

IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the Base Prospectus (the "**Base Prospectus**") following this page, and you are therefore required to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

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. ANY SECURITIES TO BE ISSUED WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (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 UNDER THE SECURITIES ACT), 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.

THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view this Base Prospectus or make an investment decision with respect to the securities, investors must be non-U.S. persons (as defined in Regulation S under the Securities Act) outside the United States who are not acting for the account or benefit of U.S. persons (as defined in Regulation S under the Securities Act). This Base Prospectus is being sent at your request and by accepting the e-mail and accessing this Base Prospectus, you shall be deemed to have represented to us that you are outside the United States and are not a U.S. person (as defined in Regulation S under the Securities Act) and/or are not acting for the account or benefit of a U.S. person (as defined in Regulation S under the Securities Act) and that you consent to delivery of such Base Prospectus by electronic transmission.

You are reminded that this Base Prospectus has been delivered to you on the basis that you are a person into whose possession this Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Base Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall the Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Base Prospectus who intend to subscribe or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in this Base Prospectus. This Base Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to PBB LPN Issuance Limited or Probusinessbank.

This Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither BCP Securities LLC nor any person who controls it nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from BCP Securities LLC.

U.S.\$750,000,000 Programme for the Issuance of Loan Participation Notes
to be issued by, but with limited recourse to,
PBB LPN Issuance Limited
for the purpose of financing senior and subordinated loans (the "**Senior Loans**" and the
"**Subordinated Loans**" and together the "**Loans**") to
Probusinessbank (the "Bank")

Under the programme for the issuance of Loan Participation Notes (the "**Programme**") described in this base prospectus (the "**Base Prospectus**"), PBB LPN Issuance Limited (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue senior and subordinated loan participation notes (the "**Senior Notes**" and the "**Subordinated Notes**" respectively, and together the "**Notes**") on the terms set out herein, as such terms are supplemented by a final terms (each a "**Final Terms**") or a pricing supplement (each such pricing supplement a "**Pricing Supplement**") setting out the specific terms of each issue. The Final Terms or the Pricing Supplement (as applicable) will be read in conjunction with the Base Prospectus. The aggregate principal amount of Notes outstanding will not at any time exceed U.S.\$750,000,000 (or the equivalent in other currencies). Notes will be issued in Series (as defined in "*Overview of the Programme*") and the sole purpose of issuing each Series will be to finance a Senior or Subordinated Loan to the Bank (as defined herein) as borrower, on the terms of the third amended and restated facility agreement or a subordinated facility agreement between the Issuer and the Bank dated 2 November 2010 (the "**Senior Facility Agreement**" or the "**Subordinated Facility Agreement**", and together the "**Facility Agreements**"), as amended and supplemented by a loan supplement to be entered into in respect of each Loan on each Trade Date (as defined in the Dealer Agreement (as defined in "*Subscription and Sale*" below)) of the relevant Series (the "**Loan Supplement**" and, together with the relevant Facility Agreement, the "**Loan Agreement**").

The Notes will be constituted by, be subject to, and have the benefit of, the trust deeds relating to each of the Senior Notes or the Subordinated Notes dated 2 November 2010 (the "**Senior Trust Deed**" or the "**Subordinated Trust Deed**", and together the "**Trust Deeds**") between the Issuer and The Bank of New York Mellon (the "**Trustee**") for the benefit of the relevant Noteholders. Subject as provided in the relevant Trust Deed the Issuer will charge in favour of the Trustee by way of first fixed charge as security for its payment obligations in respect of each Series of Notes and under such Trust Deed, certain of its rights and interests under the relevant Loan Agreement and the relevant Account (as defined in the relevant Loan Supplement). In addition, the Issuer will assign certain of its administrative rights under the relevant Loan Agreement to the Trustee.

