vehicles | Total fixed assets | Intangible assets |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 31 December 2008** | **4,647** | **1,003** | **103** | **5,753** | **6,254** |
| Additions | 217 | 46 | 9 | 272 | 484 |
| Disposals | (122) | - | - | (122) | (401) |
| Translation reserve | (130) | (28) | (3) | (161) | (177) |
| **At 31 December 2009** | **4,612** | **1,021** | **109** | **5,742** | **6,160** |
| Additions | 1,281 | 1,982 | 125 | 3,388 | 1,928 |
| Write-off (Note 21) | - | (1,343) | - | (1,343) | - |
| Translation reserve | (35) | (8) | (1) | (44) | (46) |
| **At 31 December 2010** | **5,858** | **1,652** | **233** | **7,743** | **8,042** |
| **Depreciation** | | | | | |
| **At 31 December 2008** | **(653)** | **(443)** | **(39)** | **(1,135)** | **(1,626)** |
| Charge for the period (Note 21) | (716) | (170) | (11) | (897) | (703) |
| Depreciation of disposed objects | 122 | - | - | 122 | 149 |
| Translation reserve | 18 | 13 | 1 | 32 | 47 |
| **At 31 December 2009** | **(1,229)** | **(600)** | **(49)** | **(1,878)** | **(2,133)** |
| Charge for the period (Note 21) | (989) | (421) | (43) | (1,453) | (1,278) |
| Translation reserve | 9 | 5 | 1 | 15 | 15 |
| **At 31 December 2010** | **(2,209)** | **(1,016)** | **(91)** | **(3,316)** | **(3,396)** |
| **Net book value** | | | | | |
| **At 31 December 2009** | **3,383** | **421** | **60** | **3,864** | **4,027** |
| **At 31 December 2010** | **3,649** | **636** | **142** | **4,427** | **4,646** |

Leasehold improvements are capital expenditures on a rented office and are depreciated over the term of lease, which is 5 years.

Intangible assets acquired during the years ended 31 December 2010 and 2009 mainly represent accounting software, retail banking software, licences and development of software.

## 10 Other Financial and Non-financial Assets

| *In thousands of USD* | 2010 | 2009 |
|---|---|---|
| **Other Financial Assets** | | |
| Settlement of operations with plastic cards | 9,988 | 3,552 |
| Trade and other receivables | 278 | 68 |
| Other | 235 | 13 |
| **Total Financial Assets** | **10,501** | **3,633** |
| **Other Non-Financial Assets** | | |
| Prepaid expenses | 785 | 1,092 |
| Materials | 944 | 280 |
| Other | 567 | 490 |
| **Total Non-Financial Assets** | **2,296** | **1,862** |

Prepaid expenses consist of prepaid expenses for minor office repairs, postal services, software. Materials include application forms, letters to customers, envelopes.

Settlement of operations with plastic cards represents balances with agencies placed by customers to redeem credit card loans and to be settled within 30 days.

Other financial assets are not impaired and not past due. Refer to Note 28 for the disclosure of the fair value of other financial assets.

Maturity and geographical risk concentration analysis of amounts other financial assets is disclosed in Note 24.

## 11 Due to Banks

At 31 December 2009, included in amount due to banks were loans from the Central Bank of Russia of USD 4,977 thousand, bearing 12% p.a. These loans were repaid in January 2010 at maturity.

Interest rate, maturity and geographical risk concentration analysis of amounts due to other banks is disclosed in Note 24.

## 12 Customer Accounts

| *In thousands of USD* | 2010 | 2009 |
|---|---|---|
| **Legal entities** | | |
| -Current/settlement accounts of corporate entities | 299 | 363 |
| -Term deposits of corporate entities | 4,324 | 3,815 |
| **Individuals** | | |
| -Current/settlement accounts of individuals | 11,430 | 789 |
| -Term deposits of individuals | 158,096 | 7,654 |
| **Total Customer Accounts** | **174,149** | **12,621** |

At 31 December 2009 the Group had one customer, a related party, having a deposit in the amount of USD 1,569 thousand or 12% of the total customer accounts.

Refer to Note 28 for disclosure of the fair value of customer accounts. Interest rate, maturity and geographical risk concentration analysis of amounts due to other banks is disclosed in Note 24. Information on related party balances is disclosed in Note 30.

## 13 Debt Securities in Issue

| *In thousands of USD* | 2010 | 2009 |
|---|---|---|
| RR denominated bonds issued November 2010 | 49,524 | - |
| RR denominated bonds issued September 2010 | 49,199 | - |
| RR denominated bonds issued July 2010 | 44,868 | - |
| Euro denominated bonds issued June 2008 | - | 86,505 |
| RR denominated bonds issued October 2007 | - | 127 |
| **Total Debt Securities in Issue** | **143,591** | **86,632** |

On 26th of July 2010 the Group issued RR denominated bonds with nominal value of RR 1,400 mln (equivalent of USD 46.1 mln) at 20% coupon rate maturing on 28 July 2013. During the December 2010 the Group repurchased some of these bonds in the amount of USD 3,495 thousand with a discount of 2.25% or premium of 9.25%.

On 20th of September 2010 the Group issued RR denominated bonds with nominal value of RR 1,600 mln (equivalent of USD 51.5 mln) at 14.22% coupon rate maturing on 20 September 2013.

On 30th of November 2010 the Group issued RR denominated bonds with a nominal value of RR 1,500 mln (equivalent of USD 47.9 mln) at 16.5% coupon rate maturing on 26 November 2013. The holders of these bonds have a right to require the Group to purchase these bonds at nominal amount on 26 November 2011 and on 26 November 2012.

Euro denominated bonds were issued on 24 June 2008 at a nominal amount of EUR 70,000 thousand (equivalent of USD 109 mln) with a contractual maturity on 24 June 2011 and with a coupon rate of 18% p.a. payable semi-annually. In the period from May to September 2010 (2009: from March to August 2009) the Group repurchased these bonds from the market with a nominal value of EUR 60,448 thousand (2009: EUR 7,960 thousand) with premiums from 0.8% to 2.3% (2009: with discounts from 33.1% to 59.8%). The difference between the carrying amount of these bonds and the cash paid was recognised in the consolidated statement of comprehensive income as (losses)/gains on repurchase of debt securities in issue. In February 2010 the Group sold back these euro denominated bonds with a nominal value of EUR 659 thousand (in October 2009 with nominal value of EUR 294 thousand) with a discount of 10.0% (2009: 16.5%). In September 2010 the Group repurchased the last tranche of Euro denominated bonds and redeemed these bonds in full.

## 14 Syndicated Loan

In December 2007 the Group obtained a RR denominated syndicated loan facility from several large international institutions with a total limit of USD 61,109 thousand (equivalent of RR 1,500,000 thousand). In accordance with the initial terms of the agreement, the facility matures on 24 June 2011 and bears an interest rate of 16.5% till December 2008, 18.5% from January 2009 till December 2009 and 20.5% from 2010 until maturity date.

In May 2009 the financial covenants on the syndicated loan, effective as at 31 December 2008, were revised together with maturity and interest rate terms of the agreement, and in accordance with the revised terms of the agreement the facility matures on 24 September 2011 and bears an interest rate of 16.5% till 23 December 2008, 18.5% from 23 December 2008 till 29 December 2008, 24.5% from 30 December 2008 till 31 December 2009, and 26.5% from January 2010 till maturity date.

The terms of the syndicated loan agreement were further revised in August 2010. In accordance with the revised terms the facility matures on 24 June 2011, and interest rate was changed to 18.5% until maturity. The Group made a lump sum repayment in the amount of USD 23,255 thousand in September 2010 and agreed on further monthly scheduled repayment of the debt.

On 19 March 2008 the Group issued warrants to lenders of RR denominated syndicated loan facility representing 6% of the authorised share capital of the Group (Refer to Note 17). These warrants were executed on 6 December 2010.

The carrying value of the syndicated loan at 31 December 2010 was USD 31,378 thousand (2009: USD 60,402 thousand). Refer to Note 28 for the disclosure of the fair value of the syndicated loan. Interest rate analysis and maturity analysis are disclosed in Note 24.

## 15 Provisions for Liabilities and Charges

The Group recorded provisions of USD 4,747 thousand (2009: USD 6,850 thousand) in respect of uncertain taxes including related penalties and interest, mostly in relation to administrative expenses. The balance at 31 December 2010 is expected to be either fully utilised or released by the end of 2011 (for Contingencies and Commitments disclosure refer to Note 26).

| *In thousands of USD* | **Provision for tax risks** |
|---|---|
| **Carrying amount at 31 December 2008** | **5,711** |
| Provision charged to profit or loss | 1,302 |
| Currency translation differences | (163) |
| **Carrying amount at 31 December 2009** | **6,850** |
| Provision charged to profit or loss | 861 |
| Release of provision | (2,647) |
| Currency translation differences | (317) |
| **Carrying amount at 31 December 2010** | **4,747** |

## 16 Other Financial and Non-financial Liabilities

| *In thousands of USD* | **2010** | **2009** |
|---|---|---|
| **Other Financial Liabilities** | | |
| Settlement of operations with plastic cards | 4,772 | 1,394 |
| Trade payables | 418 | 210 |
| Other | 1,234 | 649 |
| **Total Other Financial Liabilities** | **6,424** | **2,253** |
| **Other Non-financial Liabilities** | | |
| Accrued administrative expenses | 607 | 425 |
| Performance fee received in advance | - | 419 |
| Other | 375 | 15 |
| **Total Other Non-financial Liabilities** | **982** | **859** |

## 17 Share Capital

| *In thousands of USD except for number of shares* | Number of authorised shares | Number of outstanding shares | Ordinary shares | Share premium | Total |
|---|---|---|---|---|---|
| **At 31 December 2008** | **7,619,180** | **5,906,225** | **5,905** | **65,148** | **71,053** |
| **At 31 December 2009** | **7,619,180** | **5,906,225** | **5,905** | **65,148** | **71,053** |
| Shares issued | - | 376,993 | 378 | 1,493 | 1,871 |
| **At 31 December 2010** | **7,619,180** | **6,283,218** | **6,283** | **66,641** | **72,924** |

The total authorised number of ordinary shares is 7,619 thousand shares (2009: 7,619 thousand shares) with a par value of USD 1 per share (2009: USD 1 per share). All issued ordinary shares are fully paid.

Share premium represents the excess of contributions received over the nominal value of shares issued.

In 2008 the Company issued warrants, which gave the lenders of the syndicated loan (Note 14) an opportunity to buy 6% of the Company's shares. The warrants were exercisable at any time till maturity of the syndicated loan. The lenders of the syndicated loan executed their rights under the warrants and bought the Company's 376,993 ordinary shares issued in December 2010. The Company's obligation under warrants in the amount of USD 1,871 thousand was reclassified to the share capital and share premium in the amount of USD 378 thousand and USD 1,493 thousand at the date of warrants execution, accordingly.

## 18 Interest Income and Expense

| *In thousands of USD* | 2010 | 2009 (Restated) |
|---|---|---|
| **Interest income** | | |
| Loans and advances to customers, including: | | |
| *Credit card loans* | 138,106 | 104,617 |
| *Corporate loans* | 122 | 414 |
| Placements with other banks | 465 | 248 |
| Other interest income | - | 62 |
| **Total interest income** | **138,693** | **105,341** |
| **Interest expense** | | |
| Syndicated loan | 13,766 | 12,753 |
| Customer accounts | 11,490 | 707 |
| Euro denominated bonds | 9,712 | 17,658 |
| RR denominated bonds | 7,269 | 43 |
| Due to banks | 873 | 372 |
| Other interest expense | - | 73 |
| **Total interest expense** | **43,110** | **31,606** |
| **Net interest income** | **95,583** | **73,735** |

## 19 Fee and Commission Expense

| *In thousands of USD* | 2010 | 2009 |
|---|---|---|
| Service fees | 2,116 | 1,257 |
| Banking and other fees | 610 | 374 |
| **Total fee and commission expense** | **2,726** | **1,631** |

Banking and other fees in 2010 include the commission of USD 386 thousand that was paid to third parties – intermediary companies used in intercompany transactions (transfer of funds between the companies of the Group (Note 4)).

## 20 Customer Acquisition Expenses

| *In thousands of USD* | 2010 | 2009 |
|---|---|---|
| Personalisation, printing and distribution | 10,070 | 1,581 |
| Acquisition and partnerships | 3,320 | 608 |
| Marketing and advertising | 2,846 | 864 |
| Credit bureaux | 885 | 306 |
| **Total** | **17,121** | **3,359** |

Customer acquisition expenses represent expenses paid by the Group on services related to origination of credit card customers (mailing of advertising materials, processing of responses, marketing and advertising etc). The Group uses a variety of different channels for the acquisition of new customers.

## 21 Administrative and Other Operating Expenses

| *In thousands of USD* | Note | 2010 | 2009 |
|---|---|---|---|
| Staff costs | | 26,140 | 12,954 |
| Taxes other than income tax | | 6,086 | 2,295 |
| Communication services | | 2,794 | 1,942 |
| Professional services | | 1,578 | 513 |
| Depreciation of fixed assets | 9 | 1,453 | 897 |
| Rental expenses | | 1,372 | 1,121 |
| Fixed assets write-off | 9 | 1,343 | - |
| Amortization of intangible assets | 9 | 1,278 | 703 |
| Information services | | 1,115 | 1,162 |
| Stationary and office expenses | | 778 | 304 |
| Repair of premises and equipment | | - | 300 |
| Other administrative expenses | | 1,017 | 1,564 |
| **Total** | | **44,954** | **23,755** |

Included in staff costs are statutory social security contributions of USD 2,644 thousand (2009: USD 1,522 thousand).

## 22 Income Taxes

Income tax expense comprises the following:

| *In thousands of USD* | 2010 | 2009 |
|---|---|---|
| Current tax | (4,623) | (4,359) |
| Deferred tax | 809 | (4,477) |
| **Income tax expense for the year** | **(3,814)** | **(8,836)** |

The income tax rate applicable to the majority of the Group's income is 20% (2009: 20%). The operations of the Group are subject to multiple tax jurisdictions. The income tax rate applicable to the Russian subsidiaries of the Company is 20%. The income tax rate applicable to the Company recognised in Cyprus is 10%.

A reconciliation between the expected and the actual taxation charge is provided below.

| *In thousands of USD* | 2010 | 2009 |
|---|---|---|
| **Profit/(loss) before tax** | **12,939** | **27,058** |
| Theoretical tax (expense)/credit at statutory rate of 20% (2009:20%) | (2,588) | (5,412) |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| - Non-deductible expenses | (615) | (977) |
| - Other | - | (291) |
| Effects of different tax rates in other countries | | |
| - Financial result of parent entity at 10% | (398) | (1,295) |
| - Unrecognised tax loss carry forward at 10% | (213) | (861) |
| **Income tax expenses for the year** | **(3,814)** | **(8,836)** |

The Group has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of the Company in the amount of USD 2,875 thousand (2009: USD 2,662 thousand). The tax loss carry forward has no time limitation in accordance with Cyprus tax legislation.

Differences between IFRS and taxation regulations in Russia and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. As all of the Group's temporary differences arise in Russia, the tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2009: 20%).

## 22 Income Taxes (Continued)

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

| *In thousands of USD* | 31 December 2009 | (Charged)/ credited to profit or loss | Effect of translation | 31 December 2010 |
|---|---|---|---|---|
| **Tax effect of deductible and taxable temporary differences and tax loss carry forwards** | | | | |
| Loans and advances to customers | (693) | 1,528 | (2) | 833 |
| Premises and equipment | 98 | (534) | (4) | (440) |
| Intangible assets | (805) | (116) | 3 | (918) |
| Syndicated loan | (68) | 106 | (4) | 34 |
| Accrued expenses | 1,067 | 193 | (11) | 1,249 |
| Debt securities in issue | - | (22) | (2) | (24) |
| Customer accounts | - | (203) | (2) | (205) |
| Prepaid expenses | 144 | (143) | (1) | - |
| **Net deferred tax (liability)/assets** | **(257)** | **809** | **(23)** | **529** |

| *In thousands of USD* | 31 December 2008 | Credited/ (charged) to profit or loss | Effect of translation | 31 December 2009 |
|---|---|---|---|---|
| **Tax effect of deductible and taxable temporary differences and tax loss carry forwards** | | | | |
| Loans and advances to customers | 3,190 | (3,789) | (94) | (693) |
| Premises and equipment | 9 | 89 | - | 98 |
| Intangible assets | (253) | (559) | 7 | (805) |
| Syndicated loan | 201 | (263) | (6) | (68) |
| Accrued expenses | 479 | 602 | (14) | 1,067 |
| Tax loss carry-forward | 295 | (286) | (9) | - |
| Prepaid expenses | 428 | (271) | (13) | 144 |
| **Net deferred tax asset** | **4,349** | **(4,477)** | **(129)** | **(257)** |

## 23 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Board of Directors of the Group.

The business of the Group is represented by one operating segment (the “retail banking”) as the Group specialises in issuance of credit cards. All the management decisions are based on the financial information related to the retail banking segment.

***Measurement of operating segment profit or loss, assets and liabilities***

Starting from 1 January 2010 the CODM reviews financial information prepared based on International Financial Reporting Standards with no adjustments for requirements of internal reporting. Comparatives were adjusted to conform to the presentation of current period amounts.

The CODM evaluates performance of the business based on total revenue and profit before tax as reported in the IFRS financial statements. Total consolidated revenues of USD 151,023 thousands (2009: USD 112,202 thousands) comprise interest income, foreign exchange translation gains less losses, income from sales of bad debts, release of provision for tax risks, and other operating income. The profit before tax analysed by CODM is USD 12,939 thousands (2009: USD 27,058 thousands).

## 24 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks by the management of the Bank. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that the exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures to minimise operational and legal risks.

***Credit risk.*** The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group’s lending and other transactions with counterparties giving rise to financial assets. The Group uses a transition matrix approach for calculation of the credit risk.

The Group grants credit card loans to customers across all regions of Russia, therefore its credit risk is broadly diversified.

The Group’s maximum exposure to credit risk is 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.

The Group created a credit committee, which establishes general principles for lending to individual borrowers. According to these principles, the minimum requirements for potential customers are listed below:

- Citizenship of Russian Federation
- Age 21 to 70 inclusive
- Monthly income above RR 5 thousand
- Availability of cell-phone, and
- Permanent employment.

**24 Financial Risk Management (Continued)**

The decision to provide a credit card loan to a potential customer is made either automatically (for ordinary credit card customers) or by the collective decision of the Credit Committee (VIP customers).

1. Ordinary customers. The decision is made in four steps.

   a) The first step includes validation of the application data. Credit officers check the documents and validate contact information (addresses and telephones).

   b) The second step includes phone verification of the application information about the potential customer, his/her employment, social and property status, etc.

   c) The third step includes request of the previous credit history of the applicant from the three largest in Russia credit bureaux – Equifax, Experian and NBCH (National Bureau of Credit Histories).

   d) Finally, based on all available information, the credit score of the applicant is calculated and a final decision is made about the approval of the credit card and respective credit limit is calculated depending on the score of the customer. As an additional loss preventing instrument, the credit limit on a credit card loan is blocked when delinquency reaches 7 days.

2. VIP customers. A limit below RR 300 thousand can be approved by two members of the Credit Committee. In rare cases the limit may exceed RR 300 thousand and in such cases should be approved by the Credit Committee.

When loans become unrecoverable or not economically viable, to pursue further collection efforts, the Collection Department decides to sell these loans to a debt collection agency. The Collection Department considers the following criteria for bad debts qualifying for the sale to external debt collection agencies:

a) loans remain unpaid after all collection procedures were performed (no payment during last 6 months);

b) The debtor cannot be either reached or found during the last 4 months;

c) The debtor has no assets and there is no expectation he/she will have any in future;

d) The debtor has died and there is no known estate or guarantor;

e) It is determined that it is not cost effective to continue collection efforts.

The management of the Group manages the credit risk on unused limits on credit cards in the following way:

a) If the credit card loan is overdue for more than 7 days, its account will be blocked till repayment;

b) If the borrower had lost his/her source of income, then borrower account will be blocked till verification of his/her new employment;

c) If borrower’s income is substantially less than at the time of loan origination then the borrower’ limit for credit might be reduced accordingly.

***Market risk.*** The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

## 24 Financial Risk Management (Continued)

***Currency risk.*** In respect of currency risk, the management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

| | At 31 December 2010 | | | At 31 December 2009 | | |
|---|---|---|---|---|---|---|
| *In thousands of USD* | **Monetary financial assets** | **Monetary financial liabilities** | **Net balance sheet position** | **Monetary financial assets** | **Monetary financial liabilities** | **Net balance sheet position** |
| Russian Roubles | 377,967 | 360,130 | 17,837 | 192,655 | 74,572 | 118,083 |
| US Dollars | 20,775 | 89 | 20,686 | 5,701 | 4,906 | 795 |
| Euro | 1,087 | 2,332 | (1,245) | 3,505 | 87,407 | (83,902) |
| **Total** | **399,829** | **362,551** | **37,278** | **201,861** | **166,885** | **34,976** |

The above analysis includes only monetary assets and liabilities. Non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the end of reporting period, with all other variables held constant:

| | At 31 December 2010 | | At 31 December 2009 | |
|---|---|---|---|---|
| *In thousands of USD* | **Impact on profit or loss** | **Impact on equity** | **Impact on profit or loss** | **Impact on equity** |
| US Dollar strengthening by 15% (2009: by 20%) | 3,103 | 3,103 | 159 | 159 |
| US Dollar weakening by 15% (2009: by 20%) | (3,103) | (3,103) | (159) | (159) |
| Euro strengthening by 15% (2009: by 20%) | (187) | (187) | (16,780) | (16,780) |
| Euro weakening by 15% (2009: by 20%) | 187 | 187 | 16,780 | 16,780 |

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

***Interest rate risk.*** The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

## 24 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

| *In thousands of USD* | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | From 1 to 3 years | Total |
|---|---|---|---|---|---|
| **31 December 2010** | | | | | |
| Total financial assets | 71,599 | 163,021 | 158,209 | - | 392,829 |
| Total financial liabilities | (36,918) | (116,927) | (51,549) | (150,148) | (355,542) |
| **Net interest sensitivity gap at 31 December 2010** | **34,681** | **46,094** | **106,660** | **(150,148)** | **37,287** |
| **31 December 2009** | | | | | |
| Total financial assets | 42,597 | 72,390 | 86,874 | - | 201,861 |
| Total financial liabilities | (8,414) | (17,223) | (18,669) | (122,579) | (166,885) |
| **Net interest sensitivity gap at 31 December 2009** | **34,183** | **55,167** | **68,205** | **(122,579)** | **34,976** |

The Group has no significant risk associated with variable interest rates on credit and advances provided to customers or loans received.

At 31 December 2010, if interest rates at that date had been 200 basis points lower (2009: 200 points lower), with all other variables held constant, profit would have been USD 720 thousand (2009: USD 1,016 thousand) lower.

If interest rates had been 200 basis points higher (2009: 200 points higher), with all other variables held constant, profit would have been USD 720 thousand (2009: USD 1,016 thousand) higher.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel.

The sign "-" in the table below means that the Group does not have the respective assets or liabilities in the corresponding currency.

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| *In % p.a.* | RR | USD | EURO | RR | USD | EURO |
| **Assets** | | | | | | |
| Cash and cash equivalents | 3.1 | - | - | 4.8 | - | - |
| Loans and advances to customers | | | | | | |
| *Corporate loans* | 20.0 | - | - | 20.6 | - | - |
| *Credit card loans* | 59.2 | - | - | 63.7 | - | - |
| *Other loans to individuals* | 20.0 | - | - | 20.0 | - | - |
| **Liabilities** | | | | | | |
| Due to banks | - | - | - | 12.0 | - | - |
| Customer accounts | 12.4 | 15.0 | 13.1 | 17.3 | 13.2 | 9.0 |
| Debt securities in issue | 20.1 | - | - | 19.8 | - | 20.7 |
| Syndicated loan | 16.9 | - | - | 24.4 | - | - |

## 24 Financial Risk Management (Continued)

***Other price risk.*** The Group has no exposure to equity price risk as no transactions in equity products are performed.

The Group is exposed to prepayment risk through providing fixed rate loans, which give the borrower the right to repay the loans early. The Group's current year profit or loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers (2009: no material impact).

***Geographical risk concentrations.*** The geographical concentration of the Group's financial assets and liabilities at 31 December 2010 is set out below:

| *In thousands of USD* | Russia | OECD | Total |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 50,758 | 134 | 50,892 |
| Mandatory cash balances with the CBRF | 2,463 | - | 2,463 |
| Loans and advances to customers | 316,418 | - | 316,418 |
| Mastercard guarantee deposit | - | 12,555 | 12,555 |
| Other financial assets | 10,501 | - | 10,501 |
| **Total financial assets** | **380,140** | **12,689** | **392,829** |
| **Financial liabilities** | | | |
| Customer accounts | 169,923 | 4,226 | 174,149 |
| Debt securities in issue | 143,591 | - | 143,591 |
| Syndicated loan | 8,445 | 22,933 | 31,378 |
| Other financial liabilities | 6,424 | - | 6,424 |
| **Total financial liabilities** | **328,383** | **27,159** | **355,542** |
| **Credit related commitments (Note 26)** | **191,487** | **-** | **191,487** |

The geographical concentration of the Group's assets and liabilities at 31 December 2009 is set out below:

| *In thousands of USD* | Russia | OECD | Total |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 18,629 | 317 | 18,946 |
| Mandatory cash balances with the CBRF | 1,182 | - | 1,182 |
| Loans and advances to customers | 173,735 | - | 173,735 |
| Financial derivatives | - | 2,361 | 2,361 |
| Mastercard guarantee deposit | - | 2,004 | 2,004 |
| Other financial assets | 3,633 | - | 3,633 |
| **Total financial assets** | **197,179** | **4,682** | **201,861** |
| **Financial liabilities** | | | |
| Due to banks | 4,977 | - | 4,977 |
| Customer accounts | 12,621 | - | 12,621 |
| Debt securities in issue | 127 | 86,505 | 86,632 |
| Syndicated loan | - | 60,402 | 60,402 |
| Other financial liabilities | 2,253 | - | 2,253 |
| **Total financial liabilities** | **19,978** | **146,907** | **166,885** |
| **Credit related commitments (Note 26)** | **81,723** | **-** | **81,723** |

**24 Financial Risk Management (Continued)**

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties are allocated to the caption “Russia”. Cash on hand and fixed assets have been allocated based on the country in which they are physically held.

***Other risk concentrations.*** Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. The Group did not have any such significant risk concentrations at 31 December 2010 and 2009.

***Liquidity risk.*** Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from unused limits on issued credit cards, retail deposits and current accounts. The Group does not maintain cash resources to meet all of these needs as experience shows that only a certain level of calls will take place and it can be predicted with a high level of certainty. Liquidity risk is managed by the Chief Financial Officer (CFO) of the Group.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to institutional investors, corporate and retail customer deposits and debt securities. The Group keeps all available cash in diversified portfolios of liquid instruments such as a correspondent account with CBRF and overnight placements in high-rated commercial banks, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The available cash at all times exceeds all accrued financing costs falling due within half a year plus two months of regular operating costs.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements. The liquidity analysis takes into account the covenant requirements and ability of the Group to waive any potential breaches within the grace period.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 88.5% at 31 December 2010 (2009: 279.1%). The statutory ratio limit is a minimum of 15%.

- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 145.7% at 31 December 2010 (2009: 239.8%). The statutory ratio limit is a minimum of 50%.

- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The ratio was 0% at 31 December 2010 (2009: 0%). The statutory ratio limit is a maximum of 120%.

The CFO receives information about the liquidity profile of the financial assets and liabilities. This includes daily, weekly, monthly and quarterly updates on the level of credit card transactions and repayments, statistics on credit card issuance and credit card limit utilisation, inflow and outflow of retail deposits, level of expected outflows such as operating costs and financing activities. The CFO then ensures the availability of an adequate portfolio of short-term liquid assets, made up of an amount on the correspondent account with CBR and overnight deposits with banks, to ensure that sufficient liquidity is maintained within the Group as a whole. Major assumptions used in liquidity analysis are based on long-standing statistics that shows that on average, about 88-92% of issued credit cards are activated, about 83-90% of activated credit cards are actually used, limit utilisation level on credit cards is stable at 70-78%. The level of quarterly transactions is generally within 16-17% of the net credit card portfolio while the level of quarterly repayments is generally 32-33% of the net credit card portfolio.

Regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions and credit card portfolio behavior is reviewed by the CFO.

## 24 Financial Risk Management (Continued)

The table below shows liabilities at 31 December 2010 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of reporting period.

| *In thousands of USD* | **Demand and less than 1 month** | **From 1 to 3 months** | **From 3 to 6 months** | **From 6 to 12 months** | **From 1 to 3 years** | **Total** |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Customer accounts | 16,206 | 35,049 | 48,115 | 41,997 | 41,941 | 183,308 |
| Debt securities in issue | 4,078 | 3,695 | 4,049 | 12,101 | 192,759 | 216,682 |
| Syndicated loan | 4,193 | 8,605 | 20,624 | - | - | 33,422 |
| Other financial liabilities | 6,424 | - | - | - | - | 6,424 |
| Undrawn credit lines | 191,487 | - | - | - | - | 191,487 |
| Due to Intermediary Entities (Note 4) | 9,893 | - | - | 36,324 | - | 46,217 |
| **Total potential future payments for financial obligations** | **232,281** | **47,349** | **72,788** | **90,422** | **234,700** | **677,540** |

The maturity analysis of financial liabilities at 31 December 2009 is as follows:

| *In thousands of USD* | **Demand and less than 1 month** | **From 1 to 3 months** | **From 3 to 6 months** | **From 6 to 12 months** | **From 1 to 3 years** | **Total** |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Due to banks | 5,000 | - | - | - | - | 5,000 |
| Customer accounts | 34 | 3,253 | 1,547 | 3,149 | 7,281 | 15,264 |
| Debt securities in issue | - | - | 11,885 | 14,794 | 84,395 | 111,074 |
| Syndicated loan | - | 426 | 436 | 867 | 88,797 | 90,526 |
| Other financial liabilities | 2,253 | - | - | - | - | 2,253 |
| Undrawn credit lines | 81,723 | - | - | - | - | 81,723 |
| **Total potential future payments for financial obligations** | **89,010** | **3,679** | **13,868** | **18,810** | **180,473** | **305,840** |

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with the Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

## 24 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2010 is as follows:

| *In thousands of USD* | **Demand and less than 1 month** | **From 1 to 3 months** | **From 3 to 6 months** | **From 6 to 12 months** | **From 1 to 3 years** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 19,711 | 31,181 | - | - | - | 50,892 |
| Mandatory cash balances with the CBRF | 2,463 | - | - | - | - | 2,463 |
| Loans and advances to customers | 26,369 | 52,735 | 79,105 | 158,209 | - | 316,418 |
| MasterCard guarantee deposit | 12,555 | - | - | - | - | 12,555 |
| Other financial assets | 10,501 | - | - | - | - | 10,501 |
| **Total financial assets** | **71,599** | **83,916** | **79,105** | **158,209** | **-** | **392,829** |
| **Liabilities** | | | | | | |
| Customer accounts | 22,225 | 33,825 | 48,172 | 39,447 | 30,480 | 174,149 |
| Debt securities in issue | 4,076 | 3,695 | 4,050 | 12,102 | 119,668 | 143,591 |
| Syndicated loan | 4,193 | 8,605 | 18,580 | - | - | 31,378 |
| Other financial liabilities | 6,424 | - | - | - | - | 6,424 |
| **Total financial liabilities** | **36,918** | **46,125** | **70,802** | **51,549** | **150,148** | **355,542** |
| **Net liquidity gap at 31 December 2010** | **34,681** | **37,791** | **8,303** | **106,660** | **(150,148)** | **37,287** |
| **Cumulative liquidity gap at 31 December 2010** | **34,681** | **72,472** | **80,775** | **187,435** | **37,287** | |

## 24 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2009 is as follows:

| *In thousands of USD* | **Demand and less than 1 month** | **From 1 to 3 months** | **From 3 to 6 months** | **From 6 to 12 months** | **From 1 to 3 years** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 18,946 | - | - | - | - | 18,946 |
| Mandatory cash balances with the CBRF | 1,182 | - | - | - | - | 1,182 |
| Loans and advances to customers | 14,471 | 28,956 | 43,434 | 86,874 | - | 173,735 |
| Derivatives | 2,361 | - | - | - | - | 2,361 |
| Mastercard guarantee deposit | 2,004 | - | - | - | - | 2,004 |
| Other financial assets | 3,633 | - | - | - | - | 3,633 |
| **Total financial assets** | **42,597** | **28,956** | **43,434** | **86,874** | **-** | **201,861** |
| **Liabilities** | | | | | | |
| Due to banks | 4,977 | - | - | - | - | 4,977 |
| Customer accounts | 1,184 | 3,125 | 1,351 | 2,881 | 4,080 | 12,621 |
| Debt securities in issue | - | - | 11,885 | 14,921 | 59,826 | 86,632 |
| Syndicated loan | - | - | 862 | 867 | 58,673 | 60,402 |
| Other financial liabilities | 2,253 | - | - | - | - | 2,253 |
| **Total financial liabilities** | **8,414** | **3,125** | **14,098** | **18,669** | **122,579** | **166,885** |
| **Net liquidity gap at 31 December 2009** | **34,183** | **25,831** | **29,336** | **68,205** | **(122,579)** | **34,976** |
| **Cumulative liquidity gap at 31 December 2009** | **34,183** | **60,014** | **89,350** | **157,555** | **34,976** | |

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The 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.

## 25 Management of Capital

The Group's objectives when managing capital are (i) for the Bank to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) for the Group to comply with the financial covenants set under the syndicated loan facility; (iii) to safeguard the Group's ability to continue as a going concern.

The Group considers total capital under management to be equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2010 was USD 43,865 thousand (2009: USD 35,040 thousand). Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored daily and submitted to the Central Bank of the Russian Federation monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level of 10%.

Under the current capital requirements set by financial covenants of the syndicated loan facility the Group has to maintain a statutory capital ratio above a prescribed minimum level of 13%.

The Group and the Bank have complied with all externally imposed capital requirements throughout 2010 and 2009.

## 26 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

***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.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. 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 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 in this respect has been contradictory.

## 26 Contingencies and Commitments (Continued)

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

From time to time, the Group adopts interpretations of uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to financial position and/or the overall operations of the entity.

In addition to the above transfer pricing matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of USD 3,375 thousand (2009: USD 4,701 thousand). These exposures primarily relate to the operating expenses and to acquisitions of intangible assets.

As at 31 December 2010 the Group recorded provisions in respect of uncertain taxes in the amount of USD 4,747 thousand (2009: USD 6,850 thousand). Refer to Note 15.

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

| *In thousands of USD* | **2010** | **2009** |
|---|---|---|
| Not later than 1 year | 1,656 | 819 |
| **Total operating lease commitments** | **1,656** | **819** |

***Compliance with covenants.*** The Group is subject to certain covenants related primarily to its debt securities in issue and syndicated loan facility. Non-compliance with such covenants may result in negative consequences for the Group. Management believes that the Group was in compliance with covenants as at 31 December 2010 and 31 December 2009 (Note 25).

***Credit related commitments.*** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of credit card loans. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards (Note 24). The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

## 26 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

| *In thousands of USD* | 2010 | 2009 |
|---|---|---|
| Unused limits on credit cards loans | 191,487 | 81,723 |
| **Total credit related commitments** | **191,487** | **81,723** |

The total outstanding contractual amount of unused limits on contingencies and commitments liability does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded and therefore its fair value is close to zero. Credit related commitments are denominated in Russian Roubles.

## 27 Financial Derivatives

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange swap contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are short term in nature.

| | 2010 | | 2009 | |
|---|---|---|---|---|
| *In thousands of USD* | Contracts with positive fair value | Contracts with negative fair value | Contracts with positive fair value | Contracts with negative fair value |
| **Foreign exchange swap: fair values, at the end of the reporting period, of** | | | | |
| - USD receivable on settlement (+) | - | 7,000 | - | - |
| - RR payable on settlement (-) | - | (7,009) | - | - |
| **Net fair value of foreign exchange forwards and swaps** | **-** | **(9)** | **-** | **-** |

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

At 31 December 2009, the Group had:

- an outstanding purchased call option giving the Group the right to buy Euro 50,000 thousand from an international financial institution for a strike price of RR 45 per 1 EUR.
- an outstanding written put option giving an international financial institution the right to buy Euro 100,000 thousand from the Group for a strike price of RR 55 per 1 EUR.
- an outstanding purchased call option giving the Group the right to buy Euro 50,000 thousand from an international financial institution for a strike price of RR 65 per 1 EUR.

At 31 December 2009 the fair value of the outstanding options was recognised as an asset of USD 2,361 thousand. In June 2010 the Group sold these options to an international financial institution at its fair value for the amount of USD 510 thousands.

## 28 Fair Value of Financial Instruments

The fair value of financial instruments carried at amortised cost are as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| *In thousands of USD* | **Fair value with inputs observable in markets** | **Carrying value** | **Fair value with inputs observable in markets** | **Carrying value** |
| **FINANCIAL ASSETS CARRIED AT AMORTISED COST** | | | | |
| ***Cash and cash equivalents*** | | | | |
| -Cash on hand | 452 | 452 | 485 | 485 |
| - Cash balances with the CBRF (other than mandatory reserve deposits) | 8,066 | 8,066 | 5,024 | 5,024 |
| - Placements with other banks with original maturities of less than three months | 42,374 | 42,374 | 13,437 | 13,437 |
| ***Mandatory cash balances with the CBRF*** | 2,463 | 2,463 | 1,182 | 1,182 |
| ***Loans and advances to customers*** | | | | |
| - Loans to individuals: | 314,936 | 314,936 | | |
| *Credit card loans* | - | - | 172,032 | 172,032 |
| - Corporate loans: | | | | |
| *Development* | 1,060 | 1,060 | 1,069 | 1,069 |
| *Finance* | 422 | 422 | 424 | 424 |
| *Leasehold operations* | - | - | 210 | 210 |
| ***MasterCard guarantee deposit*** | 12,555 | 12,555 | 2,004 | 2,004 |
| ***Other financial assets*** | | | | |
| - Settlement of operations with plastic cards receivable | 9,988 | 9,988 | 3,552 | 3,552 |
| - Other financial assets | 513 | 513 | 81 | 81 |
| **TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST** | **392,829** | **392,829** | **199,500** | **199,500** |
| Derivatives | - | - | 2,361 | 2,361 |
| **TOTAL FINANCIAL ASSETS** | **392,829** | **392,829** | **201,861** | **201,861** |

## 28 Fair Value of Financial Instruments (Continued)

| *In thousands of USD* | 31 December 2010 Fair value with inputs observable in markets | 31 December 2010 Carrying value | 31 December 2009 Fair value with inputs observable in markets | 31 December 2009 Carrying value |
|---|---|---|---|---|
| **FINANCIAL LIABILITIES CARRIED AT AMORTISED COST** | | | | |
| ***Due to banks*** | - | - | 4,977 | 4,977 |
| ***Customer accounts*** | | | | |
| Legal entities | | | | |
| *-Current/settlement accounts of corporate entities* | 299 | 299 | 363 | 363 |
| *-Term deposits of corporate entities* | 4,441 | 4,324 | 3,684 | 3,815 |
| Individuals | | | | |
| *-Current/settlement accounts of individuals* | 11,430 | 11,430 | 789 | 789 |
| *-Term deposits of individuals* | 162,365 | 158,096 | 7,877 | 7,654 |
| ***Debt securities in issue*** | | | | |
| *Euro denominated bonds* | - | - | 86,200 | 86,505 |
| *RR Bonds issued on domestic market* | 153,541 | 143,591 | 127 | 127 |
| ***Syndicated loan*** | 32,916 | 31,378 | 57,277 | 60,402 |
| ***Other financial liabilities*** | | | | |
| *Settlement of operations with plastic cards* | 4,772 | 4,772 | 1,394 | 1,394 |
| *Trade payables* | 418 | 418 | 210 | 210 |
| *Other* | 1,234 | 1,234 | 649 | 649 |
| **TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST** | **371,416** | **355,542** | **163,547** | **166,885** |

***The methods and assumptions applied in determining fair values***

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. Where quoted market prices are not available, the Group used valuation techniques. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

| *In % p.a.* | **2010** | **2009** |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 3.1 | 4.8 |
| Loans and advances to customers | | |
| *Corporate loans* | 20.0 | 20.6 |
| *Credit card loans* | 59.2 | 63.7 |
| *Other loans to individuals* | - | 20.0 |
| **Liabilities** | | |
| Due to banks | - | 12.0 |
| Customer accounts | 9.8 | 14.9 |
| Debt securities in issue | 10.1 | 23.0 |
| Syndicated loan | 12.0 | 32.0 |

## 29 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2010:

| *In thousands of USD* | **Loans and receivables** | **Total** |
|---|---|---|
| ***Cash and cash equivalents*** | | |
| -Cash on hand | 452 | 452 |
| - Cash balances with the CBRF (other than mandatory reserve deposits) | 8,066 | 8,066 |
| - Placements with other banks with original maturities of less than three months | 42,374 | 42,374 |
| ***Mandatory cash balances with the CBRF*** | 2,463 | 2,463 |
| ***Loans and advances to customers*** | | |
| - Loans to individuals: | | |
| *Credit card loans* | 314,936 | 314,936 |
| - Corporate loans: | | |
| *Development* | 1,060 | 1,060 |
| *Finance* | 422 | 422 |
| ***MasterCard guarantee deposit*** | 12,555 | 12,555 |
| ***Other financial assets*** | | |
| - Settlement of operations with plastic cards receivable | 9,988 | 9,988 |
| - Other financial assets | 513 | 513 |
| **TOTAL FINANCIAL ASSETS** | **392,829** | **392,829** |

## 29 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with the measurement categories defined in IAS 39*, Financial Instruments: Recognition and Measurement*, as of 31 December 2009:

| *In thousands of USD* | Loans and receivables | Assets held for trading | Total |
|---|---|---|---|
| ***Cash and cash equivalents*** | | | |
| -Cash on hand | 485 | - | 485 |
| - Cash balances with the CBRF (other than mandatory reserve deposits) | 5,024 | - | 5,024 |
| - Placements with other banks with original maturities of less than three months | 13,437 | - | 13,437 |
| ***Mandatory cash balances with the CBRF*** | 1,182 | - | 1,182 |
| ***Loans and advances to customers*** | | | |
| - Loans to individual: | | | |
| *Credit card loans* | 172,032 | - | 172,032 |
| *Other loans to individuals* | - | - | - |
| - Corporate loans: | | | |
| *Development* | 1,069 | - | 1,069 |
| *Consulting* | - | - | - |
| *Finance* | 424 | - | 424 |
| *Leasehold operations* | 210 | - | 210 |
| *Other* | - | - | - |
| ***Derivative Financial Instruments*** | - | 2,361 | 2,361 |
| MasterCard guarantee deposit | 2,004 | - | 2,004 |
| ***Other financial assets*** | | | |
| - Settlement of operations with plastic cards receivable | 3,552 | - | 3,552 |
| - Other financial assets | 81 | - | 81 |
| **TOTAL FINANCIAL ASSETS** | **199,500** | **2,361** | **201,861** |

As of 31 December 2010 and 31 December 2009 all of the Group's financial liabilities were carried at amortised cost.

## 30 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The outstanding balances with related parties were as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| *In thousands of USD* | **Key management personnel** | **Other related parties** | **Key management personnel** | **Other related parties** |
| **ASSETS** | | | | |
| Gross amounts of loans and advances to customers (contractual interest rate: 20% (2009: 20%) | 43 | - | 67 | 240 |
| Impairment provisions for loans and advances to customers at 31 December | - | - | - | (50) |
| **LIABILITIES** | | | | |
| Customer accounts (contractual interest rate: 15% p.a. (2009: 9%-18% p.a.) | 1,235 | 2,766 | 72 | 1,730 |
| Debt securities in issue (subordinated tranche, contractual interest rate: 24% p.a.) | - | - | - | 9,334 |
| Syndicated loan (contractual interest rate: 20.5% p.a.) | - | 8,445 | - | - |

Other related parties in the tables above are represented mainly by entities which are under control of the Group's ultimate beneficiary Oleg Tinkov.

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| *In thousands of USD* | **Key management personnel** | **Other related parties** | **Key management personnel** | **Other related parties** |
| Interest income | 37 | - | 3 | 70 |
| Interest expense | (21) | (1,596) | - | (1,749) |

Key management compensation is presented below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| *In thousands of USD* | **Expense** | **Accrued liability** | **Expense** | **Accrued liability** |
| *Short-term benefits:* | | | | |
| - Salaries | 4,951 | - | 2,513 | - |
| - Short-term bonuses | 2,787 | - | - | - |
| **Total** | **7,738** | **-** | **2,513** | **-** |

Key management personnel were entitled to a bonus equal to 7% of the fair value of the controlling shareholder’s stake in the Bank’s equity, payable directly by the ultimate beneficiary who has a controlling stake in the Group. The fair value calculated based upon report of the independent appraiser or price of the placements of the Bank’s shares as at 31 December 2012. This arrangement was cancelled in December 2010.

## 31 Events after the End of the Reporting period

In February 2011 the Company's Board of Directors approved an additional issue of 9,999 ordinary shares with nominal value of USD 1 per share, ranked equally and carrying one vote each for the approximate amount of USD 15,000 thousands.

In February 2011 the Group purchased 100% ownership of previously controlled and consolidated subsidiary LLC "TCS" (Note 1).

In February 2011 the Group issued RR denominated bonds with nominal value of RR 1,200,000 thousands (equivalent of USD 41,464 thousands) at 14% coupon rate maturing on 18 February 2014.

# Egidaco Investments PLC Group

# International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

# 31 December 2009

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# Board of Directors and other officers

**Board of Directors**

Constantinos Economides (appointed 21 November 2008)
Maria Demetriou (appointed 21 November 2008)
Alexis Ioannides (appointed 21 November 2008)
Julian Charles Salisbury (appointed 9 February 2009)
Per Brilioth (appointed 20 January 2010)

**Company Secretary**

**Altruco Secretarial Limited**

G. Pavlides Court, 5th Floor
2, Arch. Kyprianou & Ayiou Andreou Street.
3036 Limassol, Cyprus
Mail: P.O.Box 50734,
3609, Limassol, Cyprus

**Registered office**

G. Pavlides Court, 5th Floor
2, Arch. Kyprianou & Ayiou Andreou Street.
3036 Limassol, Cyprus
Mail: P.O.Box 50734,
3609, Limassol, Cyprus

## Report of the Board of Directors

1 The Board of Directors presents its report together with the audited consolidated financial statements of Egidaco Investments PLC (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2009.

### Principal activities

2 The Group's principal activity is retail banking operations within the Russian Federation through the subsidiary CJSC "Tinkoff. Credit Systems" Bank (the "Bank").

3 The Bank is a retail bank that specialises in credit cards. The Bank is fully licensed by the Central Bank of Russia and is a member of the Deposit Insurance System, and launched its operations in the summer of 2007. The founder and controlling shareholder of the Bank is Oleg Tinkov. In late 2007 Goldman Sachs became a minority shareholder in the Company (100% owner of the Bank) and in mid-2008 the Swedish Investment Fund, Vostok Nafta, also acquired a minority stake in the Company.

4 The Bank operates a flexible business model. Its virtual network enables it to speed business up or slow acquisition down depending on the availability of funding and seasonality. The Bank' primary customer acquisition channel is direct mail (DM), but it also uses Direct Sales Agents (DSA), partnerships (cobrands), and the Internet to acquire new customers. The Bank employs a "By invitation only" origination model, which combined with the Bank's virtual network, affords it a geographic reach across all of Russia's regions resulting in a highly diversified portfolio. While credit cards are the mainstay of the Bank business, a retail deposit pilot was conducted successfully in 2009 in order to diversify the Bank's funding base, and this programme is now being rolled out across Russia.

5 The profit of the Group for the year ended 31 December 2009 was USD 18,222 thousand (2008: loss of USD 44,747 thousand). On 31 December 2009 the total assets of the Group were USD 211,614 thousand (2008: USD 193,942 thousand) and the net assets were USD 35,040 thousand (2008: USD 16,468 thousand). Management considers that the financial position, development and performance of the Group as presented in these consolidated financial statements are satisfactory given the start up nature of the business in 2007-2008 and the impact of global financial crisis.

### Principal risks and uncertainties

6 The Group conducts its activities in Russia through its subsidiaries; it has been affected by the uncertainties of the Russian economic environment, and global credit crunch that have had an impact on the Group's business and financial position.

7 Other risks and uncertainties, which affect the Group, are presented in Notes 2, 25 and 27 of the consolidated financial statements.

### Future developments

8 The Board of Directors does not expect any significant changes or developments in the operations, financial position, and performance of the Group in the near future.

## Report of the Board of Directors (Continued)

**Results**

9 The Group's results for the year are set out on page 7 of the consolidated financial statements.

**Share capital**

10 There were no changes to the share capital of the Group in 2009.

**Board of Directors**

11 The members of the Board of Directors as of 31 December 2009 and at the date of this report are shown on page 1. Mr Ion Dimitris Dagtoglou de Carteret resigned as Goldman Sachs' Director on 9 February 2009 but was reappointed on 16 September 2009 as Vostok Nafta Director, and resigned on 20 January 2010. Mr Constantinos Economides, Maria Demetriou, Alexis Ioannides, were appointed as Directors on 21 November 2008. Mr Julian Charles Salisbury was appointed as Director on 9 February 2009, Mr Per Brilioth was appointed as Director on 20 January 2010.

12 There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

**Auditors**

13 The Independent Auditors, PricewaterhouseCoopers Limited, has expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

Constantinos Economides
Director
Limassol
7 April 2010

PRICEWATERHOUSECOOPERS | INVESTORS IN PEOPLE

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# Independent Auditors' Report
# To the Members of Egidaco Investments PLC

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Egidaco Investments PLC (the "Company") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Board of Directors' Responsibility for the Consolidated Financial Statements*

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PRICEWATERHOUSECOOPERS

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Egidaco Investments PLC and its subsidiaries as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and International Financial Reporting Standards as issued by the IASB and the requirements of the Cyprus Companies Law, Cap. 113.