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of a Series of Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the noteholders of such Series of Notes (the "**Noteholders**"), on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of such Series of Notes, for an amount equal to all principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the relevant Loan Agreement, excluding, however, any amounts in respect of Reserved Rights (as defined in the terms and conditions of the relevant Notes). 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 the Bank in respect of the payment obligations of the Issuer under the Notes.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. PROSPECTIVE INVESTORS SHOULD HAVE REGARD TO THE FACTORS DESCRIBED UNDER THE SECTION ENTITLED "RISK FACTORS" IN THIS BASE PROSPECTUS.

THE NOTES AND THE CORRESPONDING LOANS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AS AMENDED AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")). FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS, SEE "SUBSCRIPTION AND SALE" AND "TRANSFER RESTRICTIONS."

Under Russian law, the Notes are securities of a foreign issuer. The Notes are not eligible for initial offering and public circulation in the Russian Federation. Neither the issue of the Notes nor a securities prospectus in respect of the Notes has been, or is intended to be, registered with the Federal Service for Financial Markets of the Russian Federation (the "FSFM"). The information provided in this Base Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the Notes in the Russian Federation or to or for the benefit of any Russian person or entity.

Application has been made to the Irish Stock Exchange (the "**Irish Stock Exchange**") for the Notes issued under the Programme to be admitted to the official list (the "**Official List**") and trading on its regulated market (the "**Main Securities Market**"). The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**"). The Base Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority (the "**Competent Authority**") under Directive 2003/71/EC (the "**Prospectus Directive**"). The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of the Markets in Financial Instruments Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. Unlisted Notes may also be issued pursuant to the Programme. The relevant Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Irish Stock Exchange (or any other stock exchange).

Notes of each Series which are sold in an "**offshore transaction**" within the meaning of Regulation S, will initially be represented by interests in a global unrestricted Note in registered form (each a "**Global Note**"), without interest coupons, which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on its Issue Date. Beneficial interests in a Global Note will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. See "*Summary of the Provisions Relating to the Notes in Global Form.*" Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein.

The price and amount of Notes to be issued under the Programme will be determined by the Issuer, the Bank and the relevant Dealer at the time of issue in accordance with prevailing market conditions. The minimum denomination of any Notes issued under the Programme shall be U.S.\$100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

Arranger and Permanent Dealer



The date of this Base Prospectus is **2 November 2010**.

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC of the European Parliament and the Council (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Issuer and the Bank which, according to the particular nature of the Issuer, the Bank, the Notes and the Loans, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Bank.

Each of the Issuer and the Bank accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of each of the Issuer and the Bank (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The Bank's legal name is Probusinessbank, and the address of its registered office is 3 Pudovkina Street, Moscow 119285, Russian Federation. The telephone number of the registered office is +7 495 9333737. The Issuer's legal name is PBB LPN Issuance Limited, registered in the Register of Companies in the Republic of Cyprus under number 159439, and its registered address is Annis Kominis, 29A P.C.1061, Nicosia, Cyprus. The Issuer may be reached by telephone at +357 22 558 888.

The Bank and the Issuer have derived substantially all of the information contained in this Base Prospectus concerning the Russian banking market and its competitors, which may include estimates or approximations, from publicly available information, including press releases and filings made under various securities laws.

The Bank and the Issuer accept responsibility that such information has been accurately reproduced and, as far as the Bank and the Issuer are aware and are able to ascertain, no facts have been omitted which would render the information inaccurate or misleading. However, the Bank and the Issuer have relied on the accuracy of such information without carrying out an independent verification. In addition, some of the information contained in this Base Prospectus has been derived from official data published by Russian government agencies.

The Bank and the Issuer accept responsibility that such information has been accurately reproduced and, as far as the Bank and the Issuer are aware and are able to ascertain, no facts have been omitted which would render the information inaccurate or misleading. The official data published by Russian federal, regional and local governments and the CBR is substantially less complete or researched than those of Western countries. Official statistics may also be compiled on different bases than those used in Western countries. Any discussion of matters related to Russia in this Base Prospectus must, 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 government may be questionable.

Arthur Cox Listing Services Limited 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 trading on the regulated market of the Irish Stock Exchange.