**Report on Other Legal Requirements**

Pursuant to the requirements of the Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

**Other Matter**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Companies Law, Cap. 113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

PricewaterhouseCoopers

PricewaterhouseCoopers Limited
Chartered Accountants

Nicosia, 7 April 2010

*Egidaco Investments PLC Group*
***Consolidated Statement of Financial Position***

| *In thousands of USD* | Note | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | 18,946 | 30,907 |
| Mandatory cash balances with the CBRF | | 1,182 | 276 |
| Loans and advances to customers | 8 | 173,735 | 140,112 |
| Derivatives | 28 | 2,361 | - |
| Deferred income tax assets | 23 | - | 4,349 |
| Other financial assets | 10 | 5,637 | 6,400 |
| Other non-financial assets | 10 | 1,862 | 2,652 |
| Fixed assets | 9 | 3,864 | 4,618 |
| Intangible assets | 9 | 4,027 | 4,628 |
| **TOTAL ASSETS** | | **211,614** | **193,942** |
| **LIABILITIES** | | | |
| Due to banks | 11 | 4,977 | - |
| Customer accounts | 12 | 12,621 | 8,436 |
| Debt securities in issue | 13 | 86,632 | 105,710 |
| Syndicated loan | 14 | 60,402 | 50,236 |
| Provisions for liabilities and charges | 15 | 6,850 | 5,711 |
| Current income tax liability | | 1,723 | 1,562 |
| Deferred tax liability | 23 | 257 | - |
| Other financial liabilities | 16 | 2,253 | 3,832 |
| Other non-financial liabilities | 16 | 859 | 1,781 |
| Net assets attributable to participant | 17 | - | 206 |
| **TOTAL LIABILITIES** | | **176,574** | **177,474** |
| **EQUITY** | | | |
| Share capital | 18 | 5,905 | 5,905 |
| Share premium | 18 | 65,148 | 65,148 |
| Obligation under warrants | 18 | 1,871 | 1,871 |
| Accumulated deficit | | (29,505) | (47,727) |
| Translation reserve | | (8,379) | (8,729) |
| **TOTAL EQUITY** | | **35,040** | **16,468** |
| **TOTAL LIABILITIES AND EQUITY** | | **211,614** | **193,942** |

Approved for issue and signed on behalf of the Board of Directors on 7 April 2010.

Constantinos Economides
Director

Maria Demetriou
Director

| *In thousands of USD* | **Note** | **2009** | **2008** |
|---|---|---|---|
| Interest income | 19 | 124,018 | 71,514 |
| Interest expense | 19 | (31,606) | (24,876) |
| **Net interest income** | | **92,412** | **46,638** |
| Provision for loan impairment | 8 | (37,019) | (30,333) |
| **Net interest income after provision for loan impairment** | | **55,393** | **16,305** |
| Gains on repurchase of debt securities in issue | 13 | 4,872 | - |
| Customer acquisition expense | 21 | (3,359) | (13,379) |
| Foreign exchange translation losses less gains | | (3,906) | (13,062) |
| Losses less gains from derivative revaluation | | (1,442) | - |
| Fee and commission expense | 20 | (1,631) | (970) |
| Income from sale of bad debts | 8 | 1,406 | - |
| Gains less losses from trading in foreign currencies | | 73 | 327 |
| Other operating income | | 510 | 567 |
| Remeasurement of net assets attributable to minority participant | 17 | 199 | 1,504 |
| Administrative and other operating expenses | 22 | (25,057) | (35,346) |
| **Profit/(loss) before tax** | | **27,058** | **(44,054)** |
| Income tax expense | 23 | (8,836) | (693) |
| **Profit/(loss) for the year** | | **18,222** | **(44,747)** |
| Other comprehensive income: | | | |
| Exchange differences on translation to presentation currency | | 350 | (9,845) |
| **Other comprehensive income for the year** | | **350** | **(9,845)** |
| **Total comprehensive income for the year** | | **18,572** | **(54,592)** |

| *In thousands of USD* | Note | Share capital | Share premium | Obligation under warrants | Accumulated deficit | Translation reserve | Total |
|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2007** | | **4,687** | **28,366** | **-** | **(2,980)** | **1,116** | **31,189** |
| Loss for the year | | - | - | - | (44,747) | - | (44,747) |
| Currency translation differences | | - | - | - | - | (9,845) | (9,845) |
| Total comprehensive loss for 2008 | | - | - | - | **(44,747)** | **(9,845)** | **(54,592)** |
| Share issue | 18 | 1,218 | 36,782 | - | - | - | 38,000 |
| Obligation under warrants | 18 | - | - | 1,871 | - | - | 1,871 |
| **Balance at 31 December 2008** | | **5,905** | **65,148** | **1,871** | **(47,727)** | **(8,729)** | **16,468** |
| Profit for the year | | - | - | - | 18,222 | - | 18,222 |
| Currency translation differences | | - | - | - | - | 350 | 350 |
| Total comprehensive income for 2009 | | **-** | **-** | **-** | **18,222** | **350** | **18,572** |
| **Balance at 31 December 2009** | | **5,905** | **65,148** | **1,871** | **(29,505)** | **(8,379)** | **35,040** |

| *In thousands of USD* | Note | 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 90 680 | 62,589 |
| Interest paid | | (25,610) | (12,463) |
| Cash received from trading in foreign currencies | | 73 | 327 |
| Cash received from sale of bad debts | 8 | 1,406 | - |
| Fees and commissions paid | 20 | (1,631) | (970) |
| Other operating income received | | 510 | 500 |
| Administrative and other operating expenses paid | | (22,324) | (28,130) |
| Customers acquisition expenses paid | | (3,172) | (12,286) |
| Income tax paid | | (4,198) | (2,886) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **35,734** | **6,681** |
| **Changes in operating assets and liabilities** | | | |
| Net (increase)/ decrease in Central Bank mandatory reserves | | (884) | 648 |
| Net increase in loans and advances to customers | | (38,281) | (135,029) |
| Purchase of derivatives | | (3,848) | - |
| Net increase in other financial assets | | (1,791) | (3,350) |
| Net decrease/(increase) in other non-financial assets | | 679 | (854) |
| Net increase in due to banks | | 4,615 | - |
| Net increase in customer accounts | | 4,134 | 6,184 |
| Net (decrease)/increase in other financial liabilities | | (1,421) | 1,415 |
| Net decrease in other non-financial liabilities | | (842) | (60) |
| **Net cash used in operating activities** | | **(1,905)** | **(124,365)** |
| **Cash flows from investing activities** | | | |
| Acquisition of fixed assets | 9 | (272) | (3,364) |
| Acquisition of intangible assets | 9 | (484) | (3,393) |
| **Net cash used in investing activities** | | **(756)** | **(6,757)** |
| **Cash flows from financing activities** | | | |
| Repurchase of debt securities in issue | | (11,027) | - |
| Proceeds from debt securities in issue | | 368 | 109,309 |
| Repayment of debt securities in issue | | - | (49,309) |
| Issue of ordinary shares | | - | 8,000 |
| Proceeds from convertible loan subsequently converted into shares | 18 | - | 30,000 |
| Proceeds from syndicated loan | | - | 37,901 |
| **Net cash (used)/from financing activities** | | **(10,659)** | **135,901** |
| Effect of exchange rate changes on cash and cash equivalents | | 1,359 | 2,890 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(11,961)** | **7,669** |
| **Cash and cash equivalents at the beginning of the year** | 7 | **30,907** | **23,238** |
| **Cash and cash equivalents at the end of the year** | 7 | **18,946** | **30,907** |

## 1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2009 for Egidaco Investments PLC (the "Company") and its subsidiaries (together referred to as the "Group" or "Egidaco Investments PLC Group"), and in accordance with the requirements of the Cyprus Companies Law, Chap.113.

The Company was incorporated, and is domiciled, in Cyprus in accordance with the provisions of the Companies Law, Chap.113.

Board of Directors of the Company: Constantinos Economides, Maria Demetriou, Alexis Ioannides, Julian Charles Salisbury, and Per Brilioth.

Company Secretary: A.J.K. Management Services Limited, 1 Naousis Street, Karapatakis Building, P.C. 6018 Larnaca, Cyprus (up to 21 November 2008). Altruco Secretarial Limited, G. Pavlides Court, 5th Floor 2, Arch. Kyprianou & Ayiou Andreou Street, 3036 Limassol, Cyprus, Mail: P.O.Box 50734, 3609, Limassol, Cyprus (starting from 21 November 2008).

As at 31 December 2009 and 2008 the shareholders of the Company were:

| | 31 December 2009 | 31 December 2008 | Country of Incorporation |
|---|---|---|---|
| TADEC Holding and Finance S.A. | 64% | 64% | British Virgin Islands |
| Vostok Komi (Cyprus) Limited | 15% | 15% | Cyprus |
| ELQ Investors Limited | 14% | 14% | United Kingdom |
| TASOS Invest and Finance Inc. | 7% | 7% | British Virgin Islands |
| Vizer Limited | 0%* | 0%* | British Virgin Islands |
| Maitland Commercial Inc. | 0%* | 0%* | British Virgin Islands |
| Norman Legal S.A. | 0%* | 0%* | British Virgin Islands |
| **Total** | **100%** | **100%** | |

As at 31 December 2009 and 2008 the ultimate beneficiaries of the Group are the Russian entrepreneur Oleg Tinkov (71%), the global investment firm Goldman Sachs (14%) and investment fund Vostok Nafta (15%). Vizer Limited, Maitland Commercial Inc and Norman Legal S.A. own 1 share* of the Group (2008: 1 share*).

Subsidiaries included in these consolidated financial statements are listed below:

| | | 2009 | | 2008 | | |
|---|---|---|---|---|---|---|
| **Name** | **Nature of business** | **Percentage of ownership** | **Percentage of control** | **Percentage of ownership** | **Percentage of control** | **Country of registration** |
| CJSC "Tinkoff. Credit Systems" Bank | Bank operations | 100% | 100% | 100% | 100% | Russian Federation |
| LLC "TCS" | Services | - | 100% | - | 100% | Russian Federation |
| LLC "T-Finance" | Assets holding | 100% | 100% | - | 100% | Russian Federation |

In June 2009 the Group purchased 100% ownership of LLC "T-Finance" from a related party. The operations of these companies are fully controlled by the Group. These companies bear the expenses of the Group related to the issue of credit card loans, some administrative expenses and intangible assets.

## 1 Introduction (Continued)

***Principal activity.*** The Group's principal business activity is retail banking operations within the Russian Federation through the subsidiary CJSC "Tinkoff. Credit Systems" Bank (the "Bank"). The Bank has operated under a full banking license N. 2673 issued by the Central Bank of the Russian Federation ("CBRF") since 8 December 2006. Before that date and back to 28 January 1994 the Bank operated under the name of CJSC "Khimmashbank" under the same full banking license N. 2673 issued by the CBRF on 28 January 1994. The Bank was acquired by the Company on 17 November 2006 and was subsequently renamed CJSC "Tinkoff. Credit Systems" Bank.

The Bank participates in the state deposit insurance scheme, which was introduced by the Federal Law N. 177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF-imposed moratorium on payments.

***Registered address and place of business.*** The Company's registered address is Arch. Kyprianou & Ag. Andreou, 2 G. Pavlides Court, 5$^{th}$ floor P.C. 3036, Limassol, Cyprus. The Bank's registered address is 1-st Volokolamsk passage, 10, building 1, 123060, Moscow, Russian Federation. The Group's principal place of business is the Russian Federation.

***Presentation currency.*** These consolidated financial statements are presented in thousands of USD.

## 2 Operating Environment of the Group

***Russian Federation.*** The Russian Federation displays characteristics of an emerging market, including relatively high inflation and high interest rates. Despite strong economic growth in recent years, the financial situation in the Russian financial and corporate sectors significantly deteriorated from mid-2008. The global financial crisis has had a marked effect on the Russian economy:

- Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.
- The rise in Russian and emerging market risk premia resulted in a steep increase in foreign financing costs.
- The depreciation of the Russian Rouble against hard currencies (compared to RR 25.3718 for 1 US Dollar at 1 October 2008) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.
- As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

Management is unable to predict all developments which could have an impact on the banking sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group. The amount of provision for impaired loans is based on management's appraisals of these assets at the end of the reporting period after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

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

The volume of wholesale financing available in particular from overseas has significantly reduced since August 2007. Such circumstances may 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 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.

**2 Operating Environment of the Group Policies (Continued)**

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

**3 Summary of Significant Accounting Policies**

**Basis of preparation.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law Cap.113.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial statements based on fair value, and by revaluation of derivatives carried at fair value The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

***Consolidated financial statements.*** Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss for the year.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Any part of minority interest relating to a Russian OOO subsidiary will generally form a liability called e.g. "net assets attributable to minority participants in subsidiaries" in the balance sheet rather than equity, and movements in the liability will be recorded in non-operating profit e.g. as "remeasurement of net assets attributable to minority participants in subsidiaries".

***Financial instruments - key measurement terms.*** Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

***Fair value*** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**3 Summary of Significant Accounting Policies (Continued)**

***Transaction costs*** are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

***Amortised cost*** is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

***The effective interest method*** is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

***Initial recognition of financial instruments***. Derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

***Derecognition of financial assets.*** The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

***Cash and cash equivalents.*** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

***Mandatory cash balances with the CBRF.*** Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

## 3 Summary of Significant Accounting Policies (Continued)

***Loans and advances to customers.*** Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

***Impairment of financial assets carried at amortised cost.*** Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired is its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

In the course of business the Group sells bad debts to third parties, and the difference between the carrying amount of bad debt and the consideration received are recorded in profit and loss at the settlement date.

**3 Summary of Significant Accounting Policies (Continued)**

***Credit related commitments.*** The Group enters into credit related commitments. Commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

***Fixed assets.*** Fixed assets are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of fixed assets items are capitalised and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of fixed assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit and loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

***Depreciation.*** Depreciation of each item of fixed assets is calculated using the straight-line method to allocate its cost to its residual value over its estimated useful life as follows:

| | **Useful lives in years** |
|---|---|
| Equipment | 3 to 10 |
| Vehicles | 5 |
| Leasehold improvements | Over the term of the underlying lease |

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

***Intangible assets.*** The Group's intangible assets have definite useful life and include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 5 years.

***Operating leases.*** Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

***Customer accounts.*** Customer accounts are non-derivative liabilities to corporate entities and individuals and are carried at amortised cost.

**3 Summary of Significant Accounting Policies (Continued)**

***Debt securities in issue**.* Debt securities in issue include bonds issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are 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 gains arising from retirement of debt.

***Syndicated loans**.* Syndicated loans are non-derivative instruments, which are stated at amortised cost.

***Extinguishment of the original financial liability***. Substantial modification of the terms of an existing financial liability or a part of it shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

***Due to other banks.*** Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, the liability 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 gains or losses arising from early retirement of debt.

***Derivative financial instruments.*** Derivative financial instruments represented by currency options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting.

***Income taxes.*** Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation and Cyprus legislation enacted or substantively enacted by the at the end of reporting period. The income tax (charge)/credit comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary’s dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

**3 Summary of Significant Accounting Policies (Continued)**

***Uncertain tax positions.*** The Group's uncertain tax positions are assessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as likely to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted at the end of reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

***Provisions for liabilities and charges.*** Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

***Trade and other payables.*** Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

***Share capital.*** Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

***Share premium.*** When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity.

***Net assets attributable to subsidiaries' participant.*** The equity participant of subsidiaries not owned by equity holders of the Company has a right to request redemption of its interest in subsidiaries in cash. The subsidiaries' obligation to redeem gives rise to a financial liability for the present value of the redemption amount even though the obligation is conditional on the equity participant exercising the right. It is impractical to determine the fair value of this liability as it is unknown when and if participants will withdraw from the Company. As a practical expedient, the Company measures the liability presented as 'Net assets attributable to subsidiaries' participant' at the IFRS carrying value of the subsidiaries consolidated net assets. Remeasurement of net assets attributable to subsidiaries' participant is recorded in comprehensive income.

***Income and expense recognition.*** Interest income and expense are recorded in the consolidated income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees 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.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

Customer acquisition costs represented by the expenses paid by the Group on services related to attraction of the credit card borrowers (mailing of advertising materials, processing of the responses etc) and are expensed on the basis of the actual services provided.

All other fees, commissions and other income and expense items are generally recorded on an accruals basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

**3 Summary of Significant Accounting Policies (Continued)**

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

***Foreign currency translation.*** The functional currency of each of the Group's consolidated entities is the Russian Rouble ("RR"), which is the currency of the primary economic environment in which each entity operates. The Group's presentation currency, selected for management purposes, is the national currency of the United States of America, US Dollars ("USD").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

The results and financial position of each group entity are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses 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);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year (as gains or losses on disposal of a subsidiary).

At 31 December 2009 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.2442 (2008: USD 1 = RR 29.3804), and average rate for the year was USD 1= RR 31.2621 (2008: USD 1= RR 24.8553).

***Offsetting.*** Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

***Staff costs and related contributions.*** Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructing obligation to make pension or similar benefit payments beyond.

***Segment reporting*.** Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker.

***Changes in presentation.*** Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

The revised IAS 1, *Presentation of Financial Statements*, which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ('opening statement of financial position'), when the entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements.

## 3 Summary of Significant Accounting Policies (Continued)

The requirement to present the additional opening statement of financial position, when the entity has made a restatement or reclassification, extends to the information in the related notes. Management considered materiality and concluded that it is sufficient for an entity to present such information only in those notes that have been impacted by a restatement or a reclassification and state in the financial statements that the other notes have not been impacted by the restatement or reclassification. The omission of the notes to the additional opening statement of financial position is therefore, in management's view, not material.

The changes in presentation adopted in 2009 did not have any impact on the statement of financial position and the Group therefore does not present in the notes information as of 1 January 2008.

***Amendments of the financial statements after issue.*** Any further changes to these consolidated financial statements require approval of the Group's management who authorised these consolidated financial statements for issue.

## 4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements 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 judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

***Impairment losses on loans and advances.*** The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The primary factor that the Group considers as objective evidence of impairment is the overdue status of the loan. In general, loans where there are no breaches in loan servicing are considered to be unimpaired. Given the nature of the borrowers and the loans it is the Group's view and experience that the time lag between a possible loss event that could lead to impairment and the non or under payment of a monthly installment is minimal. 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. In accordance with internal methodology for the provision estimation the Group uses all available loss statistics for the whole period of it's operations. Last six months of losses statistics history cause the most significant impact on the provision amount. Such approach lets the Group implement in the model the latest trends.

To the extent that the incurred losses as at 31 December 2009 resulting from future cash flows change by 10% (2008: 10%) from the historic loss pattern, the provision would be approximately USD 2,605 thousand (2008: USD 1,192 thousand) higher or USD 2,605 thousand (2008: USD 2,085 thousand) lower.

Management considered the impact of economic conditions in the Russian Federation (Note 2) on assessment of impairment losses on loans and advances. In estimating the recoverability of loans management concluded that existing level of provisioning is sufficient considering current level of recoverability of retail loans.

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

***Initial recognition of related party transactions.*** In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

***Tax legislation.*** Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 27.

***Entities controlled in substance, but not in form.*** Judgement is applied in determining that certain entities, though not legally owned, were controlled by the Group in substance, and are therefore consolidated, as described in Note 1. Management considers that, although the Group has no legal title to the entities' assets, the substance of the relationships between the Group and the entities, is such that the Group has the power to govern the financial and operating policies of the entities.

***Net assets attributable to subsidiaries' participant.*** The liability for the redemption right held by the Russian subsidiaries' equity participant is classified as 'at fair value through profit or loss' under IAS 39 (revised 2003). It should be measured at fair value, being the present value of the expected redemption amount. It is impractical to determine the exact fair value of this liability as it is unknown when and if the participant will withdraw from the subsidiaries. The Group's accounting policy for determining this amount, applied as a practical expedient, is disclosed in Note 3. TCS' standalone net assets determined in accordance with the Russian Accounting Regulations are USD 2,805 thousand at 31 December 2009 (2008: USD 343 thousand). This amount would have been payable if all participants had exercised their redemption rights at the end of reporting period. LLC T Finance is 100% owned by the Group since June 2009 (Note 1).

***Critical judgement on share-based payment.*** The key management personnel are entitled to an additional bonus equal to 7% of the fair value of the majority owner's share of the Bank's equity. This bonus is payable in cash by the ultimate beneficiary who has a controlling stake in the Group and depends on the timing of services provided by the management.

Management considered whether this arrangement should be accounted for by the Group as expenses recognised in profit and loss, with a corresponding capital contribution in equity. Management concluded that this arrangement does not constitute transfer of a parent entity's equity instruments and, therefore no capital contribution has been recognised in equity in respect of this arrangement between the ultimate beneficiary who has controlling stake and management.

***Going concern.*** Management prepared these consolidated financial statements on a going concern basis. In making this judgment management considered the Group's financial position, current intentions, profitability of operations and access to financial resources and analysed the impact of the recent financial crisis on future operations of the Group. In particular, management considered the impact of economic deteriorations in the Russian Federation since fourth quarter 2008 on the financial position of the Group, its liquidity position and ability to meet its regulatory requirements.

The Group reported profit in 2009 of USD 18,222 thousand (2008: loss of USD 44,747 thousand). Net assets as at 31 December 2009 were USD 35,040 thousand (2008: USD 16,468 thousand). Management considers that the financial position, development and performance of the Group as presented in these consolidated financial statements are considered satisfactory given the start up nature of the business and developing financial crisis in the world.

Based on the outcome of the above assessments and continued access to sources of liquidity, management is of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis.

## 5 Adoption of New or Revised Standards and Interpretations

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2009 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of the following:

(i) Certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting;
(ii) Improvements to IFRSs 2009.

In addition, the following interpretations have been endorsed, however their effective dates are not the same, although an entity may choose to early adopt them:

(i) IFRIC 12 "Service Concession Arrangements";
(ii) IFRIC 15 "Agreements for the construction of real estate"; and
(iii) IFRIC 16 "Hedges of a Net Investment in a Foreign Operation".

Certain new standards and interpretations became effective for the Group from 1 January 2009:

***IFRS 8, Operating Segments*.** 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, with segment information presented on a similar basis to that used for internal reporting purposes. The adoption of IFRS 8 has resulted in a decrease in the number of reportable segments presented (one segment – retail banking). Note 24.

***IAS 23, Borrowing Costs, revised in March 2007.*** The main change 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. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is not carried at fair value and that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. The revised IAS 23 did not have an impact on the Group.

***IAS 1, Presentation of Financial Statements, revised in September 2007*.** The main change in IAS 1 is the replacement of income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has elected to present a single 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 revised IAS 1 had an impact on the presentation of the Group's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

***Improvements to International Financial Reporting Standards (issued in May 2008).*** In 2008, 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 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards.

**5 Adoption of New or Revised Standards and Interpretations (Continued)**

The substantive changes relate to the following areas: classification 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 amendments did not have an impact on the Group.

***Puttable Financial Instruments and Obligations Arising on Liquidation – AS 32 and IAS 1 Amendment*.** The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these consolidated financial statements.

***Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment*.** The amendment clarified 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. The amendment did not have an impact on these consolidated financial statements.

***IFRIC 13, Customer Loyalty Programmes.*** 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 amendment did not have an impact on these consolidated financial statements.

***IFRIC 15, Agreements for the Construction of Real Estate*.** 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 amendment did not have any material impact on these consolidated financial statements.

***Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment, issued in May 2008*.** The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss for the year rather than as a recovery of the investment. The amendment did not have an impact on these consolidated financial statements.

***Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009*.** The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these consolidated financial statements.

## 5 Adoption of New or Revised Standards and Interpretations (Continued)

***Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009.*** The amendments clarify that on reclassification of a financial asset out of the ‘at fair value through profit or loss’ category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on these consolidated financial statements.

***IFRIC 16, Hedges of a Net Investment in a Foreign Operation.*** 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 currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these consolidated financial statements.

***The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses.*** Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. The Group is not eligible to apply the IFRS for SMEs due to the public accountability of its banking business.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group’s consolidated financial statements.

***IFRIC 18, Transfers of Assets from Customers (effective from 1 July 2009).*** The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group’s consolidated financial statements.

## 6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group’s accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

***IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).*** The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss for the year when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group’s operations because it does not distribute non-cash assets to owners.

***Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010).*** The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

**6 New Accounting Pronouncements (Continued)**

***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. The Group does not expect the amended standard to have a material effect on its consolidated financial statements.

***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 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, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. 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. IFRS 3 is not relevant to the Group in 2009, it might have an impact in future if business combination occurs.

***Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009).*** The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.

***IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009, not endorsed by EU).*** The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its consolidated financial statements.

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

***Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010, not endorsed by EU).*** The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

**6 New Accounting Pronouncements (Continued)**

***Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010, not endorsed by EU).*** The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group's consolidated financial statements.

***Classification of Rights Issues – Amendment to IAS 32, Financial Instruments: Presentation (effective for annual periods beginning on or after 1 February 2010).*** The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group is currently assessing the impact of the amendment on its financial statements.

***Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011, not endorsed by EU).*** This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The amendments will not have any impact on the Group's financial statements.

***Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010, not endorsed by EU).*** Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendments will not have any impact on the Group's financial statements.

***Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, endorsed by EU, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010, not endorsed by EU).*** The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation while assessing the goodwill for impairment; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

## 6 New Accounting Pronouncements (Continued)

***Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011, not endorsed by EU).*** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

***IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning on or after 1 January 2013, not endorsed by EU).*** IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

## 7 Cash and Cash Equivalents

| *In thousands of USD* | **2009** | **2008** |
|---|---|---|
| Cash on hand | 485 | 93 |
| Cash balances with the CBRF (other than mandatory reserve deposits) | 5,024 | 2,612 |
| Placements with other banks with original maturities of less than three months, including: | | |
| *Rated by Fitch agency from A- to AA-* | - | 79 |
| *Rated by Fitch agency BBB+* | 8,755 | 19,779 |
| *Rated by Fitch agency BBB* | 3,825 | - |
| *Other Russian banks* | 857 | 8,344 |
| **Total Cash and Cash Equivalents** | **18,946** | **30, 907** |

Interest rate and maturity analysis of cash and cash equivalents is disclosed in Note 25.

## 8 Loans and Advances to Customers

| *In thousands of USD* | 2009 | 2008 |
|---|---|---|
| **Loans to individuals:** | **199,144** | **160,776** |
| *Credit card loans* | 198,906 | 160,541 |
| *Other loans to individuals* | 238 | 235 |
| **Corporate loans, broken down by borrower's activity classes:** | **3,712** | **12,429** |
| *Development* | 1,668 | 2,397 |
| *Trading* | 1,223 | 8,945 |
| *Finance* | 581 | 655 |
| *Leasehold operations* | 240 | 289 |
| *Other* | - | 143 |
| **Total loans and advances to customers before impairment:** | **202,856** | **173,205** |
| Less: Provision for loan impairment | (29,121) | (33,093) |
| **Total loans and advances to customers** | **173,735** | **140,112** |

Credit cards are issued to customers for cash withdrawals or payment for goods or services, within the range of limits established by the Group. These limits may be increased or decreased from time-to-time.

Presented below is an analysis of credit card limits on issued, activated and utilised cards:

| **Credit card limits** | **2009** | **2008** |
|---|---|---|
| Up to 10 RR thousand | 3,048 | 3,770 |
| 10-20 RR thousand | 31,489 | 24,347 |
| 20-30 RR thousand | 65,637 | 56,691 |
| 30-40 RR thousand | 59,178 | 48,226 |
| 40-50 RR thousand | 39,092 | 23,162 |
| 50-60 RR thousand | 26,987 | 21,962 |
| 60-80 RR thousand | 10,333 | 7,543 |
| 80-100 RR thousand | 9,893 | 11,407 |
| 100-200 RR thousand | 1,831 | 1,899 |
| **Total cards** | **247,488** | **199,007** |

Movements in the provision for loan impairment are as follows:

| *In thousands of USD* | **As at 31 December 2008** | **Effect of translation** | **Write-off of bad debts** | **Sales of bad debts** | **Provision for/(Recovery of) impairment during the period** | **As at 31 December 2009** |
|---|---|---|---|---|---|---|
| **Loans to individuals:** | | | | | | |
| *Credit card loans* | 20,854 | (613) | - | (32,552) | 39,185 | 26,874 |
| *Other loans to individuals* | 235 | (7) | - | - | 10 | 238 |
| **Corporate loans, broken down by creditors' activity classes:** | | | | | | |
| *Trading* | 8,945 | (256) | (7,466) | - | - | 1,223 |
| *Development* | 2,397 | (71) | - | - | (1,727) | 599 |
| *Finance* | 655 | (19) | - | - | (479) | 157 |
| *Leasehold operations* | - | - | - | - | 30 | 30 |
| *Other corporate entities* | 7 | - | (7) | - | - | - |
| **Total provision for loan impairment** | **33,093** | **(966)** | **(7,473)** | **(32,552)** | **37,019** | **29,121** |

## 8 Loans and Advances to Customers (Continued)

| *In thousands of USD* | As at 31 December 2007 | Effect of translation | Write-off | Provision for impairment during the period | As at 31 December 2008 |
|---|---|---|---|---|---|
| **Loans to individuals:** | | | | | |
| *Credit card loans* | 2,206 | (363) | - | 19,011 | 20,854 |
| *Other loans to individuals* | 305 | (60) | (310) | 300 | 235 |
| **Corporate loans, broken down by creditors' activity classes:** | | | | | |
| *Trading* | 1,571 | (309) | - | 7,683 | 8,945 |
| *Development* | - | - | (280) | 2,677 | 2,397 |
| *Finance* | | - | - | 655 | 655 |
| *Leasehold operations* | - | - | - | - | - |
| *Other corporate entities* | 411 | (81) | (330) | 7 | 7 |
| **Total provision for loan impairment** | **4,493** | **(813)** | **(920)** | **30,333** | **33,093** |

In 2009 the Group sold bad debts to third parties (foreign debt collection agencies) with gross amount of USD 32,552 thousand, and provision for impairment of USD 32,552 thousand. The difference between carrying amount of these loans and consideration received was recognized in profit or loss as income from sale of bad debts in the amount of USD 1,406 thousand. The criteria for bad debts qualifying for the sale to external debt collection agency are disclosed in Note 25.

Information on collateral held in respect of loans to individuals is as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| *In thousands of USD* | Credit card loans | Other loans to individuals | Credit card loans | Other loans to individuals |
| Unsecured loans | 198,906 | - | 160,541 | - |
| Loans collateralised by: | | | | |
| - *land plots* | - | 238 | - | 235 |
| **Total loans to individuals** | **198,906** | **238** | **160,541** | **235** |

Information on collateral held in respect of corporate loans at 31 December 2009:

| *In thousands of USD* | Development | Trading | Finance | Leasehold operations | Total |
|---|---|---|---|---|---|
| Loans collateralised by: | | | | | |
| - *land plots* | 1,668 | - | 581 | - | 2,249 |
| - *equipment* | - | 1 223 | - | 240 | 1,463 |
| **Total corporate loans** | **1,668** | **1,223** | **581** | **240** | **3,712** |

## 8 Loans and Advances to Customers (Continued)

Information on collateral held in respect of corporate loans at 31 December 2008:

| *In thousands of USD* | Develop-ment | Trading | Finance | Leasehold operations | Other | Total |
|---|---|---|---|---|---|---|
| Unsecured loans | - | 7,604 | | 289 | 143 | 8,036 |
| Loans collateralised by: | | | | | | |
| *- land plots* | 2,397 | - | 655 | - | - | 3,052 |
| *- equipment* | - | 1,341 | - | - | - | 1,341 |
| **Total corporate loans** | **2,397** | **8,945** | **655** | **289** | **143** | **12,429** |

Analysis by credit quality of loans to individuals is as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| *In thousands of USD* | Credit card loans | Other loans to individuals | Credit card loans | Other loans to individuals |
| Loans collectively assessed as impaired: | | | | |
| - current | 156,712 | - | 127,788 | - |
| *- less than 30 days overdue* | 10,055 | - | 12,380 | - |
| *- 30 to 90 days overdue* | 10,909 | - | 8,212 | - |
| *- 90 to 180 days overdue* | 10,502 | - | 5,412 | 235 |
| *- 180 to 360 days overdue* | 9,086 | - | 5,735 | - |
| *- over 360 days overdue* | 1,642 | 238 | 1,014 | - |
| Less: Provision for loan impairment | (26,874) | (238) | (20,854) | (235) |
| **Total loans to individuals** | **172,032** | **-** | **139,687** | **-** |

Analysis by credit quality of corporate loans outstanding at 31 December 2009 is as follows:

| *In thousands of USD* | Develop-ment | Trading | Finance | Leasehold operations | Total |
|---|---|---|---|---|---|
| Loans individually determined to be impaired: | | | | | |
| *- current and impaired* | - | - | - | 240 | 240 |
| *- over 360 days overdue* | 1,668 | 1,223 | 581 | - | 3,472 |
| **Corporate loans before impairment:** | **1,668** | **1,223** | **581** | **240** | **3,712** |
| Less: Provision for loan impairment | (599) | (1,223) | (157) | (30) | (2,009) |
| **Total corporate loans** | **1,069** | **-** | **424** | **210** | **1,703** |

## 8 Loans and Advances to Customers (Continued)

Analysis by credit quality of corporate loans outstanding at 31 December 2008 is as follows:

| *In thousands of USD* | **Trading** | **Develop-ment** | **Finance** | **Leasehold operations** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| Current and not impaired | - | - | - | 289 | - | 289 |
| Loans individually determined to be impaired: | | | | | | - |
| *- current and impaired* | 8,570 | - | - | - | 143 | 8,713 |
| *- less than 30 days overdue* | 375 | - | - | - | - | 375 |
| *- 180 to 360 days overdue* | - | 758 | 655 | - | - | 1,413 |
| *- over 360 days overdue* | - | 1,639 | - | - | - | 1,639 |
| **Corporate loans before impairment:** | **8,945** | **2,397** | **655** | **289** | **143** | **12,429** |
| Less: Provision for loan impairment | (8,945) | (2,397) | (655) | - | (7) | (12,004) |
| **Total corporate loans** | **-** | **-** | **-** | **289** | **136** | **425** |

The primary factors that the Group considers in assessing whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an analysis by age of loans that are individually and collectively determined to be impaired.

The fair value of collateral in respect of corporate loans at 31 December 2009 was as follows:

| *In thousands of USD* | **Development** | **Finance** | **Leasehold operations** | **Total** |
|---|---|---|---|---|
| Fair value of collateral - individually impaired loans: | | | | |
| *- land plots* | 1,069 | 424 | - | 1,493 |
| *- equipment* | - | - | 97 | 97 |
| **Total** | **1,069** | **424** | **97** | **1,590** |

The fair value of collateral in respect of corporate loans at 31 December 2008 was as follows:

| *In thousands of USD* | **Finance** | **Total** |
|---|---|---|
| Fair value of collateral - individually impaired loans | | |
| *- land plots* | 539 | 539 |
| **Total** | **539** | **539** |

Refer to Note 29 for the estimated fair value of each class of loans and advances to customers.

Interest rate analysis of loans and advances to customers is disclosed in Note 25. Information on related party balances is disclosed in Note 31.

## 9 Fixed and Intangible Assets

| *In thousands of USD* | Equipment | Leasehold improvements | Vehicles | Total fixed assets | Intangible assets |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 31 December 2007** | **2,253** | **1,249** | **115** | **3,617** | **4,017** |
| Acquisitions | 3,343 | - | 21 | 3,364 | 3,393 |
| Disposals | (38) | - | (6) | (44) | - |
| Translation reserve | (911) | (246) | (27) | (1,184) | (1,156) |
| **At 31 December 2008** | **4,647** | **1,003** | **103** | **5,753** | **6,254** |
| Acquisitions | 217 | 46 | 9 | 272 | 484 |
| Disposals | (122) | - | - | (122) | (401) |
| Translation reserve | (130) | (28) | (3) | (161) | (177) |
| **At 31 December 2009** | **4,612** | **1,021** | **109** | **5,742** | **6,160** |
| **Depreciation** | | | | | |
| **At 31 December 2007** | **(142)** | **(168)** | **(11)** | **(321)** | **(510)** |
| Charge for the period (Note 22) | (458) | (210) | (20) | (688) | (883) |
| Depreciation of disposed objects | 44 | - | - | 44 | - |
| Translation reserve | (97) | (65) | (8) | (170) | (233) |
| **At 31 December 2008** | **(653)** | **(443)** | **(39)** | **(1,135)** | **(1,626)** |
| Charge for the period (Note 22) | (716) | (170) | (11) | (897) | (703) |
| Depreciation of disposed objects | 122 | - | - | 122 | 149 |
| Translation reserve | 18 | 13 | 1 | 32 | 47 |
| **At 31 December 2009** | **(1,229)** | **(600)** | **(49)** | **(1,878)** | **(2,133)** |
| **Net book value** | | | | | |
| **At 31 December 2008** | **3,994** | **560** | **64** | **4,618** | **4,628** |
| **At 31 December 2009** | **3,383** | **421** | **60** | **3,864** | **4,027** |

Leasehold improvements are capital expenditures on a rented office and are depreciated over the term of lease, which is 5 years.

Intangible assets acquired during the years ended 31 December 2009 and 2008 mainly represent accounting software, retail banking software, licences and development of software.

## 10 Other Financial and Non-financial Assets

| *In thousands of USD* | 2009 | 2008 |
|---|---|---|
| **Other Financial Assets** | | |
| MasterCard guarantee deposit | 2,004 | 3,754 |
| Settlement of operations with plastic cards | 3,552 | 2,570 |
| Trade and other receivables | 68 | 76 |
| Other financial assets | 13 | - |
| **Total Financial Assets** | **5,637** | **6,400** |
| **Other Non-Financial Assets** | | |
| Prepaid expenses | 1,092 | 1,997 |
| Materials | 280 | 644 |
| Other | 490 | 11 |
| **Total Non-Financial Assets** | **1,862** | **2,652** |

Prepaid expenses consist of prepaid expenses for minor office repairs, postal services, software. Materials include application forms, letters to customers, envelopes.

Other financial assets are not impaired and not past due. Refer to Note 29 for the disclosure of the fair value of other financial assets.

## 11 Due to Banks

At 31 December 2009, included in amount due to banks are loans from CBR of USD 4,977 thousand (2008: USD 0 thousand), bearing 12% p.a. These loans were repaid in January 2010 at maturity.

Interest rate and maturity analysis of amounts due to other banks is disclosed in Note 25.

## 12 Customer Accounts

| *In thousands of USD* | 2009 | 2008 |
|---|---|---|
| **Legal entities** | | |
| -Current/settlement accounts of corporate entities | 363 | 534 |
| -Term deposits of corporate entities | 3,815 | 6,344 |
| **Individuals** | | |
| -Current/settlement accounts of individuals | 789 | 14 |
| -Term deposits of individuals | 7,654 | 1,544 |
| **Total Customer Accounts** | **12,621** | **8,436** |

In December 2009 the Group had one customer, a related party, having a deposit in the amount of USD 1,569 thousand or 12% of the total customer accounts (2008: USD 4,300 thousand or 51% of total customer accounts).

Refer to Note 29 for the disclosure of the fair value of customer accounts. Interest rate analysis and maturity analysis of customer accounts is disclosed in Note 25. Information on related party balances is disclosed in Note 31.

## 13 Debt Securities in Issue

| *In thousands of USD* | **2009** | **2008** |
|---|---|---|
| Euro denominated bonds | 86,505 | 105,411 |
| RR denominated bonds | 127 | 299 |
| **Total Debt Securities in Issue** | **86,632** | **105,710** |

Euro denominated bonds were placed publicly on 24 June 2008 at nominal amount of EUR 70,000 thousand with contractual maturity on 24 June 2011 and with a coupon rate of 18% p.a. payable semi-annually. In the period from March to August 2009 the Group repurchased some of these bonds from the market with a nominal value of EUR 7,960 thousand and with discounts from 33.1% to 59.8%. The difference between carrying amount of these bonds and cash paid was recognized in the consolidated statement of comprehensive income as gains on repurchase of debt securities in issue in the amount of USD 4, 872 thousand. In October 2009 the Group sold bonds to the market with a nominal value of EUR 294 thousand and with a discount of 16.5%.

RR denominated bonds in the amount of USD 127 thousand represent RR denominated bonds issued by the Group on the domestic market in the period from 23 October 2007 to 7 November 2007. These bonds mature on 23 October 2010 and have a coupon rate of 18% p.a. payable semi-annually.

Refer to Note 29 for the disclosure of the fair value of debt securities in issue. Interest rate and liquidity analysis of debt securities in issue is disclosed in Note 25.

## 14 Syndicated Loan

In December 2007 the Group obtained a RR denominated syndicated loan facility from several large international institutions with a total limit of USD 61,109 thousand (equivalent of RR 1,500,000 thousand). In accordance with the initial terms of the agreement, the facility matures on 24 June 2011 and bears an interest rate of 16.5% till December 2008, 18.5% from January 2009 till December 2009 and 20.5% from 2010 until maturity date.

The initial terms of the agreement were revised in May 2009, and in accordance with the revised terms of the agreement the facility matures on 24 September 2011 and bears an interest rate of 16.5% till 23 December 2008, 18.5% from 23 December 2008 till 29 December 2008, 24.5% from 30 December 2008 till 31 December 2009, and 26.5% from January 2010 till maturity date.

On 19 March 2008 the Group issued warrants to lenders of RR denominated syndicated loan facility representing 6% of the authorized share capital of the Group (Refer to Note 18).

In May 2009 the financial covenants on the syndicated loan, effective as at 31 December 2008, were revised together with maturity and interest rate terms of the agreement.

The carrying value of the syndicated loan at 31 December 2009 was USD 60,402 thousand (2008: USD 50,236 thousand).

Refer to Note 29 for the disclosure of the fair value of debt syndicated loan. Interest rate analysis and maturity analysis are disclosed in Note 25.

## 15 Provisions for Liabilities and Charges

The Group recorded provisions of USD 6,850 thousand (2008: USD 5,711 thousand) in respect of uncertain taxes including related penalties and interest, mostly in relation to administrative expenses. The balance at 31 December 2009 is expected to be either fully utilised or released by the end of 2011 (for Contingencies and Commitments disclosure refer to Note 27).

| *In thousands of USD* | Note | Provision for tax risks |
|---|---|---|
| **Carrying amount at 31 December 2007** | | **1,556** |
| Provision charged to profit or loss | 22 | 4,411 |
| Currency translation differences | | (256) |
| **Carrying amount at 31 December 2008** | | **5,711** |
| Provision charged to profit or loss | 22 | 1,302 |
| Currency translation differences | | (163) |
| **Carrying amount at 31 December 2009** | | **6,850** |

## 16 Other Financial and Non-financial Liabilities

| *In thousands of USD* | 2009 | 2008 |
|---|---|---|
| **Other Financial Liabilities** | | |
| Settlement of operations with plastic cards | 1,394 | 1,425 |
| Trade payables | 210 | 1,918 |
| Other | 649 | 489 |
| **Total Other Financial Liabilities** | **2,253** | **3,832** |
| **Other Non-financial Liabilities** | | |
| Accrued administrative expenses | 425 | 1,069 |
| Performance fee received in advance | 419 | 697 |
| Other | 15 | 15 |
| **Total Other Non-financial Liabilities** | **859** | **1,781** |

## 17 Net Assets Attributable to Subsidiaries' Participant

As at 31 December 2008 the consolidated subsidiaries LLC "TCS" and LLC "T-Finance" were owned by a related party of the Group (Note 1). The Group purchased 100% ownership of LLC "T-Finance" in June 2009. The operations of LLC "TCS" and LLC "T-Finance" remained fully controlled by the Group. These companies bear the expenses of the Group related to the issue of credit card loans and some administrative expenses.

Movement in net assets attributable to subsidiaries' participant is as follows:

| *In thousands of USD* | **Net assets attributable to subsidiaries' participants** |
|---|---|
| **As at 31 December 2007** | **1,770** |
| Loss for the year | (1,504) |
| Currency translation differences | (60) |
| **As at 31 December 2008** | **206** |
| Loss for the year | (1) |
| Acquisition of LLC "T-Finance" | (198) |
| Currency translation differences | (7) |
| **As at 31 December 2009** | **-** |

## 18 Share Capital

| *In thousands of USD except for number of shares* | **Number of authorised shares** | **Number of outstanding shares** | **Ordinary shares** | **Share premium** | **Total** |
|---|---|---|---|---|---|
| **At 31 December 2007** | **7,619,180** | **4,687,977** | **4,687** | **28,366** | **33,053** |
| Shares issued in June 2008 | - | 332,314 | 332 | 7,668 | 8,000 |
| Shares issued in September 2008 | - | 885,934 | 886 | 29,114 | 30,000 |
| **At 31 December 2008** | **7,619,180** | **5,906,225** | **5,905** | **65,148** | **71,053** |
| **At 31 December 2009** | **7,619,180** | **5,906,225** | **5,905** | **65,148** | **71,053** |

In May 2008 the Company obtained from a European investor, minority shareholder, a convertible loan facility in the amount of USD 30,000 thousand. In accordance with the terms of the agreement the loan was converted into 15% of the Company's share capital on 26 June 2008. The Company issued 885,934 ordinary shares.

In June 2008 the Company issued 332,314 ordinary shares in the authorized share capital to an existing minority shareholder.

In 2008 the Company issued warrants, which give to lenders of the syndicated loan (Note 14) an opportunity to buy 6% of the warrant shares. The warrants are exercisable at any time till maturity of the syndicated loan. The Company's obligation under warrants was recorded in equity in the amount of USD 1,871 thousand.

## 19 Interest Income and Expense

| *In thousands of USD* | **2009** | **2008** |
|---|---|---|
| **Interest income** | | |
| Loans and advances to customers, including: | | |
| *Credit card loans* | 123,294 | 67,340 |
| *Corporate loans* | 414 | 1,376 |
| *Other loans to individuals* | - | 34 |
| Placements with other banks | 248 | 1,824 |
| Other interest income | 62 | 940 |
| **Total interest income** | **124,018** | **71,514** |
| **Interest expense** | | |
| Euro denominated bonds | 17,658 | 11,047 |
| Syndicated loan | 12,753 | 9,958 |
| Customer accounts | 707 | 224 |
| Due to banks | 372 | - |
| RR denominated bonds | 43 | 2,696 |
| Other interest expense | 73 | 951 |
| **Total interest expense** | **31,606** | **24,876** |
| **Net interest income** | **92,412** | **46,638** |

## 20 Fee and Commission Expense

| *In thousands of USD* | **2009** | **2008** |
|---|---|---|
| Service fees | 1,257 | 902 |
| Banking and other fees | 374 | 68 |
| **Total fee and commission expense** | **1,631** | **970** |

## 21 Customer acquisition expenses

Customer acquisition expenses in the amount of USD 3,359 thousand (2008: USD 13,379 thousand) represent expenses paid by the Group on services related to origination of credit card customers (mailing of advertising materials, processing of responses etc). The Group uses a variety of different channels for the acquisition of new customers.

## 22 Administrative and Other Operating Expenses

| *In thousands of USD* | Note | 2009 | 2008 |
|---|---|---|---|
| Staff costs | | 12,954 | 15,516 |
| Taxes other than income tax | | 2,295 | 4,736 |
| Communication services | | 1,942 | 3,334 |
| Provision for tax risks | 15 | 1,302 | 4,411 |
| Information services | | 1,162 | 1,457 |
| Operating lease expense for premises and equipment | | 1,121 | 1,139 |
| Depreciation of fixed assets | 9 | 897 | 688 |
| Amortization of intangible assets | 9 | 703 | 883 |
| Professional services | | 513 | 1,075 |
| Advertising expenses | | 510 | 239 |
| Office expenses | | 200 | 276 |
| Stationery | | 104 | 331 |
| Repair of premises and equipment | | 300 | 333 |
| Other administrative expenses | | 1,054 | 928 |
| **Total** | | **25,057** | **35,346** |

## 23 Income Taxes

Income tax expense comprises the following:

| *In thousands of USD* | 2009 | 2008 |
|---|---|---|
| Current tax | (4,359) | (4,448) |
| Deferred tax | (4,477) | 3,755 |
| **Income tax expense for the year** | **(8,836)** | **(693)** |

The income tax rate applicable to the majority of the Group's income is 20% (2008: 24%). The operations of the Group are subject to multiple tax jurisdictions. The income tax rate applicable to the Russian subsidiaries of the Company is 20%. The income tax rate applicable to the Company (Egidaco Investments PLC) is 10%.

A reconciliation between the expected and the actual taxation charge is provided below.

| *In thousands of USD* | 2009 | 2008 |
|---|---|---|
| **Profit/(loss) before tax** | **27,058** | **(44,054)** |
| Theoretical tax (expense)/credit at statutory rate of 20% (2008:24%) | (5,412) | 10,573 |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| - Non-deductible expenses | (977) | (2,512) |
| - Other | (291) | (3,342) |
| - Impact of changes in tax rate to 20% effective from 1 January 2009 | - | (870) |
| Effects of different tax rates in other countries | | |
| - Financial result of parent entity at 10% | (1,295) | (2,741) |
| - Unrecognised tax loss carry forward at 10% | (861) | (1,801) |
| **Income tax expenses for the year** | **(8,836)** | **(693)** |

## 23 Income Taxes (Continued)

The Group has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of the Company in the amount of USD 2,662 thousand (2008: USD 1,801 thousand). The tax loss carry forwards has no time limitation in accordance with Cyprus tax legislation.

On 26 November 2008, the Russian Federation reduced the standard corporate income tax rate from 24% to 20% with effect from 1 January 2009. The impact of the change in tax rate presented above represents the effect of applying the reduced 20% tax rate to deferred tax balances at 31 December 2008.

Differences between IFRS and taxation regulations in Russia and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. As all of the Group's temporary differences arise in Russia, the tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2008: 24%).