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Bank, the Dealers or the Arranger (each as defined under "*Overview of the Programme*") to subscribe for or purchase any of the Notes.

The distribution of this Base Prospectus and the offer or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, the Bank, the Dealers and the Arranger to inform themselves about and to observe any such restrictions. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Base Prospectus is set out under "*Subscription and Sale*."

No person is authorised to provide any information or make any representation not contained in this Base Prospectus and any information or representation not so contained in this Base Prospectus must not be relied upon as having been authorised by or on behalf of the Issuer, the

Bank, the Trustee (as defined under "*Overview of the Programme*"), any of the Dealers or the Arranger. The delivery of this Base Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Neither the Bank nor the Issuer intends to provide any post-issuance transaction information regarding any series of Notes or the Loans. Any reference to any websites in this Base Prospectus shall not form part of this document.

Neither the delivery of this Base Prospectus nor the offer, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer, the Bank or the Bank together with its consolidated subsidiaries (the "**Group**") since the date of this Base Prospectus.

The Arranger and the Dealers have not separately verified the information contained in this Base Prospectus. None of the Dealers or the Arranger makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Base Prospectus. Neither this Base Prospectus nor any financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger or the Dealers that any recipient of this Base Prospectus or any financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of the Bank during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arranger. Further, none of the Issuer, the Bank, the Trustee, the Dealers or the Arranger or any of the respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under relevant legal investment or similar laws. Each investor should consult with their own advisers as to the legal, tax, business, financial and related aspects of any purchase of the Notes.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Base Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Bank, the Issuer, the Arranger and the Dealers are not responsible for compliance with these legal requirements. The appropriate characterisation of any Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which any Notes constitute a legal investment for investors whose investment authority is subject to legal restrictions. Such investors should consult their legal advisers regarding such matters.

This Base Prospectus may only be distributed to, and is only directed at:

- (i) persons who are outside of the United Kingdom; or
- (ii) to investment professionals falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"); or
- (iii) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents.

A person is an investment professional if that person is appropriately authorised by the Financial Services Authority (the "**FSA**"), is specifically exempted by the FSA for the purposes of the regulated activity to which this Base Prospectus relates, is a person whose ordinary activities

involve carrying on the controlled activity to which this Base Prospectus relates or otherwise as defined in Regulation 19(5) of the Order.

As this Base Prospectus has been circulated in reliance on the disapplication of Section 21(1) of the Financial Services and Markets Act 2000 the content of this Base Prospectus has not been approved by an authorised person.

The language of this Base 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.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE DEALERS OR THE ARRANGER AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT, AND NOTHING CONTAINED IN THIS DOCUMENT IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION BY ANY DEALER OR THE ARRANGER, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE DEALERS OR THE ARRANGER ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS BASE PROSPECTUS.

EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN ANY NOTES ISSUED UNDER THIS PROGRAMME FROM TIME TO TIME MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF PROBUSBUSINESSBANK 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.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

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ENFORCEABILITY OF JUDGMENTS

The Bank is an open joint stock company established under the laws of the Russian Federation. Almost all of the Bank's directors and executive officers named in this Base Prospectus reside in the Russian Federation. As a result, it may not be possible for investors to effect service of process outside Russia upon the Bank or such directors or executive officers. Moreover, as substantially all assets of the Bank and the Group are located in the Russian Federation, it may not be possible for investors (for the reasons described below) to enforce in the Russian Federation any judgments or arbitral awards rendered against the Bank and the Group by a court or an arbitral tribunal in any jurisdiction outside of the Russian Federation.

Foreign court judgments may be recognised and enforced by Russian courts only if (i) an international treaty providing for the recognition and enforcement of such judgments in civil cases exists between the Russian Federation and the jurisdiction where such judgment is rendered, and/or (ii) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments. There is no federal law, treaty or convention directly providing for the recognition and enforcement of court judgments in civil and commercial matters between most Western jurisdictions, including but not limited to the United Kingdom and the United States, and the Russian Federation. In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above may significantly delay the enforcement of such judgments, or completely deprive the plaintiff of effective legal recourse.