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

| *In thousands of USD* | **31 December 2008** | **(Charged)/ credited to profit or loss** | **Effect of translation** | **31 December 2009** |
|---|---|---|---|---|
| **Tax effect of deductible and taxable temporary differences and tax loss carry forwards** | | | | |
| Loans and advances to customers | 3,190 | (3,789) | (94) | (693) |
| Premises and equipment | 9 | 89 | - | 98 |
| Intangible assets | (253) | (559) | 7 | (805) |
| Syndicated loan | 201 | (263) | (6) | (68) |
| Accrued expenses | 479 | 602 | (14) | 1,067 |
| Tax loss carry-forward | 295 | (286) | (9) | - |
| Prepaid expenses | 428 | (271) | (13) | 144 |
| **Net deferred tax (liability)/assets** | **4,349** | **(4,477)** | **(129)** | **(257)** |

| *In thousands of USD* | **31 December 2007** | **Credited/ (charged) to profit or loss** | **Effect of translation** | **31 December 2008** |
|---|---|---|---|---|
| **Tax effect of deductible and taxable temporary differences and tax loss carry forwards** | | | | |
| Loans and advances to customers | 743 | 2,593 | (146) | 3,190 |
| Fixed assets | 29 | (14) | (6) | 9 |
| Intangible assets | (596) | 226 | 117 | (253) |
| Other assets | 99 | (80) | (19) | - |
| Syndicated loan | - | 201 | - | 201 |
| Accrued expenses | 58 | 432 | (11) | 479 |
| Tax loss carryforward | 425 | (46) | (84) | 295 |
| Prepaid expenses | (14) | 439 | 3 | 428 |
| Debt securities in issue | (32) | 26 | 6 | - |
| Other financial assets | 27 | (22) | (5) | - |
| **Net deferred tax asset** | **739** | **3,755** | **(145)** | **4,349** |

## 24 Segment Analysis

Starting from 1 January 2009, the Group prepares its segment analysis in accordance with IFRS 8, Operating segments, which replaced IAS 14, Segment reporting. Comparatives were adjusted to conform to the presentation of current period amounts.

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Board of Directors of the Group.

The business of the Group is represented by one operating segment (the “retail banking”) as the Group specialises in issuance of credit cards. All the management decisions are based on the financial information related to the retail banking segment.

***Measurement of operating segment profit or loss, assets and liabilities***

The CODM reviews financial information prepared based on International financial reporting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

(i) fee and commission income and expenses related to lending are recognized immediately rather than deferred using the effective interest method;

(ii) penalties for overdue loans and advances to customers are not accrued;

(iii) deferred tax position is not taken into account;

(iv) the warrant obligations are not recorded;

(v) Provision for probable tax risks is not accrued.

The CODM evaluates performance of the business based on total revenue and profit before tax.

## 24 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the year ended 31 December 2009 is set out below:

| *In thousands of USD* | Retail banking | Total |
|---|---|---|
| External revenues | 125,954 | 125,954 |
| **Total revenues** | **125,954** | **125,954** |
| **Total revenues comprise:** | | |
| - Interest income | 74,474 | 74,474 |
| - Fee and commission income | 48,803 | 48,803 |
| - Other operating income | 2,677 | 2,677 |
| **Total revenues** | **125,954** | **125,954** |
| Interest expense | (31,596) | (31,596) |
| Provision for loan impairment | (35,412) | (35,412) |
| Fee and commission expense | (8,781) | (8,781) |
| Customer acquisition expenses | (3,864) | (3,864) |
| Staff cost | (12,894) | (12,894) |
| Administrative and other expenses | (10,130) | (10,130) |
| **Segment result** | **23,277** | **23,277** |
| **Profit before tax and forex result** | | **23,277** |
| Income tax expenses | | (4,359) |
| **Profit before forex result** | | **18,918** |
| Gains less losses from trading in foreign currencies | | 73 |
| Gain from purchase of debt securities issued | | 5,062 |
| Hedge revaluation | | (1,442) |
| Foreign exchange translation losses less gains | | (3,906) |
| **Profit for the year** | | **18,705** |
| **Segment assets** | **212,603** | **212,603** |
| **Segment liabilities** | **172,163** | **172,163** |

## 24 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the year ended 31 December 2008 is set out below:

| *In thousands of USD* | **Retail banking** | **Total** |
|---|---|---|
| External revenues | 68,425 | 68,425 |
| **Total revenues** | **68,425** | **68,425** |
| **Total revenues comprise:** | | |
| - Interest income | 38,383 | 38,383 |
| - Fee and commission income | 25,316 | 25,316 |
| - Other operating income | 4,726 | 4,726 |
| **Total revenues** | **68,425** | **68,425** |
| Interest expense | (24,876) | (24,876) |
| Provision for loan impairment | (30,333) | (30,333) |
| Fee and commission expense | (970) | (970) |
| Customer acquisition expenses | (13,379) | (13,379) |
| Staff cost | (18,378) | (18,378) |
| Administrative and other expenses | (24,044) | (24,044) |
| **Segment result** | **(43,555)** | **(43,555)** |
| **Loss before tax and forex result** | | **(43,555)** |
| Income tax credit | | 3,656 |
| **Loss before forex result** | | **(39,899)** |
| Gains less losses from trading in foreign currencies | | 327 |
| Gain from purchase of debt securities issued | | - |
| Hedge revaluation | | - |
| Foreign exchange translation losses less gains | | (14,943) |
| **Loss for the year** | | **(54,515)** |
| **Segment assets** | **185,937** | **185,937** |
| **Segment liabilities** | **171,557** | **171,557** |

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities is provided below:

| *In thousands of USD* | **2009** | **2008** |
|---|---|---|
| **Total revenues for reportable segments** | **125,954** | **68,425** |
| Amortized cost adjustment | (1,426) | 3,656 |
| Income from sale of bad debts | 1,406 | - |
| **Total consolidated revenues** | **125, 934** | **72,081** |

## 24 Segment Analysis (Continued)

Total consolidated revenues comprise interest income, income from sale of bad debts and other operating income.

| *In thousands of USD* | 2009 | 2008 |
|---|---|---|
| **Total reportable segment result** | **23,277** | **(43,555)** |
| Amortized cost adjustment | 3,309 | 3,912 |
| Provision for probable tax risks | (934) | (4,411) |
| Income from sale of bad debts | 1,406 | - |
| **Profit or loss before tax** | **27,058** | **(44,054)** |

| *In thousands of USD* | 2009 | 2008 |
|---|---|---|
| **Total reportable segment assets** | **212,603** | **185,937** |
| Amortized cost adjustment | 5,160 | 4,880 |
| Provision for impairment | (5,882) | (1,224) |
| Deferred tax asset adjustment | - | 4,349 |
| Other adjustments | (267) | - |
| **Total consolidated assets** | **211,614** | **193,942** |

## 25 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that the exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures to minimise operational and legal risks.

***Credit risk.*** The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets. The Group uses a transition matrix approach for calculation of the credit risk.

The Group grants credit card loans to customers across all regions of Russia, therefore its credit risk is broadly diversified.

The Group's maximum exposure to credit risk is 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.

**25 Financial Risk Management (Continued)**

The Group created a credit committee, which establishes general principles for lending to individual borrowers. According to these principles, the minimum requirements for potential customers are listed below:

- Citizenship of Russian Federation
- Age 21 to 70 inclusive
- Monthly income above RR 5 thousand
- Availability of cell-phone, and
- Permanent employment.

The decision to provide a credit card loan to a potential customer is made either automatically (for ordinary credit card customers) or by the collective decision of the Credit Committee (VIP customers).

1. Ordinary customers. The decision is made in four steps.

   a) The first step includes validation of the application data. Credit officers check the documents and validate contact information (addresses and telephones).

   b) The second step includes phone verification of the application information about the potential customer, his/her employment, social and property status, etc.

   c) The third step includes request of the previous credit history of the applicant from the three largest in Russia credit bureau – Equifax, Experian and NBCH (National Bureau of Credit Histories).

   d) Finally, based on all available information, the credit score of the applicant is calculated and a final decision is made about the approval of the credit card and respective credit limit is calculated depending on the score of the customer. As an additional loss preventing instrument, the credit limit on a credit card loan is blocked when delinquency reaches 7 days.

2. VIP customers. A limit below RR 300 thousand can be approved by two members of the Credit Committee. In rare cases the limit may exceed RR 300 thousand and in such cases should be approved by the Credit Committee.

When loans become unrecoverable or not economically viable, to pursue further collection efforts, the Collection Department decides to sell these loans to a debt collection agency. The Collection Department considers the following criteria for bad debts qualifying for the sale to external debt collection agencies:

a) loans remain unpaid after all collection procedures were performed (no payment during last 6 months);

b) The debtor cannot be either reached or found during the last 4 months;

c) The debtor has no assets and there is no expectation he/she will have any in future;

d) The debtor has died and there is no known estate or guarantor;

e) It is determined that it is not cost effective to continue collection efforts.

The management of the Group manages the credit risk on unused limits on credit cards in the following way:

a) If the credit card loan is overdue for more than 7 days, it's account will be blocked till repayment;

b) If the borrower had lost his/her source of income, than borrower' account will be blocked till verification of his/her new employment;

c) If borrower' income is substantially less than at the time of loan origination than the borrower' limit for credit might be reduced accordingly.

## 25 Financial Risk Management (Continued)

***Market risk.*** The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

***Currency risk.*** In respect of currency risk, the management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

| | At 31 December 2009 | | | At 31 December 2008 | | |
|---|---|---|---|---|---|---|
| *In thousands of USD* | **Monetary financial assets** | **Monetary financial liabilities** | **Net balance sheet position** | **Monetary financial assets** | **Monetary financial liabilities** | **Net balance sheet position** |
| Russian roubles | 192,655 | 74,572 | 118,083 | 148,776 | 53,006 | 95,770 |
| US Dollars | 5,701 | 4,906 | 795 | 9,215 | 10,817 | (1,602) |
| Euro | 3,505 | 87,407 | (83,902) | 19,704 | 104,391 | (84,687) |
| **Total** | **201,861** | **166,885** | **34,976** | **177,695** | **168,214** | **9,481** |

The above analysis includes only monetary assets and liabilities. Non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the end of reporting period, with all other variables held constant:

| | At 31 December 2009 | | At 31 December 2008 | |
|---|---|---|---|---|
| *In thousands of USD* | **Impact on profit or loss** | **Impact on equity** | **Impact on profit or loss** | **Impact on equity** |
| US Dollar strengthening by 20% (2008: by 40%) | 159 | 159 | (641) | (641) |
| US Dollar weakening by 20% (2008: by 40%) | (159) | (159) | 641 | 641 |
| Euro strengthening by 20% (2008: by 40%) | (16,780) | (16,780) | (33,875) | (33,875) |
| Euro weakening by 20% (2008: by 40%) | 16,780 | 16,780 | 33,875 | 33,875 |

As the Rouble began to strengthen in the second quarter of 2009, as a result, the Group entered into RUB/EUR option contract with maturity on 15 June 2011. The Group does not apply hedge accounting. Information on fair value of the derivative is disclosed in Note 28.

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

***Interest rate risk.*** The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

## 25 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

| *In thousands of USD* | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | From 1 to 3 years | Total |
|---|---|---|---|---|---|
| **31 December 2009** | | | | | |
| Total financial assets | 42,597 | 72,390 | 86,874 | - | 201,861 |
| Total financial liabilities | (8,414) | (17,223) | (18,669) | (122,579) | (166,885) |
| **Net interest sensitivity gap at 31 December 2009** | **34,183** | **55,167** | **68,205** | **(122,579)** | **34,976** |
| **31 December 2008** | | | | | |
| Total financial assets | 47,652 | 58,203 | 71,840 | - | 177,695 |
| Total financial liabilities | (8,195) | (21,988) | (4,091) | (133,940) | (168,214) |
| **Net interest sensitivity gap at 31 December 2008** | **39,457** | **36,215** | **67,749** | **(133,940)** | **9,481** |

The Group has no significant risk associated with variable % rates on credit and advances provided to customers or loans received.

At 31 December 2009 if interest rates at that date had been 200 basis points lower (2008: 200 points lower), with all other variables held constant, profit would have been USD 1,016 thousand (2008: USD 4,178 thousand) lower.

If interest rates had been 200 basis points higher (2008: 200 points higher), with all other variables held constant, profit would have been USD 1,016 thousand (2008: USD 3,482 thousand) higher.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| *In % p.a.* | **RR** | **USD** | **EURO** | **RR** | **USD** | **EURO** |
| **Assets** | | | | | | |
| Cash and cash equivalents | 4.8 | - | - | - | - | 3.6 |
| Loans and advances to customers | | | | | | |
| *Corporate loans* | 20.6 | - | - | 18.7 | - | - |
| *Credit card loans* | 75.0 | - | - | 70.4 | - | - |
| *Other loans to individuals* | 20.0 | | | 20.0 | - | - |
| **Liabilities** | | | | | | |
| Due to banks | 12.0 | - | - | - | - | - |
| Customer accounts | 17.3 | 13.2 | 9.0 | 14.0 | 12.0 | |
| Debt securities in issue | 19.8 | - | 20.7 | 19.8 | - | 19.8 |
| Syndicated loan | 24.4 | - | - | 19.9 | - | - |

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

## 25 Financial Risk Management (Continued)

***Other price risk.*** The Group has no exposure to equity price risk as no transactions in equity products are performed.

The Group is exposed to prepayment risk through providing fixed rate loans, which give the borrower the right to repay the loans early. The Group's current year profit or loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers (2008: no material impact).

***Geographical risk concentrations.*** The geographical concentration of the Group's financial assets and liabilities at 31 December 2009 is set out below:

| *In thousands of Russian Roubles* | **Russia** | **OECD** | **Total** |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 18,629 | 317 | 18,946 |
| Mandatory cash balances with the CBRF | 1,182 | - | 1,182 |
| Loans and advances to customers | 173,735 | - | 173,735 |
| Derivatives | - | 2,361 | 2,361 |
| Other financial assets | 5,637 | - | 5,637 |
| **Total financial assets** | **199,183** | **2,678** | **201,861** |
| **Financial liabilities** | | | |
| Due to banks | 4,977 | - | 4,977 |
| Customer accounts | 12,621 | - | 12,621 |
| Debt securities in issue | 127 | 86,505 | 86,632 |
| Syndicated loan | - | 60,402 | 60,402 |
| Other financial liabilities | 2,253 | - | 2,253 |
| **Total financial liabilities** | **19,978** | **146,907** | **166,885** |
| **Credit related commitments (Note 27)** | **81,723** | **-** | **81,723** |

## 25 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2008 is set out below:

| *In thousands of Russian Roubles* | **Russia** | **OECD** | **Total** |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 30,907 | - | 30,907 |
| Mandatory cash balances with the CBRF | 276 | - | 276 |
| Loans and advances to customers | 140,112 | - | 140,112 |
| Other financial assets | 6,400 | - | 6,400 |
| **Total financial assets** | **177,695** | **-** | **177,695** |
| **Financial liabilities** | | | |
| Customer accounts | 8,436 | - | 8,436 |
| Debt securities in issue | 299 | 105,411 | 105,710 |
| Syndicated loan | - | 50,236 | 50,236 |
| Other financial liabilities | 3,832 | - | 3,832 |
| **Total financial liabilities** | **12,567** | **155,647** | **168,214** |
| **Credit related commitments (Note 27)** | **60,901** | **-** | **60,901** |

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

***Other risk concentrations.*** Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. The Group did not have any such significant risk concentrations at 31 December 2009 and 2008.

***Liquidity risk.*** Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from unused limits on issued credit cards, retail deposits and current accounts. The Group does not maintain cash resources to meet all of these needs as experience shows that only a certain level of calls will take place and it can be predicted with a high level of certainty. Liquidity risk is managed by the Chief Financial Officer (CFO) of the Group.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to institutional investors, corporate and retail customer deposits and debt securities. The Group keeps all available cash in diversified portfolios of liquid instruments such as a correspondent account with CBRF and overnight placements in high-rated commercial banks, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The available cash at all times exceeds all accrued financing costs falling due within half a year plus two months of regular operating costs.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements.

## 25 Financial Risk Management (Continued)

The CFO receives information about the liquidity profile of the financial assets and liabilities. This includes daily, weekly, monthly and quarterly updates on the level of credit card transactions and repayments, statistics on credit card issuance and credit card limit utilisation, inflow and outflow of retail deposits, level of expected outflows such as operating costs and financing activities. The CFO then ensures the availability of an adequate portfolio of short-term liquid assets, made up of an amount on correspondent account with CBR and overnight deposits with banks, to ensure that sufficient liquidity is maintained within the Group as a whole. Major assumptions used in liquidity analysis are based on long-standing statistics that shows that on average, about 78-82% of issued credit cards are activated, about 90-94% of activated credit cards are actually being used, limit utilisation level on credit cards is stable at 73-76%. The level of quarterly transactions is generally within 16-17% of the net credit card portfolio while the level of quarterly repayments is generally 32-33% of the net credit card portfolio.

Regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions and credit card portfolio behavior is performed by the CFO.

The Bank also calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 279.1% at 31 December 2009 (2008: 410.5%). The statutory ratio limit is a minimum of 15%.
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 239.8% at 31 December 2009 (2008: 428.7%). The statutory ratio limit is a minimum of 50%.
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The ratio was 0% at 31 December 2009 (2008: 3%). The statutory ratio limit is a maximum of 120%.

The table below shows liabilities at 31 December 2009 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

| *In thousands of USD* | **Demand and less than 1 month** | **From 1 to 3 months** | **From 3 to 6 months** | **From 6 to 12 months** | **From 1 to 3 years** | **Total** |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Due to banks | 5,000 | - | - | - | - | 5,000 |
| Customer accounts | 34 | 3,253 | 1,547 | 3,149 | 7,281 | 15,264 |
| Debt securities in issue | - | - | 11,885 | 14,794 | 84,395 | 111,074 |
| Syndicated loan | - | 426 | 436 | 867 | 88,797 | 90,526 |
| Other financial liabilities | 2,253 | - | - | - | - | 2,253 |
| Undrawn credit lines | 81,723 | - | - | - | - | 81,723 |
| **Total potential future payments for financial obligations** | **89,010** | **3,679** | **13,868** | **18,810** | **180,473** | **305,840** |

## 25 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2008 is as follows:

| *In thousands of USD* | Demand and less than 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | From 1 to 3 years | Total |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Customer accounts | 4,950 | 738 | 110 | 220 | 3,324 | 9,342 |
| Debt securities in issue | - | 3,203 | 7,806 | 26,808 | 109,208 | 147,025 |
| Syndicated loan | - | 2,251 | 2,381 | 4,744 | 66,682 | 76,058 |
| Other financial liabilities | 1,425 | 2,407 | - | - | - | 3,832 |
| Undrawn credit lines | 60,901 | - | - | - | - | 60,901 |
| **Total potential future payments for financial obligations** | **67,276** | **8,599** | **10,297** | **31,772** | **179,214** | **297,158** |

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with the Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements. The liquidity analysis takes into account the covenant requirements and ability of the Group to waive any potential breaches within the grace period.

The Group monitors expected maturities, which may be summarised as follows at 31 December 2009:

| *In thousands of USD* | Demand and less than 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | From 1 to 3 years | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 18,946 | - | - | - | - | 18,946 |
| Mandatory cash balances with the CBRF | 1,182 | - | - | - | - | 1,182 |
| Loans and advances to customers | 14,471 | 28,956 | 43,434 | 86,874 | - | 173,735 |
| Derivatives | 2,361 | - | - | - | - | 2,361 |
| Other financial assets | 5,637 | - | - | - | - | 5,637 |
| **Total financial assets** | **42,597** | **28,956** | **43,434** | **86,874** | **-** | **201,861** |
| **Liabilities** | | | | | | |
| Due to banks | 4,977 | - | - | - | - | 4,977 |
| Customer accounts | 1,184 | 3,125 | 1,351 | 2,881 | 4,080 | 12,621 |
| Debt securities in issue | - | - | 11,885 | 14,921 | 59,826 | 86,632 |
| Syndicated loan | - | - | 862 | 867 | 58,673 | 60,402 |
| Other financial liabilities | 2,253 | - | - | - | - | 2,253 |
| **Total financial liabilities** | **8,414** | **3,125** | **14,098** | **18,669** | **122,579** | **166,885** |
| **Net liquidity gap at 31 December 2009** | **34,183** | **25,831** | **29,336** | **68,205** | **(122,579)** | **34,976** |
| **Cumulative liquidity gap at 31 December 2009** | **34,183** | **60,014** | **89,350** | **157,555** | **34,976** | |

## 25 Financial Risk Management (Continued)

The expected maturity analysis of financial assets and financial liabilities at 31 December 2008 is as follows:

| *In thousands of USD* | **Demand and less than 1 month** | **From 1 to 3 months** | **From 3 to 6 months** | **From 6 to 12 months** | **From 1 to 3 years** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 30,907 | - | - | - | - | 30,907 |
| Mandatory cash balances with the CBRF | 276 | | - | - | | 276 |
| Loans and advances to customers | 12,066 | 23,281 | 34,922 | 69,843 | - | 140,112 |
| Other financial assets | 4,403 | - | - | 1,997 | - | 6,400 |
| **Total financial assets** | **47,652** | **23,281** | **34,922** | **71,840** | **-** | **177,695** |
| **Liabilities** | | | | | | |
| Customer accounts | 4,849 | 719 | 104 | 198 | 2,566 | 8,436 |
| Debt securities in issue | - | - | 16,381 | - | 89,329 | 105,710 |
| Syndicated loan | - | 2,142 | 2,156 | 3,893 | 42,045 | 50,236 |
| Other financial liabilities | 3,346 | 486 | - | - | - | 3,832 |
| **Total financial liabilities** | **8,195** | **3,347** | **18,641** | **4,091** | **133,940** | **168,214** |
| **Net liquidity gap at 31 December 2008** | **39,457** | **19,934** | **16,281** | **67,749** | **(133,940)** | **9,481** |
| **Cumulative liquidity gap at 31 December 2008** | **39,457** | **59,391** | **75,672** | **143,421** | **9,481** | |

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of reporting period.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The 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.

## 26 Management of Capital

The Group's objectives when managing capital are (i) for the Bank to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) for the Group to comply with the financial covenants set under the syndicated loan facility; (iii) to safeguard the Group's ability to continue as a going concern.

The Group considers total capital under management to be equity as shown in the consolidated balance sheet. The amount of capital that the Group managed as of 31 December 2009 was USD 35,040 thousand (2008: USD 16,468 thousand). Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level of 10%.

The Group and the Bank have complied with all externally imposed capital requirements throughout 2009 and 2008.

## 27 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

***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.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. 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 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 in this respect has been contradictory.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

## 27 Contingencies and Commitments (Continued)

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

In addition to the above transfer pricing matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of USD 4,701 thousand (2008: USD 7,004 thousand). These exposures primarily relate to the operating expenses and to acquisitions of intangible assets.

As at 31 December 2009 the Group recorded provisions in respect of uncertain taxes in the amount of USD 6,850 thousand (2008: USD 5,711 thousand). Refer to Note 15.

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

| *In thousands of USD* | **2009** | **2008** |
|---|---|---|
| Not later than 1 year | 819 | 114 |
| **Total operating lease commitments** | **819** | **114** |

***Compliance with covenants.*** The Group is subject to certain covenants related primarily to its debt securities in issue. Non-compliance with such covenants may result in negative consequences for the Group.

***Credit related commitments.*** The primary purpose of these commitments is to ensure that funds are available to a customer as required.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. If loans were extended in respect of total unused commitments, the Group would become exposed to credit risk in respect of the additional loans provided. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

| *In thousands of USD* | **2009** | **2008** |
|---|---|---|
| Unused limits on credit cards loans | 81,723 | 60,901 |
| **Total credit related commitments** | **81,723** | **60,901** |

## 27 Contingencies and Commitments (Continued)

The total outstanding contractual amount of undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded and therefore its fair value is close to zero. Credit related commitments are denominated in Russian Rubles.

## 28 Derivatives

At 31 December 2009, the Group had:

- an outstanding purchased call option giving the Group the right to buy Euro 50,000 thousand from an international financial institution for a strike price of RR 45 per 1 EUR.
- an outstanding written put option giving an international financial institution the right to sell Euro 100,000 thousand to the Group for a strike price of RR 55 per 1 EUR.
- an outstanding purchased call option giving the Group the right to buy Euro 50,000 thousand from an international financial institution for a strike price of RR 65 per 1 EUR.

All of the above mentioned options are parts of a combined option structure purchased on 15 June 2009 which can be exercised on 15 June 2011. The fair value of the outstanding options was recognised as an asset of USD 2,361 thousand (2008: none).

## 29 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, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

***Assets and liabilities carried at amortised cost.*** The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received, discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

## 29 Fair Value of Financial Instruments (Continued)

Average discount rates used depend on the currency and maturity of the instrument and the credit risk of the counterparty and were as follows:

| *In % p.a.* | 2009 | 2008 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 4.8 | 3.6 |
| Loans and advances to customers | | |
| *Corporate loans* | 20.6 | 14.9 |
| *Credit card loans* | 75.0 | 70.4 |
| *Other loans to individuals* | 20.0 | 19.8 |
| **Liabilities** | | |
| Due to banks | 12.0 | - |
| Customer accounts | 14.9 | 8.3 |
| Debt securities in issue | 23.0 | 20.0 |
| Syndicated loan | 32.0 | 20.0 |

The fair value of financial instruments carried a as at 31 December 2009 and 2008 are as follows:

| | 31 December 2009 | | 31 December 2008 | |
|---|---|---|---|---|
| *In thousands of USD* | Fair value with inputs observable in markets | Carrying value | Fair value with inputs observable in markets | Carrying value |
| **FINANCIAL ASSETS CARRIED AT AMORTISED COST** | | | | |
| ***Cash and cash equivalents*** | | | | |
| -Cash on hand | 485 | 485 | 93 | 93 |
| - Cash balances with the CBRF (other than mandatory reserve deposits) | 5,024 | 5,024 | 2,612 | 2,612 |
| - Placements with other banks with original maturities of less than three months | 13,437 | 13,437 | 28,202 | 28,202 |
| ***Mandatory cash balances with the CBRF*** | 1,182 | 1,182 | 276 | 276 |
| ***Loans and advances to customers*** | | | | |
| - Loans to individuals: | | | | |
| *Credit card loans* | 172,032 | 172,032 | 139,687 | 139,687 |
| - Corporate loans: | | | | |
| *Development* | 1,069 | 1,069 | - | - |
| *Finance* | 424 | 424 | - | - |
| *Leasehold operations* | 210 | 210 | 289 | 289 |
| *Other* | - | - | 136 | 136 |
| ***Other financial assets*** | | | | |
| - MasterCard guarantee deposit | 2,004 | 2,004 | 3,754 | 3,754 |
| - Settlement of operations with plastic cards receivable | 3,552 | 3,552 | 2,570 | 2,570 |
| - Other financial assets | 81 | 81 | 76 | 76 |
| **FINANCIAL ASSETS CARRIED AT FAIR VALUE** | | | | |
| Derivatives | 2,361 | 2,361 | - | - |
| **TOTAL FINANCIAL ASSETS** | **201,861** | **201,861** | **177,695** | **177,695** |

## 29 Fair Value of Financial Instruments (Continued)

| *In thousands of USD* | 31 December 2009 Fair value with inputs observable in markets | 31 December 2009 Carrying value | 31 December 2008 Fair value with inputs observable in markets | 31 December 2008 Carrying value |
|---|---|---|---|---|
| **FINANCIAL LIABILITIES CARRIED AT AMORTISED COST** | | | | |
| ***Due to banks*** | 4,977 | 4,977 | - | - |
| ***Customer accounts*** | | | | |
| Legal entities | | | | |
| *-Current/settlement accounts of corporate entities* | 363 | 363 | 534 | 534 |
| *-Term deposits of corporate entities* | 3,684 | 3,815 | 6,344 | 6,344 |
| Individuals | | | | |
| *-Current/settlement accounts of individuals* | 789 | 789 | 14 | 14 |
| *-Term deposits of individuals* | 7,877 | 7,654 | 1,544 | 1,544 |
| ***Debt securities in issue*** | | | | |
| *Euro denominated bonds* | 86,200 | 86,505 | 98,278 | 105,411 |
| *Bonds issued on domestic market* | 127 | 127 | 299 | 299 |
| ***Syndicated loan*** | 57,277 | 60,402 | 45,089 | 50,236 |
| ***Other financial liabilities*** | | | | |
| *Trade payables* | 210 | 210 | 1,918 | 1,918 |
| *Settlement of operations with plastic cards* | 1,394 | 1,394 | 1,425 | 1,425 |
| *Other* | 649 | 649 | 489 | 489 |
| **TOTAL FINANCIAL LIABILITIES** | **163,547** | **166,885** | **155,934** | **168,214** |

## 30 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2009:

| *In thousands of USD* | **Loans and receivables** | **Assets held for trading** | **Non-financial assets** | **Total** |
|---|---|---|---|---|
| ***Cash and cash equivalents*** | | | | |
| -Cash on hand | 485 | - | - | 485 |
| - Cash balances with the CBRF (other than mandatory reserve deposits) | 5,024 | - | - | 5,024 |
| - Placements with other banks with original maturities of less than three months | 13,437 | - | - | 13,437 |
| ***Mandatory cash balances with the CBRF*** | 1,182 | - | - | 1,182 |
| ***Loans and advances to customers*** | | | | |
| - Loans to individual: | | | | |
| *Credit card loans* | 172,032 | - | - | 172,032 |
| *Other loans to individuals* | - | - | - | - |
| - Corporate loans: | | | | |
| *Development* | 1,069 | - | - | 1,069 |
| *Consulting* | - | - | - | - |
| *Finance* | 424 | - | - | 424 |
| *Leasehold operations* | 210 | - | - | 210 |
| *Other* | - | - | - | - |
| ***Other financial assets*** | | | | |
| - MasterCard guarantee deposit | 2,004 | - | - | 2,004 |
| - Settlement of operations with plastic cards receivable | 3,552 | - | - | 3,552 |
| - Other financial assets | 81 | - | - - | 81 |
| **FINANCIAL ASSETS CARRIED AT FAIR VALUE** | | | | |
| Derivatives | - | 2,361 | - | 2,361 |
| **Total financial assets** | **199,500** | **2,361** | - | **201,861** |
| **Non-financial assets** | | | **9,753** | **9,753** |
| **Total assets** | **199,500** | **2,361** | **9,753** | **211,614** |

### 30 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with the measurement categories defined in IAS 39*, Financial Instruments: Recognition and Measurement*, as of 31 December 2008:

| *In thousands of USD* | Loans and receivables | Assets held for trading | Non-financial assets | Total |
|---|---|---|---|---|
| ***Cash and cash equivalents*** | | | | |
| -Cash on hand | 93 | - | - | 93 |
| - Cash balances with the CBRF (other than mandatory reserve deposits) | 2,612 | - | - | 2,612 |
| - Placements with other banks with original maturities of less than three months | 28,202 | - | - | 28,202 |
| ***Mandatory cash balances with the CBRF*** | 276 | - | - | 276 |
| ***Loans and advances to customers*** | | | | |
| - Loans to individual: | | | | |
| *Credit card loans* | 139,687 | - | - | 139,687 |
| *Other loans to individuals* | - | - | - | - |
| - Corporate loans: | | | | |
| *Development* | - | - | - | - |
| *Consulting* | - | - | - | - |
| *Finance* | - | - | - | - |
| *Leasehold operations* | 289 | - | - | 289 |
| *Other* | 136 | - | - | 136 |
| ***Other financial assets*** | | | | |
| - MasterCard guarantee deposit | 3,754 | - | - | 3,754 |
| - Settlement of operations with plastic cards receivable | 2,570 | - | - | 2,570 |
| - Other financial assets | 76 | - | - | 76 |
| **FINANCIAL ASSETS CARRIED AT FAIR VALUE** | | | | |
| Derivatives | - | - | - | |
| **Total financial assets** | **177,695** | **-** | | **177,695** |
| **Non-financial assets** | - | **-** | **16,247** | **16,247** |
| **Total assets** | **177,695** | **-** | **16,247** | **193,942** |

As of 31 December 2009 and 2008 all of the Group's financial liabilities were carried at amortised cost.

## 31 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The outstanding balances with related parties were as follows:

| | 31 December 2009 | | 31 December 2008 | |
|---|---|---|---|---|
| *In thousands of USD* | **Key management personnel** | **Other related parties** | **Key management personnel** | **Other related parties** |
| **ASSETS** | | | | |
| Gross amounts of loans and advances to customers (contractual interest rate: 20% (2008: 1%) | 67 | 240 | 66 | 7,835 |
| Impairment provisions for loans and advances to customers | - | (50) | - | (7,403) |
| **LIABILITIES** | | | | |
| Customer accounts (contractual interest rate: 9%-18% p.a. (2008: 1,5%) | 72 | 1,730 | - | 4,300 |
| Debt securities in issue (subordinated tranche, contractual interest rate: 24% p.a.) | - | 9,334 | - | - |

Interest income and interest expense with related parties for 2009 and 2008 are as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| *In thousands of USD* | **Key management personnel** | **Other related parties** | **Key management personnel** | **Other related parties** |
| Interest income | 3 | 70 | 19 | 1,027 |
| Interest expense | - | (1,749) | - | (64) |

In 2009 the total remuneration of key management comprised only short-term benefits and amounted to USD 2,513 thousand (2008: USD 2,405 thousand).

Key management personnel are entitled to a bonus equal to 7% of the fair value of the controlling shareholder's stake in the Bank's equity, payable directly by the ultimate beneficiary who has controlling stake. The fair value will be calculated based upon report of the independent appraiser or price of the placements of the Bank's shares as at 31 December 2012.

## 32 Subsequent event

In February 2010 the Group sold Euro denominated bonds to the market with a nominal value of EUR 659 thousand and with a discount of 10.0%.

# APPENDIX A – OVERVIEW OF THE BANKING SECTOR AND BANKING REGULATION IN THE RUSSIAN FEDERATION

*The following information has been extracted from publicly available sources, which are identified below. None of the Issuer, TCS or Egidaco has independently verified any such information and, accordingly, the Issuer, TCS and Egidaco only take responsibility for its accurate reproduction. This summary is provided for information purposes only and does not purport to cover all relevant issues or to be a comprehensive description of all the topics discussed below.*

## Introduction to the Russian Banking Sector

### *History and development of the Russian banking sector*

Prior to the reorganisation in 1987, the Soviet banking system consisted of the former State Bank of the USSR, or Gosbank (the predecessor to the CBR), which allocated resources from the state budget according to the prevailing economic plan and in whose regional branches all production and trading entities held their current accounts, and Stroibank of the USSR and Vneshtorgbank of the USSR, which, primarily serviced payments relating to capital construction projects and the foreign trade of Soviet entities, respectively. Gosbank operated a network of "savings branches" (*sberegatelnyie kassy*), the predecessors to Sberbank, that offered retail banking services, mainly deposit taking and the processing of utility payments, throughout the country.

In 1987, the Soviet banking system was partially liberalised. A few specialised banks were established to service specific industries, namely, Agroprombank (Farming Production Bank), Promstroibank (Production and Construction Bank), Zhilsotsbank (Bank for Housing Maintenance and Utilities Sector and Social Development), Vnesheconombank of the USSR (Bank for Foreign Economic Activity) and Sberbank of the USSR (Bank for Labour Savings and Lending to the Population).

Vnesheconombank of the USSR became the full successor of Vneshtorgbank of the USSR pursuant to Resolution No. 745 of the Council of Ministers of the USSR dated 14 June 1988.

From 1988-1989, many regional commercial banks emerged, primarily in the form of co-operatives or joint stock companies. In 1991, three of the specialised state banks were transformed into joint stock companies. Some regional branches of these specialised state banks became independent from their head offices through management buy-outs. Furthermore, after the collapse of the Soviet Union in November 1991, the Central Bank of RSFSR (currently the CBR) assumed all of Gosbank's functions in the Russian Federation, and the Russian Government liquidated Gosbank one month later.

In 1991-1998, the Russian banking system experienced rapid growth. The number of commercial banks in the Russian Federation increased from approximately 350 in 1990 to more than 2,500 in 1998. Several large privately-held banking groups were formed, including UNEXIM Bank, Inkombank, Menatep, Russian Credit and SBS-Agro. Although most private banks focused on providing banking services to newly privatised companies and governmental bodies, certain of these started to compete with state-owned banks by offering banking products to retail customers.

In 1998, the Russian financial market crisis, which occurred largely because of the Russian Governments default on much of its short-term domestic debt, exposed the weakness of the Russian banking sector.

Many banks were subsequently reorganised, went bankrupt or were placed under the administration of the Agency for the Restructuring of Credit Organisations ("**ARCO**"), a state corporation established in 1999 to restructure defaulting banks and protect their creditors. In 2002, 14 banks were under ARCO's administration, and by 31 December 2002, 11 of them had completed the financial restructuring process. Other defaulting banks were liquidated. With the stabilisation of the banking sector in recent years, ARCO's role has decreased substantially. On 18 October 2003, the last credit organisation was withdrawn from ARCO's administration, and pursuant to Federal Law No. 87-FZ dated 28 July 2004, ARCO itself was liquidated. Pursuant to the Retail Deposit Insurance Law, the assets of ARCO were transferred to the state corporation Agency for Deposit Insurance (the "**Deposit Insurance Agency**"), which was established in January 2004 under the Retail Deposit Insurance Law.

The 1998 financial crisis revealed a lack of proper regulation of the Russian banking sector and reinforced concerns about the integrity of the banking system. However, in 1999-2003, the Russian banking system gradually recovered from the 1998 financial crisis. Higher liquidity levels and a shift in emphasis from investments in Russian Government securities to loans to companies and other legal entities characterised this recovery.

From April to July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of various market rumours and, in some cases, regulatory and liquidity problems, several privately-owned Russian banks, including Guta Bank, experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, these banks faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations.

The CBR took several steps to combat the instability, including reducing the rate of mandatory reserves that banks must deposit with the CBR from 7 per cent. to 3.5 per cent. To implement these measures, the CBR permitted banks to reduce their mandatory reserves to the lower level immediately. Accordingly, banks borrowing costs declined. In addition, the Russian Government passed legislation pursuant to which the CBR became responsible for payments to retail customers of insolvent Russian banks that did not participate in the retail deposit insurance system before their insolvency. The CBR was also given a power to impose, for a period of one year, a limit on interest rates on retail deposits. In addition, banks became obligated to disclose certain information concerning the interest rates on retail deposits, their liabilities in respect of deposits and amounts of cash withdrawals by private depositors.

After recovering from the 2004 crisis, the Russian banking sector was then severely affected by the global financial crisis. In the second half of 2008, in response to the global credit crisis and its impact on the Russian banking system and the overall economy, Russia enacted a number of measures to support the liquidity of the Russian banking sector. The Russian government agreed to, *inter alia*, provide up to RUB 950 billion in subordinated loans to state-owned and private banks under certain conditions and the CBR established a new facility to conduct uncollateralised lending covering a number of Russian banks. The CBR also agreed to reduce reserve requirements for banks. Until 31 December 2010, the CBR had the authority to guarantee interbank lending transactions for credit organisations and, to encourage interbank lending, to partially compensate certain banks for future losses incurred in interbank lending operations with banks whose licenses were revoked. The government also increased the deposit guarantee maximum for retail customers to up to RUB 700,000 per deposit.

***Selected Statistical Information***

According to the CBR and under Russian accounting standards, which differ from International Financial Reporting Standards, as of 1 January 2011, the total assets of the Russian banking sector were 33,804.6 billion Roubles with capital of the banking sector of 4,732.3 billion Roubles as of 1 January 2011.

As of 1 January 2011, according to the CBR, the total amount of loans and other funding in Roubles provided by Russian banks to their clients that are not credit organisations increased to 22,140.2 billion Roubles (of which loans in the amount of 4,084.8 billion Roubles were provided to retail clients, loans and other funding in the amount of 14,062.9 billion Roubles were provided to corporate clients and loans and other funding in the amount of 262.1 billion Roubles were provided to state financial agencies and non-budgetary funds) as compared to 19,847.1 billion Roubles as of 1 January 2010 and 19,884.8 billion Roubles as of 1 January 2009. According to the CBR, the total amount of loans and other funding provided by Russian banks in foreign currencies amounted to 6,041 billion Roubles as of 1 January 2011 (of which loans in the amount of 359.6 billion Roubles were provided to retail clients, loans and other funding in the amount of 3,658.2 billion Roubles were provided to corporate clients and loans and other funding in the amount of 0.4 billion Roubles were provided to state financial agencies and non-budgetary funds) as compared to 5,974.4 billion Roubles as of 1 January 2010 and 6,009.9 billion Roubles as of 1 January 2009.

One of the main sources of recent growth of the banks' financial resources was the increasing number of retail deposits. According to the CBR, the aggregate amount of retail deposits in the Russian banking sector increased from 5,907 billion Roubles as of 1 January 2009 to 7,485 billion Roubles as of 1 January 2010 and to 9,818 billion Roubles as of 1 January 2011 (of which deposits in Roubles amounted to 7,918.5 billion Roubles and deposits in foreign currencies totalled 1,899.4 billion Roubles). According to the CBR, the aggregate amount of corporate deposits increased from 4,945.4 billion Roubles as of 1 January 2009 to 5,466.6 billion Roubles as of 1 January 2010, and further to 6,035.6 billion Roubles as of 1 January 2011 (of which deposits in Roubles amounted to 3,541.2 billion Roubles and deposits in foreign currencies totalled 2,494.4 billion Roubles).

In accordance with Federal Law No. 175-FZ "On Additional Measures for Strengthening the Stability of the Banking System for the Period until 31 December 2011" dated 27 October 2008 (the "**Banking System Stability Law**"), as amended, and decisions taken in September and October 2008 prior to the effective date of this law, Russian authorities and the CBR introduced certain measures intended to prevent bankruptcy of credit organisations. The number of credit organisations subject to such measures increased from 7 (with assets of RUB 576.2 billion, or 2.3 per cent. of the total assets of Russian credit organisations) as of 1 November 2008 to 20 (with assets of RUB 749.2 billion, or 2.7 per cent. of the total assets of Russian credit organisations) as of 1 January 2009, but then decreased slightly to 14 as of 1 January 2011.

***Structure of the Russian banking sector***

The Russian banking sector consists of the CBR and credit organisations which, in turn, consist of banks, which provide a wide range of banking services, and non-bank credit organisations, which provide only limited banking services, such as maintaining accounts and making payments. As of 1 March 2011, there were 1,145 banks and non-banking credit organisations registered and 1,010 operating in the Russian Federation. Poor corporate governance, inadequate risk management, lack of transparency, absence of developed regional networks and weak management remain main characteristics of many Russian banks.

*State-owned or state-controlled banks*

State-owned banks continue to play a leading role in the Russian banking sector. Several state-owned banks focus on the implementation of Russian Government programmes, such as Russian Agricultural Bank in the agriculture sector and Roseximbank in respect of import-export operations.

Other banks have provided loans in politically-related contexts, including Sberbank (the largest bank in Russia), VEB and VTB. VTB has also revealed that it is contemplating major consolidation transactions in the sector, including the phased acquisition of 100 per cent. stakes in Bank of Moscow and TransCreditBank, which are ranked 5th and 14th, respectively, in terms of assets as of 1 January 2011, according to RBC Rating. Also, VTB has been reported in the press as being interested in acquiring Home Credit Bank, which is ranked 34th in terms of assets as of 1 January 2011, according to RBC Rating. According to the press materials, as of 22 March, VTB has acquired the majority stake in Bank of Moscow. Other major state-controlled banks include Bank of Moscow and TransCreditBank. Bank of Moscow is controlled by the Moscow City government, while TransCreditBank is controlled by the state-owned corporation Russian Railways.

*Retail banks*

Sberbank and, to a lesser extent, VTB24 (former Guta Bank purchased and renamed by VTB (former Vneshtorgbank)) are the leaders in retail banking operations. The collapse of large privately-owned banks, such as SBS-Agro and Inkombank, after the August 1998 financial crisis considerably undermined the credibility of privately-owned retail banks among retail customers. State-owned banks currently dominate this sector, partially because of the indirect state guarantee of their retail deposits and partially because of their large branch networks. It is unclear whether participation by privately-owned banks in the retail deposit insurance scheme will restore their credibility among retail customers.

*Foreign owned banks*

The presence of foreign owned banks in the Russian market had been kept limited until 2002, in order to protect the newly formed Russian banks. However, given that foreign banks were later prohibited to directly conduct business in the Russian Federation, many major foreign banks have established subsidiaries in Russia.

Currently, foreign owned banks may need to comply with certain additional requirements that may be established by the CBR. The maximum aggregate participation limit of foreign shareholders in the Russian banking system may be determined by a federal law proposed by the Russian Government in conjunction with the CBR, however no such law has been enacted.

According to the CBR, as of 1 February 2011, 110 credit organisations controlled by foreign groups holding more than 50 per cent. of their shares were operating in the Russian Federation, of which several ranked in the top 30 of all banks operating in the country by value of their assets. Of these 110 credit organisations, 79 were wholly-owned by subsidiaries of foreign groups as of 31 March 2011.

Although certain foreign owned banks focus primarily on cash and settlement services to non-residents and interbank operations, many foreign owned banks, such as UniCredit Bank (formerly International Moscow Bank), Raiffeisenbank, Citibank, Bank Société Générale Vostok, Delta Bank and Bank DeltaCredit, offer full scope services to their Russian customers, including retail deposits and loans to retail customers.

**Legislative Framework for the Russian Banking Sector**

***The Banking Law***

The Banking Law is the general law regulating the Russian banking sector. Among other things, it defines credit organisations, sets forth the list of banking operations and other transactions that credit organisations may perform and establishes the framework for the registration and licensing of credit organisations and the regulation of banking activity by the CBR.

The Association of Russian Banks, a non-profit, self-regulatory organisation established pursuant to the Banking Law, offers technical support to its members and lobbies for the interests of commercial banks in various governmental bodies, including the Russian parliament, the Russian Government and the CBR. As of 2 April 2011, it consisted of 704 members, including 532 credit organisations.

*Banking operations*

The Banking Law sets forth the following services as "banking operations" that require an appropriate licence from the CBR:

- taking deposits from individuals and legal entities (both demand and fixed-term deposits);
- investing the deposited funds as a principal;
- opening and maintaining bank accounts for individuals and legal entities;
- performing settlements in accordance with the instructions of individuals and legal entities, including correspondent banks, from and to their bank accounts;
- services involving the handling of cash, cheques, promissory notes, and payment documents, and other cash services to individuals and legal entities;
- the purchase and sale of foreign currency (including banknotes and coins);
- taking deposits in precious metals and investing them;
- issuing bank guarantees; and
- making money transfers in accordance with the instructions of individuals without opening bank accounts (excluding payments by post).

The Banking Law provides that a credit organisation may be authorised to take deposits from individuals only after it has been registered for two years unless it meets certain criteria allowing it to take deposits from individuals earlier.

*Other activities*

In addition to banking operations, credit organisations may:

- guarantee monetary obligations of third parties;
- purchase rights to demand payments by way of assignment;
- engage in the fiduciary management (which differs from the concept of trust under English law) of monetary funds and other property for individuals and legal entities;
- engage in operations with precious metals and stones (in accordance with Federal Law No. 41-FZ "On Precious Metals and Precious Stones" dated 26 March 1998, as amended, and other legal acts);
- rent out special premises and safe deposit boxes to individuals and legal entities to store documents and valuables;
- engage in leasing operations;
- provide consultancy and informational services; and
- enter into any other transactions in accordance with Russian law.

Under the Banking Law, a credit organisation cannot engage in production, commodities trading (excluding precious metals) or insurance activities. Article 15.26 of the Administrative Offences Code of the Russian Federation dated 30 December 2001, as amended, envisages a fine in an amount of between RUB 40,000 and RUB 50,000 for non-compliance with this requirement.

***The Securities Market Law***

A banking licence does not authorise a credit organisation to act as a securities broker or dealer or to provide custody services (other than acting as a paying agent). To perform these functions, pursuant to Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended, a credit organisation must obtain a respective licence from the Federal Service for Financial Markets (the "**FSFM**"). The operations of Russian banks in the securities market are subject to Russian securities laws and regulations adopted by the FSFM or its predecessor that govern activities of brokers, managers and securities custodians, as well as the relationship between professional market participants and investors. The FSFM also oversees the compliance of all professional market participants, including banks, with the Russian Federation's securities laws and regulations.

***The Retail Deposit Insurance Law***

The Retail Deposit Insurance Law introduced a mandatory retail deposit insurance system for Russian banks that hold a CBR licence to offer retail deposits. The Retail Deposit Insurance Law provides for the establishment of a new regulator, the Deposit Insurance Agency, which, among other things, collects fund contributions, manages the fund, determines the order for calculation of insurance premiums and monitors insurance payments. The Deposit Insurance Agency maintains a register of all banks that take part in the mandatory retail deposit insurance system. To be eligible to participate in the mandatory deposit insurance system, banks had to apply with the CBR before 27 June 2004. Requirements for the admission to the mandatory deposit insurance system were set in the law and their satisfaction was checked by the CBR on a case-by-case basis.

According to the Deposit Insurance Agency website, as of 17 March 2011, the CBR had admitted 909 banks to the mandatory deposit insurance system. A bank failing to participate in the mandatory deposit insurance system cannot take retail deposits or open accounts for individuals.

The Retail Deposit Insurance Law limits deposit protection for each customer to RUB 700,000 per bank, which is payable from a retail deposit insurance fund into which participating banks must make quarterly contributions. The insurance payment from the deposit insurance fund becomes payable to depositors if the CBR revokes the bank's licence or imposes a moratorium on payments by the bank. The amount of each bank's deposit insurance contribution is the quarterly average of daily balances of retail deposits (excluding bearer deposits). Standard contribution premiums cannot exceed 0.15 per cent. of the contribution basis. In certain circumstances, the premium can be increased up to 0.3 per cent. of the contribution basis, but not for more than two quarters in any 18-month period. When the size of the insurance fund reaches 5 per cent. of all Russian banks combined retail deposits, all succeeding contribution premiums cannot exceed 0.05 per cent. of the contribution basis. When the size of the insurance fund exceeds 10 per cent. of all Russian banks combined retail deposits, no contributions will need to be made, but contributions must be resumed if the size of the insurance fund falls below 10 per cent. of the combined retail deposits.