The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). A foreign arbitral award obtained in a jurisdiction that is subject to that convention should be recognised and enforced by a Russian court (subject to the 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:

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

The Arbitrazh Procedural Code of the Russian Federation (the "**Arbitrazh Procedural Code**") sets forth the grounds on which Russian courts may refuse to recognise and enforce any such arbitral award. The Arbitrazh Procedural Code and other Russian procedural legislation could change; and, among other things, additional grounds on which Russian courts may refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of the Russian courts or other Russian authorities, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

SUPPLEMENTAL BASE PROSPECTUS

The Bank will, in connection with the listing of the Notes on the Irish Stock Exchange, so long as any Note remains outstanding and listed on such exchange, in the event of any significant new factor, material mistake or inaccuracy relating to the information contained in this Base Prospectus, prepare a supplement to this Base Prospectus.

The Issuer and the Bank may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the "*Terms and Conditions of the Notes*" herein, in which event a supplemental Base Prospectus, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Notes.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The Group's audited consolidated financial statements for the years ended 31 December 2009 and 2008 (the **"Group's Financial Statements"**) included in this Base Prospectus have been prepared in accordance with International Financial Reporting Standards (**"IFRS"**) and audited by ZAO KPMG, the Group's independent auditors, having their registered address at Naberezhnaya Tower Complex, Block C, 10 Presnenskaya Naberezhnaya, Moscow 123317, Russian Federation. ZAO KPMG is a corporate member of the Audit Chamber of Russia (Auditorskaya Palata Rossii).

This Base Prospectus includes information on the average balances of interest earning assets and interest bearing liabilities of the Group for the years ended 31 December 2009, 31 December 2008 and 31 December 2007, as well as the average interest rate for such assets and liabilities for the periods indicated. For the purposes of the calculation, the average balances of assets and liabilities represent the simple average of the opening and closing balances for the applicable period. The results of the analysis are likely to be different if alternative or more frequent averaging methods were used, and such differences could be material.

The average interest rates set out in this Base Prospectus are calculated by dividing aggregate interest income or expense for the relevant line item by the average balance for the same line item for the applicable period. Average interest rates are distinct from the effective interest rates presented in the Group's Financial Statements. See the notes to the Group's Financial Statements included elsewhere in this Base Prospectus.

This Base Prospectus includes certain non-IFRS financial measures and ratios. These measures are presented herein because the Group believes that these and similar measures are widely used in the banking industry as a means of evaluating a bank's operating performance and financial condition. They may not be comparable to other similarly titled measures of other banks and are not measurements 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.

The Group maintains its statutory accounting records in Roubles in accordance with the standards prescribed by the CBR and the applicable regulations of the Russian Federation on accounting and reporting (**"Russian Accounting Standards"** or **"RAS"**), which contain certain disclosure requirements, including the requirement to prepare in accordance with RAS, and file with the CBR, periodic financial statements. Much of this financial information is subsequently made available to the public. Material differences exist between financial information prepared under RAS and IFRS. Therefore, prospective investors are cautioned not to place undue reliance on such RAS information when evaluating the financial performance of the Group.

Certain Definitions

In this Base Prospectus, all references to:

"Cost-to-Income ratio" are calculated as Operating Expenses divided by Operating Income;

"EBRD" are to the European Bank for Reconstruction and Development;

"FSFM" are to the Russian Federal Financial Markets Service;

"Interest earning assets" are to the sum of gross loans to customers, amounts receivable under reverse repurchase agreement, financial instruments at fair value through profit or loss, placements with banks and other financial institutions and available-for-sale securities;

"Interest bearing liabilities" are to the sum of current accounts and deposits from customers, other borrowed funds, debt securities issued, deposits and balances from banks and other financial institutions, subordinated debts and amounts payable under repurchase agreements;

"Net Interest Margin" is calculated as net interest income divided by the Average balance of interest earning assets;

"Net Interest Spread" is calculated as the difference between the Average interest rate on Interest earning assets and the Average interest rate on interest bearing liabilities;

"Russia" and **"Russian"** pertain to the Russian Federation; and

"Sberbank" are to Savings Bank of the Russian Federation.