***The Banking System Stability Law***

The Banking System Stability Law, came into effect on 28 October 2008.

The Law envisages that the Deposit Insurance Agency will assist distressed banks through: (i) attracting investors for credit organisations which are experiencing financial difficulties; and (ii) liaising with the CBR regarding the provision of financial assistance to such credit organisations.

The Banking System Stability Law expands the list of bankruptcy prevention measures available for Russian credit organisations under the Bank Insolvency Law by introducing the following additional procedures:

- provision of financial assistance to private investors that have agreed to acquire a controlling stake in a credit organisation in distress;
- financial assistance to other credit organisations that have agreed to acquire certain assets and obligations of a credit organisation in distress;
- acquisition of a controlling stake in a credit organisation in distress directly by the Deposit Insurance Agency (if there is no investor willing to participate in rehabilitation proceedings);

- provision of financial assistance to a credit organisation in distress subject to acquisition of a controlling stake in such credit organisation by either a private investor or the Deposit Insurance Agency;
- making arrangements for public sale of the assets securing obligations of a credit organisation owed to its creditors, including the CBR; and
- appointment of the Deposit Insurance Agency by the CBR to act as temporary administrator in relation to a credit organisation.

The decision as to whether bankruptcy prevention measures should be launched in respect of a particular credit organisation rests with the CBR.

The analysis of the financial position of a credit organisation for the purpose of provision of state support to it will be performed by the CBR and the Deposit Insurance Agency. Based on the results of the analysis the Deposit Insurance Agency will develop a rehabilitation plan for that credit organisation which will then need to be approved by the CBR.

***Currency Law***

Federal Law No. 173-FZ "On Currency Regulation and Currency Control" dated 10 December 2003, as amended (the "**Currency Law**"), introduced a new currency control regime. The Currency Law is generally aimed at the gradual liberalisation of Russian currency control regulations. Pursuant to the Currency Law, the CBR has the power to regulate certain currency operations (including non-banking operations performed by Russian banks) by introducing a "special account requirement", but no such requirement is currently in force since, as of 1 January 2007, along with the major remaining restrictions envisaged in the Currency Law, it was abolished.

However, there can be no assurance that the Currency Law itself will not be revised or amended in the future or that no new restrictive measures will be implemented in the Russian Federation, taking the current economic situation into account.

***The Anti-Money Laundering Law***

In August 2001, the Russian Federation adopted Federal Law No. 115-FZ "On Combating the Legalisation (Laundering) of Income Obtained by Criminal Means" dated 7 August 2001, as amended (the "**Anti-Money Laundering Law**"), to comply with the requirements of the Financial Action Task Force on Money Laundering (FATF). The Anti-Money Laundering Law entered into force on 1 February 2002. Credit organisations must comply with the provisions of the Anti-Money Laundering Law relating to, among other things, the development of appropriate internal standards and procedures, customer identification, control over customer operations and reporting of suspicious activities.

Under the Anti-Money Laundering Law, one of a bank's main obligations is the "control function", which involves identification of the bank's clients, gathering information with respect to client operations and reporting of certain operations to the Federal Service for Financial Monitoring, the Russian Federations anti-money laundering authority. The Anti-Money Laundering Law requires that banks exercise the "control function" over any operations in the amount of RUB 600,000 or more (or its equivalent in foreign currencies) when such operations involve:

- cash transactions;
- transactions where one of the counterparties is resident or has a bank account in a country that does not participate in international efforts to combat money-laundering;
- making certain bank deposits that do not identify beneficiaries;
- deposits to or debiting the money from the account of legal entities with less than three months existence and performing such operations in relation to the account for the first time since its opening; and
- similar transactions involving precious stones, precious metals and other property.

In addition, banks must exercise the "control function" over any operation involving an individual or organisation that is known to participate in extremist or terrorist activities, as well as any legal entity that such organisations control or the agents of such organisations.

If bank officers suspect that an operation is conducted in order to legalise any funds received from illegal activities or to finance terrorist activities, their banks must report such operations to the Federal Service for Financial Monitoring whether or not they qualify as controlled operations. Banks may not inform customers that transactions are being reported to the Federal Service for Financial Monitoring.

***The Bank Insolvency Law***

Credit organisations are subject to special insolvency procedures set forth in the Bank Insolvency Law. It provides, among other things, that if a credit organisation goes bankrupt, it must pay its retail depositors after the claims of individuals for personal injury, deaths or moral damages, if any, are satisfied. For a more detailed description of claims and priority of payments see "—*The Insolvency Regime for Credit Organisations*".

***Measures to support the liquidity and solvency of Russian banks and legal entities since October 2008***

Since October 2008, the Russian Government and the CBR have announced and, in many cases, fully implemented measures intended to support the liquidity and solvency of Russian banks and to increase the availability of credit to businesses, which have been seen as critical for restoring investor confidence and supporting the medium-term economic growth of the Russian economy. These measures were primarily introduced by Federal Law No.173-FZ "On the Additional Measures to Support the Financial System of the Russian Federation" dated 13 October 2008, as amended (the "**Rescue Measures Law**"). According to the Rescue Measures Law, the following measures are being implemented:

- The Russian Government through the CBR and Vnesheconombank may provide up to RUB 910 billion in subordinated loans to state-owned and private banks under certain conditions. The RUB 910 billion state contribution to banking sector capital in the form of long-term subordinated loans with a term of at least five years is one of the key economic initiatives announced by the Russian Government to restore confidence in the Russian banking sector. State-owned banks such as Sberbank, VTB and Russian Agricultural Bank received RUB 500 billion, RUB 200 billion and RUB 25 billion, accordingly, as part of this initiative. The remaining RUB 185 billion have been distributed among privately-owned Russian banks subject to certain conditions.
- The CBR was authorised to enter into agreements with privately owned banks to partially compensate such banks for the losses suffered during the period from 14 October 2008 to 31 December 2010 as the result of operations on the interbank market with banks whose licences were revoked. Vnesheconombank had the right, until 31 December 2009, to originate foreign currency loans up to US$50 billion to Russian legal entities to repay and/or refinance the loans received from foreign lenders prior to 25 September 2008.

On 20 October 2008, the Supervisory Board of Vnesheconombank approved the "Procedure for realising by Vnesheconombank the measures set out in Articles 4 and 6 of the Rescue Measures Law" which details the measures implemented to finance Russian banks through Vnesheconombank (the "**Procedure**").

The Procedure lists certain criteria that a Russian bank must meet to qualify for Vnesheconombank financing, including but not limited to, a minimum credit rating of "B" for Fitch and Standard & Poors and "B3" for Moody's Investor Service, no outstanding tax liabilities at the federal or regional level and no applicable CBR sanctions.

A set of federal laws and subordinated legislation complements the measures introduced by the Rescue Measures Law:

- The CBR established a new liquidity scheme to conduct uncollateralised lending covering a number of Russian banks. The maximum amounts that banks can raise under this facility were set by the CBR depending on the international credit rating, asset size and the level of capitalisation of the potential borrower under this arrangement.
- From 14 October 2008 until 31 December 2010, the CBR was granted the authority to guarantee interbank lending transactions for credit organisations and, in an effort to encourage interbank lending in the short-term period, to partly compensate expenses to certain banks for any future losses incurred during interbank lending operations with banks whose licences were revoked.
- Federal Law No. 317-FZ "On Amending Articles 46 and 76 of the Federal Law on Central Bank of Russian Federation (Bank of Russia)" dated 30 December 2008 vested the CBR with the right to appoint its authorised representatives to the banks and credit institutions which, *inter alia*, have received from Vnesheconombank any foreign currency loans and/or subordinated

loans under the Rescue Measures Law. The CBR Regulation No. 2182-U dated 9 February 2009 provides for the procedure for such authorised representatives appointment, their rights and obligations including, *inter alia*, the right to participate in the meetings of the management bodies of such banks and credit institutions and the right to request information on management remuneration and the issuance of loans to third parties.

- CBR Regulation No. 2092-U "On Determination of Mandatory Reserve Requirements of the Bank of Russia" dated 15 October 2008 temporarily decreased the reserve requirements for all types of financial obligations, namely funds in Roubles and foreign currencies payable to non-resident banks, funds in Roubles payable to individuals and other obligations, to 0.5 per cent. from 4.5 per cent., 1.5 per cent. and 2 per cent., respectively. However, the CBR Regulation No. 2582-U "On Determination of Mandatory Reserve Requirements of the Bank of Russia" dated 25 February 2011 provides for the increase of the reserve requirements for all types of financial obligations, namely funds in Roubles and foreign currencies payable to non-resident banks, funds in Roubles payable to individuals and other obligations, to 4.5 per cent., 3.5 per cent. and 3.5 per cent., respectively. See "*—Management of the CBR – Reserve requirements*".
- The Retail Deposit Insurance Law has been amended to increase the amount of the secured deposits of individuals with Russian banks included to the state system of deposits insurance up to RUB 700,000. See "*—Legislative Framework for the Russian Banking Sector—The Retail Deposit Insurance Law*".
- Government Decree No. 18 "On the Procedure of National Welfare Fund Assets Management" has been amended in 2008 and 2009 to increase the scope of financial instruments in which funds from the National Welfare Fund can be invested. The National Welfare Fund was established in 2008 using oil revenues, with a view to partially funding contributions to pensions of Russian citizens and to make up shortfalls in other contributions from the federal budget to federal pension funds. As a consequence, up to RUB 655 billion of such funds may be deposited in Vnesheconombank to support the Russian financial markets.
- Vnesheconombank commenced origination of foreign currency loans in the total amount of up to US$50 billion to Russian corporates, including credit organisations, for the refinancing of indebtedness incurred prior to 25 September 2008 from non-Russian lenders and sources. This refinancing option was available until 31 December 2009.
- The number of instruments eligible for the CBR's collateralised facility and for refinancing transactions with the CBR has been increased and the CBR may accept, among other things, the pledge of certain bonds and suretyships granted by certain Russian banks as collateral under its facilities to credit organisations.
- The Russian Government has pledged RUB 500 billion to stabilise the financial markets, out of which Vnesheconombank, a state-owned bank, has already received RUB 250 billion to implement measures to support the Russian financial markets. In November 2008, Vnesheconombank received a contribution of RUB 75 billion to its charter capital to help stabilise the repo market. The remaining RUB 175 billion was deposited with Vnesheconombank and partially used to support the Russian debt and equity markets.
- The provision of additional liquidity to the Russian banks by the Russian Government and the CBR has caused massive attacks on the Rouble and its significant devaluation against the US dollar. The financial aid received by the banks in the end of 2008 and the beginning of 2009 did little to expand the access of Russian corporates or individuals to credit. At the end of January 2009, the CBR changed its policy and placed particular emphasis on stopping further devaluation of the Rouble by turning to a tighter monetary policy and significantly limiting the access of Russian banks to liquidity.

**Role of the CBR**

The CBR was established on 13 July 1990 as a successor to the Russian Republican Bank of the State Bank of the USSR, or Gosbank. After the collapse of the USSR in 1991, the CBR inherited Gosbank's operational facilities and resources, including its subsidiaries and branches.

The CBR operates under the CBR Law. According to the CBR Law, the Russian Government is not liable for the CBRs obligations, and nor is the CBR liable for the obligations of the Russian Government, unless the relevant liability has been assumed or is required under other Russian laws. The assets of the CBR are under federal ownership.

**Management of the CBR**

The CBR is a legal entity and operationally independent of the Russian Government. The CBR has a Moscow head office and regional branches in the constituent subjects of the Russian Federation, as well as local branches. (In the case of some constituent subjects that are republics, the CBR's regional branch is called a "**National Bank**".) The management of the CBR consists of the Chairman of the CBR, the Board of Directors and the National Banking Council.

The Russian President nominates the Chairman of the CBR, whom the State Duma, one of the chambers of the Russian parliament, then confirms for a four-year term in office. The Chairman of the CBR, whom the President and State Duma can replace using the same procedure, has the right to participate in meetings of the Russian Government.

The Board of Directors performs general management functions, such as allocating the CBR's annual budget, determining the CBR's organisational structure and formulating internal policies and procedures. It also performs certain external regulatory functions, such as:

- establishing rules for the conduct of banking operations;
- establishing accounting rules for Russian banks;
- determining mandatory economic ratios and provisioning policies for Russian banks; and
- determining pricing policies for the CBR's open market operations.

The Board of Directors of the CBR consists of the Chairman of the CBR and twelve members. The Chairman of the CBR nominates, with the approval of the Russian President, each director, whom the State Duma then confirms for a four-year term in office.

The National Banking Council performs certain policy-making functions, such as determining the CBR's maximum capital expenditures, appointing the CBR's auditors and approving its accounting procedures and allocation of the CBR's expenses. Of the twelve members of the National Banking Council, the Council of Federation, the chamber of the Russian parliament, appoints two from among its members, the State Duma appoints three from among its members, and the President and the Russian Government each appoint three. The Chairman of the CBR is an *ex officio* member of the National Banking Council.

***Functions of the CBR***

Pursuant to the CBR Law, the Banking Law and the Currency Law, the CBR can issue and implement binding regulations in respect of banking and currency operations.

Under current legislation, the CBR performs the following main functions:

***Monetary policy***

The CBR formulates monetary policy in the Russian Federation. It can finance banks by extending short-term loans to them at a discount rate that it determines. It also establishes reserve requirements, capital adequacy requirements and mandatory economic ratios. It also conducts currency interventions, issues its own bonds, which it can offer only to credit organisations, and trades in the Russian Government securities.

***Bank regulation***

The CBR issues, suspends or revokes banking licences and registers new securities issuances by commercial banks. The CBR also oversees banks compliance with ratio and reserve requirements, imposes sanctions for violations thereof, establishes reporting requirements and accounting rules and procedures for banks, oversees banks operations and transactions, appoints temporary administrations of banks that are facing insolvency, regulates the acquisition or management in trust of significant stakes in banks (for stakes between 1 per cent. and 20 per cent., the CBR requires notification; in respect of stakes that equal or exceed 20 per cent., the CBR must give its prior approval of the transaction) and assesses the financial standing of banks founders.

***Transactions with banks***

The CBR is authorised to perform various proprietary banking operations. In particular, the CBR:

- extends loans to banks at the discount rate;
- maintains Rouble-denominated correspondent accounts of other banks;
- provides cash and settlement services and issues guarantees to banks;

- purchases and sells Russian state securities, its own bonds, certificates of deposit, precious metals and stones;
- purchases and sells foreign currency and foreign currency-denominated payment instruments issued by Russian and foreign banks; and
- registers securities issued by banks.

Except under the limited circumstances set forth in the CBR Law, the CBR cannot participate in the charter capital of banks and other commercial entities.

***Issue of currency and regulation of its circulation***

The CBR has the exclusive authority to issue currency in the Russian Federation and to regulate its circulation. The CBR arranges for the printing of banknotes and the engraving of coins, establishes rules for their transportation and storage and regulates over-the-counter cash operations.

***Foreign currency operations***

The CBR has substantial power to regulate foreign currency operations in the Russian Federation and by Russian residents abroad. It administers the Russian Federation's international reserves. It also establishes rules governing Rouble- and foreign currency-denominated bank accounts in the Russian Federation of both residents and non-residents.

***Domestic Government debt service and federal budget administration***

The CBR acts as placement agent for and services domestic sovereign debt issued by the Ministry of Finance of the Russian Federation.

The CBR also administers federal budget accounts. However, under the CBR Law, the CBR cannot, unless the federal budget expressly authorises it to do so, extend loans to the Russian Government to finance Russian Government budget deficits.

***Licensing***

A credit organisation must hold a CBR licence to conduct "banking activities", as defined in the Banking Law. Licence applicants must submit to the CBR a feasibility study, detailed information on their senior management and compliance with qualification requirement and documents certifying the source of funds contributed to their charter capital.

The credit organisation must be incorporated in the Russian Federation. Under the Banking Law, credit organisations may be incorporated as joint stock companies, limited liability companies or companies with additional liability. The last form, however, is never used, since it envisages joint liability of the company's owners for the credit organisations obligations.

The CBR may refuse to register a credit organisation and to issue a banking licence if, among other things:

- application materials do not comply with Russian law;
- the financial standing of the credit organisations founders is unsatisfactory;
- candidates for a position of a chief executive officer or chief accountant of the credit organisation fail to meet qualification requirements; or
- a candidate for a position of a member of the credit organisation's board of directors has a business reputation which does not correspond to the established qualification requirements.

Additional requirements have been introduced for obtaining a licence for taking deposits from individuals. The licence could be granted to a newly established bank or to a bank existing for more than two years from the date of its registration provided that: (i) the charter capital of a newly established bank or the regulatory capital of an existing bank is not less than RUB 3,600 million, and (ii) the bank complies with the CBR's requirement to publicly disclose all information relating to persons having significant influence over decisions made by the bank's management bodies.

The charter (regulatory) capital requirement of RUB 900 million has been introduced for obtaining a licence for conducting banking operations in Roubles and foreign currencies and taking deposits from individuals in Roubles and foreign currencies.

### *Capital requirements*

The basic concept underlying Russian capital requirements is the amount of the capital base (own funds) of a credit organisation which is defined as the sum of the "main capital" and "additional capital" of the credit organisation minus certain obligations as determined by the CBR.

The main capital and the additional capital are defined by way of an exhaustive list of different types of debt and equity that qualify for treatment as the main and additional capital, as applicable. For example, the amount of the charter capital of the credit organisation is included into the main capital of the credit organisation and constitutes a part of the credit institutions capital base.

Capital base of a credit organisation must not be less than RUB 180 million with an exception for banks whose capital base constituted less than RUB 180 million as of 1 January 2007. Each bank whose capital base was below RUB 180 million as of 1 January 2007 is required to increase its capital base to (i) a minimum of RUB 90 million by 1 January 2010; and (ii) a minimum of RUB 180 million by 1 January 2012. Failure to comply with this requirement will result in revocation of a bank's banking licence.

The Banking Law establishes minimum charter capital for banks. Under the Banking Law the minimum charter capital both for newly-established and foreign owned banks is equivalent to RUB 180 million. A bank whose capital base falls below its nominal charter capital must increase its capital base (or, if impossible, reduce its nominal charter capital) accordingly. The CBR Directive No. 1260-U dated 24 March 2003, as amended, establishes the procedures for such adjustment.

The capital base required for a newly established bank seeking to obtain a general banking licence should be not less than RUB 900 million or, if an exemption from two year period of existence requirement is sought, RUB 3.6 billion.

### *Reserve requirements*

Under the CBR Law, the CBR's board of directors may establish reserve requirements for banks. Reserve requirements must not exceed 20 per cent. of the banks liabilities and may vary for different types of banks.

Banks are currently required to post mandatory reserves to be held in non-interest bearing accounts with the CBR. To stabilise local financial market, and to support the liquidity of the Russian banking sector, the CBR decreased in October 2008 mandatory reserves for various obligations of credit organisations to 0.5 per cent. and successively increased them starting from 1 March 2011 to the current 4.5 per cent. for the banks' obligations to non-resident banks in Roubles or foreign currency and 3.5 per cent. for obligations to individuals in Roubles and other obligations in Roubles or foreign currency.

From 1 March 2011, mandatory cash balances are calculated by banks in accordance with CBR Regulation No. 342-P dated 7 August 2009 and Regulation No. 2582-U dated 25 February 2011 (the "**Reserves Regulations**"). The Reserves Regulations do not require creation of reserves for certain long-term borrowings, but they require posting of reserves for short-term obligations to non-resident banks. The Reserves Regulations also require banks to report the calculation of reserves to the CBR and its regional branches promptly after the end of each calendar month, as well as to post additional reserves, if necessary.

The CBR may fine a bank that fails to comply with reserve requirements and debit the insufficient reserve from its correspondent account maintained with the CBR. The CBR and its regional branches may also conduct unscheduled audits of a banks compliance with the reserve requirements.

Amounts deposited with the CBR pursuant to reserve requirements are not subject to seizure for the satisfaction of judgments against the bank. In the event of the revocation of the banks licence, mandatory reserves are included in the pool of assets available for distribution to the banks creditors in the priority established by law.

### *Loss provisions*

The CBR regulates the creation of provisions for bank loan losses. CBR Regulation No. 254-P "On the Procedure for Making Provisions for Possible Losses on Loans and Similar Indebtedness by Credit Organisations" dated 26 March 2004, as amended ("**Regulation No. 254-P**") requires banks to adopt procedures for calculating and posting provisions for loan losses and to monitor the financial position of borrowers.

This regulation requires credit organisations to classify their loans into the following categories and to create provisions for such loans in the corresponding amounts:

On a standalone basis (with respect to a particular loan):

| Category | Status of Loan | Provision |
|---|---|---|
| Category I | Standard loans, without credit risk | 0 per cent. |
| Category II | Non standard loans, moderate credit risk | 1 per cent. – 20 per cent. |
| Category III | Doubtful loans, considerable credit risk | 21 per cent. – 50 per cent. |
| Category IV | Problem loans, high credit risk | 51 per cent. – 100 per cent. |
| Category V | Bad loans | 100 per cent. |

On an aggregate basis (with respect to a portfolio of similar loans):

| Category | Status of Loan | Provision (per cent. from the net balance value of loans in the portfolio) |
|---|---|---|
| Category I | Standard loans, without credit risk | 0 per cent. |
| Category II | Non standard loans, moderate credit risk | Up to 3 per cent. |
| Category III | Doubtful loans, considerable credit risk | More than 3 per cent. – up to 20 per cent. |
| Category IV | Problem loans, high credit risk | More than 20 per cent. – up to 50 per cent. |
| Category V | Bad loans | More than 50 per cent. |

Loans should be classified on the basis of professional judgment by the credit organisation taking into account the borrowers financial standing and debt servicing level. The credit organisation must evaluate at its discretion the borrowers financial standing and debt servicing level as good, average or bad. Regulation No. 254-P sets forth the relevant tests to be applied towards a particular loan and borrower.

Regulation No. 254-P expands the range of loans to be so classified to include rights assigned under contracts, mortgages acquired in the secondary market, claims relating to purchase of financial assets with deferred payment, rights under repo contracts (if such repo contracts are concluded in respect of unlisted securities) and others. Under Regulation 254-P, credit organisations do not need to make provisions for Category I loans (standard loans). Additionally, credit organisations must classify loan collateral into two categories on the basis of its quality. Finally, the regulation provides for a somewhat simplified procedure in respect of writing off bad debts, especially minor debts, as compared with the former procedures.

Provisions for loan losses are calculated at the end of each calendar month. Such provisions only cover losses relating to the principal amount of loans and exclude interest and any discount. The CBR and its regional branches may audit banks compliance with requirements relating to provisions for loan losses and verify the correct calculation of such provisions.

The CBR also regulates the creation of provisions for possible losses other than loan losses, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities and other transactions. CBR Instruction No. 283-P dated 20 March 2006, as amended, require banks to classify such activities into the following five risk categories and to make provisions in the corresponding amount at their discretion:

| Category | Possibility of losses | Reserve amount |
|---|---|---|
| Category I | No real or potential possibility of losses | 0 per cent. |
| Category II | Moderate potential possibility of losses | 1-20 per cent. |
| Category III | Serious potential or moderate real possibility of losses | 21-50 per cent. |
| Category IV | Simultaneous potential and moderate real possibility of losses or material real possibility of partial losses | 51-100 per cent. |
| Category V | Complete loss | 100 per cent. |

Banks must report to the CBR the amount of new non-loan provisions within ten days after the end of each reporting month. The CBR and its regional branches monitor banks compliance with these rules.

### *Mandatory economic ratios*

CBR Instruction No. 110-I "On Banks Mandatory Economic Ratios" dated 16 January 2004, as amended, establishes mandatory economic ratios for banks.

The following table sets forth the mandatory economic ratios that banks must observe on a daily basis and periodically report to the CBR. Unless stated otherwise, such ratios are calculated on the basis of RAS, as formulated by applicable Russian laws and CBR regulations.

As mentioned above, a banks capital base consists of main capital and additional capital. Main capital includes, among other items, charter capital, share premium, retained earnings and certain reserve funds. Additional capital includes, among other items, reserves for asset revaluations, reserves for loan losses, certain preferred shares and subordinated debt.

| Mandatory Economic Ratio | Description | CBR Mandatory Economic Ratio Requirements |
|---|---|---|
| **Capital adequacy ratio (N1)** | This ratio is intended to limit the risk of a bank's insolvency and to establish the minimum size of the bank's capital base necessary to cover credit and market risks.<br>It is defined as the ratio of a bank's capital base to its aggregate risk weighted assets and off-balance sheet liabilities. (Assets and off-balance sheet liabilities are weighted according to five broad risk categories.)<br>Unlike Tier I and Tier II capital calculated with respect to the Group as a whole, capital adequacy ratio (N1) is calculated with respect to TCS as a bank on the basis of Russian accounting standards, as formulated by applicable Russian laws and CBR regulations. | For banks whose capital base is less than RUB 180 million, 11 per cent. For banks whose capital base is RUB 180 million or more, 10 per cent. |
| **Instant liquidity ratio (N2)** | This ratio is intended to limit the bank's liquidity risk within one operational day. It is defined as the minimum ratio of a banks highly liquid assets to its liabilities payable on demand. | Minimum 15 per cent. |
| **Current liquidity ratio (N3)** | This ratio is intended to limit the bank's liquidity risk within 30 calendar days preceding the date of the calculation of this ratio. It is defined as the minimum ratio of a bank's liquid assets to its liabilities payable on demand and liabilities with terms of up to 30 calendar days. | Minimum 50 per cent. |
| **Long-term liquidity ratio (N4)** | This ratio is intended to limit the bank's liquidity risk from placement of funds into long-term assets. It is defined as the maximum ratio of the bank's credit claims maturing in more than one year to the sum of its capital base and liabilities maturing in more than one year. | Maximum 120 per cent. |
| **Maximum exposure to a single borrower or a group of related borrowers (N6)** | This ratio is intended to limit the credit exposure of a bank to one borrower or a group of related borrowers (defined as persons who belong to the same banking or financial industrial group, are close relatives, or persons who can directly or indirectly materially influence the decisions of corporate borrowers).<br>It is defined as the maximum ratio of the aggregate amount of the banks various credit claims to a borrower (or a group of related borrowers) to its capital base.<br>The CBR issued Letter No. 106-T dated 10 September 2004 recommending that Russian banks implement an exposure limit for economically related borrowers. Under this letter, borrowers are "economically related" if a decline in the financial condition of one borrower: | Maximum 25 per cent. |

| Mandatory Economic Ratio | Description | CBR Mandatory Economic Ratio Requirements |
|---|---|---|
| | ● affects or may affect the financial condition of the other borrower; and may result in such other<br>● borrowers inability to perform its obligations to the bank (e.g., if the borrower is simultaneously a creditor of a bank and a debtor to another creditor of the bank).<br>However, the limit has not been officially introduced yet. | |
| **Maximum amount of major credit risks (N7)** | This ratio is intended to limit the aggregate amount of a banks major credit risks (defined as the sum of loans to, and guarantees or sureties in respect of, clients with exposure exceeding 5 per cent., of a bank's capital base). It is defined as the maximum ratio of the aggregate amount of major credit risks to a bank's capital base. | Maximum 800 per cent. |
| **Maximum amount of loans, bank guarantees and sureties extended by the bank to its participants(shareholders) (N9.1)** | This ratio is intended to limit a bank's credit exposure to the banks owners. It is defined as the maximum ratio of the amount of loans, bank guarantees and sureties extended by the bank to its participants or shareholders to its capital base. | Maximum 50 per cent. |
| **Aggregate amount of exposure to the banks insiders (N10.1)** | This ratio is intended to limit the aggregate credit exposure of a bank to its insiders (defined as individuals capable of influencing credit decisions). It is defined as the maximum ratio of the aggregate amount of the bank's credit claims against its insiders to its capital base. | Maximum 3 per cent. |
| **Ratio for the use of the bank's capital base to acquire shares (participation interests) in other legal entities (N12)** | This ratio is intended to limit the aggregate risk of a banks investments in shares (participation interests) of other legal entities. It is defined as the maximum ratio of the banks investments in shares (participation interests) of other legal entities to its capital base. | Maximum 25 per cent. |

In addition, CBR Regulation No. 112-I dated 31 March 2004 describes the methods of calculation of additional ratios that, pursuant to Federal Law No. 152-FZ "On Mortgage Backed Securities" dated 11 November 2003, as amended (the "**Mortgage Backed Securities Law**"), apply to banks that issue mortgage-backed securities. Among these additional ratios are the following:

| Mandatory Economic Ratio | CBR Mandatory Economic Ratio Requirements |
|---|---|
| The ratio of loans secured by mortgages to a bank's capital base (N17) | at least 10 per cent. |
| The ratio of claims relating to principal and interest on loans secured by mortgages to the principal and interest of mortgage-backed securities (N18) | at least 100 per cent. |
| The ratio of a bank's aggregate obligations to creditors with priority to satisfy their claims before the holders of mortgage-backed securities to a bank's capital base (N19) | must not exceed 50 per cent. |

A bank must comply with these special ratios from the time of the decision to issue mortgage-backed securities until the complete redemption of securities.

***Regulation of currency exposure***

CBR Instruction No. 124-I dated 15 July 2005, as amended, governs banks exposure to foreign currency and precious metals (together, "**currency exposure**"). Banks calculate their currency exposure in respect of net balance sheet positions, spot market positions, forward positions, option positions, guarantees, suretyships and letters of credit. An "open currency position" is the sum of these net amounts. Banks calculate their exposure for each currency and each precious metal and then recalculate it into Roubles in accordance with official exchange rates and CBRs prices for precious metals.

At the end of each operational day, the aggregate amount of all long or short currency positions must not exceed 20 per cent. of the banks capital base. Concurrently, at the end of each operational day, the long or short position in respect of any single currency or precious metal must not exceed 10 per cent. of the banks capital base.

***Reporting requirements***

Under CBR Regulation No. 2332-U of 12 November 2009, as amended, routine reporting is performed by credit organisations on a daily, five-day, ten-day, monthly, quarterly, half-yearly and yearly basis, and certain reporting is effected on a non-regular basis. Specific reporting requirements apply to credit organisations in liquidation pursuant to CBR Regulation No. 1594-U of 14 July 2005, as amended.

Financial statements must be disclosed to the public by the bank on a quarterly and yearly basis. Annual financial statements must be published only after their certification by an independent auditor. Quarterly financial statements may be published without their certification by an independent auditor.

Under the Banking Law, banking groups (i.e., alliances of banks in which one bank directly or indirectly controls decisions of the management bodies of other banks within the alliance) and consolidated groups (i.e., alliances of legal entities in which one bank, directly or indirectly, controls decisions of the management bodies of other commercial non-banking companies within such alliances) must regularly submit their consolidated accounts to the CBR.

The CBR may at any time conduct full or selective audits of any banks filings and may inspect all of its books and records. The CBR, however, is prohibited from conducting a secondary audit of matters covered by the previous audit within a single reporting period, save for limited circumstances provided in the CBR Law.

Under the Deposit Insurance law and certain CBR regulations banks that participate in the mandatory deposit insurance system must disclose information about persons who exercise (directly or indirectly) influence on the decisions taken by the management bodies of the bank by way of publication on the CBR official website of a list of the relevant persons and a chart showing the interrelation between the bank and such persons. The bank shall notify CBR about the relevant amendments to the provided information within 10 days since the occurrence of the underlying events giving rise to the amendments.

***Accounting practices***

The CBR establishes a standard format for presentation of financial and statistical data and recording banking transactions. The CBR also establishes accounting rules and procedures for banks.

The accounting practices are regulated by CBR Regulation No. 302-P dated 26 March 2007, as amended. Pursuant to this document, financial statements of credit organisations must be prepared in accordance with RAS.

Pursuant to CBR Regulation No. 1363-U dated 25 December 2003, as amended ("**Regulation No. 1363-U**"), credit organisations are required to submit their financial statements to the territorial institutions of the CBR for the period from 1 January to 31 December prior to 1 July of the following year.

Pursuant to Regulation No. 1363-U and CBR Letter No. 183-T dated 30 December 2010, credit organisations must prepare financial statements in accordance with IFRS on the basis of financial statements prepared in accordance with RAS and submit them to the CBR prior to 1 July of the following year. The CBR issued recommendations as to how to prepare IFRS financial statements in the CBR Letter No. 183-T dated 30 December 2010 that contains *pro forma* IFRS financial statements and examples of typical adjustments to RAS financial statements.

***Credit reporting***

Federal Law No. 218-FZ "On Credit Histories" dated 30 December 2004, as amended (the "**Credit Histories Law**"), provides for the establishment, for the first time in the Russian Federations recent history, of "credit bureaus" that will maintain a database of borrowers credit histories. The Credit Histories Law requires all credit organisations, starting from 1 September 2005, to provide at least one credit bureau with the credit histories of all borrowers that have consented to the distribution of such credit histories. The borrower's credit history will consist both of public and confidential parts and must include, among other things, information on the borrowers outstanding debt and interest thereon, the terms of repayment and legal proceedings involving the borrower in respect of loans and credits. The FSFM will oversee the credit bureaus and maintain a general catalogue of credit histories. As of 31 March 2011, the FSFM had registered 33 credit bureaus.

***Regulation of mortgage backed securities***

In addition to the Credit Histories Law and as part of the development of consumer lending legislation, the Mortgage Backed Securities Law and amendments to the Russian Civil Code, Tax Code and the Federal law "On Mortgages" were enacted in 2003-2004. By means of these laws, Russian legislators attempted to make mortgage lending attractive to banks and affordable to individuals by simplifying the applicable procedures and making them more transparent and less costly. Another intention of this legislation was to introduce improved regulation of mortgage-backed securities in order to make them more attractive for investors. Several issues of mortgage-backed securities were placed in accordance with the Mortgage Backed Securities Law between 2006 and 2008.

In addition, under a separate Federal Law No. 264-FZ dated 22 of December 2008, important procedural changes were introduced to the recording of mortgage certificates in order to facilitate transactions with such certificates (which is expected to be of help for the issuance of mortgage backed securities).

An owner of mortgage certificates may submit them to a depositary for recording rights to such mortgage certificates and, as such, facilitating transactions with them. If mortgage certificates are recorded with a depositary, their transfer and pledge is effected by making entries in the relevant depositary account instead of endorsing the original mortgage certificates.

It is now possible to publish pro-forma conditions of mortgage certificates on an Internet website or in a publication and incorporate such conditions into the mortgage certificates by reference.

***Developments in regulation of pledge and pledge enforcement***

Federal Law No. 306-FZ dated 30 December 2008 "On Amending Certain Legislative Acts of the Russian Federation in Connection With Perfecting the Procedure for Levying of Execution Against Pledged Property" that came into effect on 11 January 2009, amends no less than seven key laws and alters significantly the concept of pledge (and mortgage being pledge of immovable property) as it relates to enforcement rights against pledged property (the "**Amendments**").

A further Federal Law No. 312-FZ dated 30 December 2008 introduced amendments that take effect on 1 July 2009 concerning the pledge of participation interests in Russian limited liability companies.

Significant changes have been made to the enforcement procedure of pledged property. Under Russian law, the enforcement of a pledge occurs in two stages: (a) first, the levying of execution against the pledged property; and (b) second, its subsequent realisation (or sale).

The Amendments: (a) confirm the availability of an out-of-court enforcement procedure for pledges of movable property; (b) extend the right to use an out-of-court procedure to mortgages; and (c) provide a mechanism for securing compliance with the out-of-court enforcement procedure.

The Amendments remove the requirement that the pledged property has to be sold at a public auction in all cases. Instead, the Russian Civil Code now explicitly states that claims of a creditor secured by a pledge over property can be satisfied by the transfer of ownership in the pledged property to the secured creditor except where the mortgaged property is land. This is a fundamental development in the concept of pledge under Russian law and creates a more creditor friendly enforcement mechanism.

Parties to a pledge agreement now have several options to choose from as to how to sell or dispose of the pledged property in order to discharge the secured claims.

**Internal Control**

Under the CBR Law, the CBR has the authority to impose compulsory rules on the organisation of internal control. Under regulation No. 242-P on "Organisation of the Internal Control in Credit Organisations and Banking Groups" dated 16 December 2003, as amended, internal control shall be performed in accordance with the authority granted in the constitutive and internal documents by:

- the general shareholders meeting and board of directors;
- the CEO and the collective executive body;
- the audit commission (auditor);
- the chief accountant (or his/her deputies) of the credit organisation;
- the CEO (or his/her deputies) and the chief accountant (or his/her deputies) of the branch office;
- the divisions and officers performing internal control according to the internal documents of the credit organisation including among others:
  - internal control service; and
  - the responsible officer (structural division) for combating the legalisation (laundering) of income obtained by illegal means and the financing of terrorism.

Internal control service performs, among other things, the following functions:

- checks and evaluates the efficiency of the internal control system;
- checks the compliance of the internal documents with the legislation;
- assesses the economic efficiency of the performed operations; and
- checks the completeness of the application and efficiency of the methodology of assessment of banking risks and banking risk management.

Generally, credit organisations shall provide the CBR with information in relation to their internal controls as of 1 January of the year following the reporting year by not later than 25 January of the year following the reporting year. However, major credit organisations that have a large number of branches have until 1 March to provide such information. Each credit organisation shall notify the CBR within 3 business days of any material changes in its internal control system.

**The Insolvency Regime for Credit Organisations**

***Overview***

Credit organisations, including banks, are subject to special insolvency rules set forth in the Bank Insolvency Law. In addition, Federal Law No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002, as amended (the "**Insolvency Law**"), regulates issues not expressly addressed in the Bank Insolvency Law.

***Workout proceedings***

Before commencement of insolvency proceedings, a credit organisation may be subject to the following "workout" proceedings:

- financial rehabilitation, which include the restructuring of assets and liabilities, organisational restructuring and capital injections from third parties, including shareholders or creditors;
- the appointment of a temporary administration; or
- reorganisation.

The credit organisations creditors or its shareholders may initiate financial rehabilitation or reorganisation at their discretion or after a request by the CBR. However, only the CBR can appoint a temporary administrator to the credit organisation.

**Insolvency Proceedings**

***Revocation of the banking licence and filing the insolvency petition with the arbitrazh court***

A pre-requisite to initiation of bankruptcy proceedings in respect of a credit organisation is the revocation of its licence by the CBR. Under the Bank Insolvency Law, if a credit organisation cannot satisfy creditors claims within 14 days of when they come due, the following persons may petition the CBR (the "**Licence Revocation Petition**") for revocation of the credit organisations licence:

- the credit organisation itself;
- its creditors; or
- an authorised governmental agency.

Under the Banking Law, the CBR must revoke the licence of a credit organisation if, among other things:

- the credit organisation's capital adequacy ratio falls below 2 per cent.;
- the credit organisation's capital base is less than the minimum nominal charter capital requirement established by the CBR at the date of registration of the credit organisation. However, this ground does not apply to a credit organisation within two years from the date of the issuance of its licence for performing banking operations;
- the credit organisation fails to adjust its capital base and nominal charter capital within the established time period; or
- the credit organisation fails to satisfy the monetary claims of its creditors, including taxes and other mandatory payments, in the aggregate amount of at least RUB 100,000 within 14 days of when they come due.

In addition, there are certain cases when the CBR may revoke the banking licence of a credit organisation.

If the CBR revokes the credit organisations licence, the following persons can petition an arbitrazh court to declare the credit organisation insolvent (the "**Insolvency Petition**"):

- the credit organisation itself;
- its creditors;
- an authorised governmental agency; or
- the CBR.

If the CBR fails to respond to the Licence Revocation Petition within two months after its submission, the applicant may file an Insolvency Petition with the arbitrazh court.

Upon revocation of the credit organisations licence, the CBR must appoint a temporary administration to the credit organisation if the temporary administration is not already in place. Upon revocation of the credit organisations licence, the credit organisation may not enter into certain new transactions or perform certain transactions pursuant to existing obligations.

The CBR must make a public announcement of the revocation of a credit organisations banking licence within one week from the revocation date.

***Insolvency proceedings***

After a court hearing on the Insolvency Petition, the arbitrazh court may declare the credit organisation insolvent if certain tests established in the Bank Insolvency Law are satisfied.

Upon initiation of bankruptcy proceedings, a moratorium on payments to existing creditors is introduced, and the credit organisation may perform its transactions and make any payments only in accordance with the ranking of claims satisfaction set forth in the Bank Insolvency Law and the Insolvency Law.

***Appointment of a receiver***

Along with initiation of bankruptcy proceedings, the arbitrazh court must appoint a receiver to the credit organisation. If it did not possess a licence to attract deposits of individuals, the court will choose one of the receivers accredited by the CBR. If it did, a representative of the Deposit Insurance Agency will be appointed.

The receiver assumes management over the credit organisations operations. The receiver:

- analyses the credit organisation's financial standing;
- evaluates its assets;
- identifies creditors and notifies them of the credit organisation's insolvency;
- identifies debtors and requests performance of their obligations to the insolvent credit organisation; and
- performs other functions pursuant to the Bank Insolvency Law.

The receiver reports to a committee of creditors and to the CBR, subject to supervision by the arbitrazh court.

***Priority of claims***

Under the Civil Code, the Bank Insolvency Law and the Insolvency Law the creditors claims of a credit organisation rank in the following order of priority:

- *Claims in respect of insolvency proceedings (current payment claims).* Claims related to administration of insolvency proceedings, including salaries of personnel involved in insolvency proceedings, utilities bills, legal expenses and other payments arising after the revocation of the credit organisations banking licence.
- *First priority.* The following claims:
  - for reimbursement of damages caused to individuals life or health, as well as moral damages;
  - retail depositors and individuals claims holding current accounts with the credit organisation (except for individual entrepreneurs);
  - claims of the Deposit Insurance Agency in respect of deposits and current accounts transferred to it pursuant to the Retail Deposit Insurance Law; and
  - claims of the CBR relating to the CBR payments to retail depositors of insolvent credit organisations that do not participate in the deposit insurance system.
- *Second priority*. Claims under employment contracts and other social benefits and copyright claims.
- *Claims secured by a pledge of the credit organisation's assets.* Any residual claims of secured creditors that remain unsatisfied after the sale of such collateral rank *pari passu* with claims of unsecured creditors.
- *Third priority.* Claims of all other creditors except for claims of subordinated creditors (including, among others, claims of retail depositors for lost profits and penalties). Generally, under the Insolvency Law, taxes and similar payment obligations rank *pari passu* with the claims of unsecured creditors. These provisions, however, contradict the Russian Civil Code, which ranks taxes and similar payment obligations ahead of the claims of unsecured creditors. The outcome of this conflict remains untested.
- *Last priority.* Claims of subordinated creditors.

Claims of each category of creditors must be satisfied in full before claims of the next category are considered.

***Changes to Russian insolvency laws***

The amendments to the Insolvency Law and the Bank Insolvency Law introduced by Federal Law No. 195-FZ dated 19 July 2009 (the "**Insolvency Amendments**") significantly developed Russian law relating to insolvency in the following areas:

- clarifying the circumstances in which the management and shareholders of a bank must act to liquidate the bank;
- establishing tests for imposing liability on the management of a bank for the debts to its creditors; and
- expanding and clarifying the grounds for challenging transactions entered into by the debtor.

The Insolvency Amendments significantly amend the provisions relating to the challenge by an arbitrazh manager in a court of transactions concluded by the debtor by expanding the grounds on which such transactions may be challenged and clarifying the lengths of the applicable hardening periods. The arbitrazh manager can challenge a transaction on its own initiative or on a request made by the creditors meeting or creditors committee.

The Insolvency Amendments provide that the new rules for challenging transactions under the Insolvency Law also apply to bank debtors under the Bank Insolvency Law.

The Insolvency Amendments provide that if in relation to a bank there is "evidence of insolvency" established in the law, the management and shareholders must liquidate the bank. The "workout" measures to restore the solvency of a bank, which are available under the Bank Insolvency Law, are not available at this stage.

If the Chief Executive Officer, the directors or the shareholders (subject to certain exceptions established by the Bank Insolvency Law) fail to initiate liquidation of the bank after the emergence of the "evidence of insolvency", the Insolvency Amendments impose joint and several secondary (subsidiary) liability for the debts of the bank that arise after the emergence of the evidence of insolvency.

In addition, under the Insolvency Amendments, if the accounting and other reporting documentation of the bank debtor which must be maintained under Russian law has not been transferred to the temporary administration or a bankruptcy manager or it is fully or partially missing, the banks management which is under an obligation to secure the safekeeping of its documentation and property, bears secondary (subsidiary) liability for the debts of the bank debtor.

***Completion of insolvency proceedings***

Upon the collection of debts and satisfaction of claims, both to the extent possible, the receiver submits a report to the arbitrazh court, which in turn extends or closes the insolvency proceedings. Insolvency proceedings terminate with a formal entry being made into the legal entities register on the liquidation of the credit organisation.

**Reform of the Banking Sector**

The 1998 financial crisis revealed a lack of proper risk management in the Russian banking sector and heightened public anxiety about the integrity of the banking system, with misleading advertisements, money laundering, corruption and criminal penetration of the banking sector all being major concerns. From 1999 to 2001, the Russian banking sector gradually recovered from the 1998 financial crisis. Higher liquidity levels, as well as a shift in emphasis from investing in government securities to the making of loans, characterised this recovery.

***Strategic Plans for Banking Sector Reform***

At the end of 2001, the Russian government and the CBR issued a joint declaration entitled "The Strategy of the Development of the Banking Sector of Russia", setting forth the strategy for banking reform in the Russian Federation and calling for certain legislative steps and structural changes during the subsequent five years, In August 2003, the Russian government adopted a programme for the social and economic development of the Russian Federation for the years 2003 to 2005, which also set forth goals for Russian banking reform. The programme contemplated, among other things, the simplification of procedures for banks' reorganisation and the introduction of regulation of syndicated lending, financing of affiliates, credit bureaus and pledges of money held in a bank account.

On 5 April 2005, the Russian government and the CBR published a new strategy for the development of the Russian banking sector during the period from 2005 to 2008, which replaces the 2001 joint declaration and remains in effect. Its main objective is to increase the stability and effectiveness of the banking system. Among other things, the 2005 Russian Banking Sector Strategy analyses current conditions in the Russian banking sector, outlines goals for the sectors reform and forecasts the results of such reform. Among the new strategy's main goals are:

- improving legislative oversight of banking activities and increasing the efficiency of bank regulation;
- developing banking infrastructure, including increasing the effectiveness of deposit taking and lending activities of banks, and facilitating banks' roles as financial intermediaries;
- strengthening investors', depositors' and creditors' trust in the Russian banking sector and protecting the interests of banks depositors and creditors;
- strengthening market discipline in the banking sector and ensuring fair competitive conditions for all credit organisations;
- increasing the competitiveness of Russian credit organisations; and
- ensuring the transparency of banking activities and preventing the use of credit organisations for unlawful purposes, such as money laundering.

As part of improving legislative oversight of banking activities, the new strategy outlines, among other things, the following steps:

- improving the protection of creditors' rights (in particular, those secured by collateral);
- improving procedures for liquidation of credit organisations whose banking licences have been revoked;
- simplifying procedures for mergers between, and acquisitions of, credit organisations;
- facilitating an efficient system for collecting and using credit history data; and
- improving the regime for taxation of credit organisations.

The strategy envisions the following as priority reforms:

- increasing the minimum amount of a bank's charter capital to EUR 5 million, starting in 2007;
- increasing the minimum amount of a bank's capital adequacy ratio (mandatory economic ratio N1) to 10 per cent., regardless of the type of credit organisation and its existing capital adequacy ratio, starting in 2007;
- simplifying procedures for the participation of non residents in the capital of Russian banks, without, however, lifting existing restrictions on foreign banks' ability to open branches in the Russian Federation; and
- introducing a simplified procedure for the assignment of bank loans.

The first two goals have already been achieved by introducing amendments to the Banking Law.

The implementation of the 2005 Russian Banking Sector Strategy took into account certain recommendations of the International Monetary Fund and the World Bank, as set forth in their 2002 2003 Russian Financial Sector Assessment Programme. The priority for the subsequent period from 2009 to 2015 will be the effective positioning of the Russian banking sector on the international financial market. However, these plans may be impeded by the current global financial and economic crisis.

A strategy for the development of the banking sector of the Russian Federation for the period 2011 to 2015 (the "**Strategy**") has been developed in the course of the implementation of the Plan for Implementation of the Main Directions of the Anticrisis Activities and Modernisation Policy of the Russian government for 2010 approved by the Russian Prime Minister Vladimir Putin on 2 March 2010. It has been prepared by the Ministry of Finance and Ministry of Economic Development with the assistance of the CBR and approved by the Government of the Russian Federation on 17 March 2011.

According to the Strategy the main purpose of the new period of the development of the Russian banking sector will include the improvement of quality of the banking business by expanding of range of banking products and services, improvement of their quality, use of modern technologies, improvement of the long-term effectiveness and stability of the banking business.

The Strategy sets out the switch of the banking sector from the extensive to the intensive model of development as one of the key targets. It will, in particular, include the following features:

- high level of competition in the banking and financial sector;
- provision of wide range of modern banking services to the clients;
- level of banking sector capitalisation that will meet the purposes of the development, improvement of the competition and effectiveness of the banking business;
- developed systems of corporate governance and risk management;
- high level of transparency and market discipline of credit organisations and other market participants;
- liability of senior management, members of board of directors and owners of banks for the business operation and accuracy of disclosed information and information provided to the regulators.

The above mentioned target shall be reached by the Russian Government and the CBR through improvement of regulations, establishment of relevant infrastructure, improvement of corporate governance and risk management quality in credit organisations and maintenance of the financial stability. As practical steps the Strategy in particular envisages the decrease of the participation of the Russian Government in charter capital of Russian banks (in particular Sberbank, VTB, Russian Agricultural Bank), adoption of certain laws establishing the minimum charter capital requirement for a newly established bank since 1 January 2012 and the minimum amount of own capital requirement of existing banks since 1 January 2015 RUB 300 million. The Strategy also envisages certain steps in relation to the development of banking supervision.

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