Currency

In this Base Prospectus, the following currency terms are used:

"Rouble" or **"RUB"** means the lawful currency of the Russian Federation;

"U.S. dollar", **"Dollar"** or **"U.S.\$"** means the lawful currency of the United States of America; and

"euro", **"EUR"** or **"€"** means the lawful currency of the member states of the European Union that adopted the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty Establishing the European Union, as amended.

Exchange Rates

Solely for the convenience of the reader, and except as otherwise stated, this Base Prospectus contains translations of some Rouble amounts into U.S. dollars at the conversion rate of RUB 30.24 to U.S.\$ 1.00, which was the rate published by the CBR on 31 December 2009. The Group does not make any representation that the Rouble amounts referred to in this Base Prospectus could have been or could be exchanged into U.S. dollars at the above translation rate, at any other rate or at all.

The following table sets out, for the periods indicated, the high, low, average and period-end inter-bank exchange rates, in each case for the purchase of Roubles, all expressed in Roubles per U.S. dollar based on the official exchange rate quoted by the CBR. Fluctuations in the exchange rate between the Rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations in the future.

Year ended 31 December	RUB/U.S. dollar			
	High	Low	Average*	Period
2003	31.88	29.25	30.67	29.45
2004	29.45	27.75	28.81	27.75
2005	29.00	27.46	28.31	28.78
2006	28.48	26.18	27.14	26.33
2007	26.58	24.26	25.55	24.55
2008	29.38	23.13	24.87	29.38
2009	36.43	28.67	31.77	30.24
2010 (up to and including 30 September)	31.78	28.93	30.26	30.40

* Note: the average of the exchange rates on each business day for the relevant period.

Rounding

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly

and figures shown as totals in certain tables may not be arithmetic aggregations of the figures that precede them.

Industry and Market Data

The Group has calculated its market share information set out in this Base Prospectus on the basis of market data regularly published by the CBR and other third party sources. Although the Group believes these sources to be reliable, it has not independently verified the accuracy or completeness of these materials and, accordingly, the Group makes no representation with respect thereto. See "*Risk Factors—Risks Related to the Russian Federation—Information that the Group has obtained from the Russian Government and other sources may be unreliable.*"

In addition, in this Base Prospectus, the Group refers to information regarding its business, the business of its competitors and the market in which the Group operates and competes. The Group obtained this information in part from various third party sources and in part from its own internal estimates.

FORWARD-LOOKING STATEMENTS

Some statements in this Base Prospectus, as well as written and oral statements that the Bank and the Group and its officers make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, may be deemed to be forward-looking statements. Forward-looking statements include statements concerning the Group's plans, objectives, goals, targets, strategies and future operations and performance and the assumptions underlying these forward-looking statements. Prospective investors can identify these statements by forward-looking words such as "estimates", "expects", "anticipates", "believes", "intends", "projects", "plans", "continues", "may", "will", "should" and other similar expressions, but these expressions are not the exclusive means of identifying such statements. Prospective investors can also identify them by the fact that they do not relate strictly to historical or current facts. These forward-looking statements are contained in "Risk Factors", "Dividend Policy", "Business" and other sections of this Base Prospectus. The Group has based these forward-looking statements on the current views of its management with respect to future events and financial performance. These views reflect the best judgment of the Group's management, but involve uncertainties and are subject to certain risks, the occurrence of which could cause actual results to differ materially from those the Group predicts in its forward-looking statements and from its past results, performance or achievements.

Although the Group believes that the estimates and the projections reflected in its forward-looking statements are reasonable, if one or more risks or uncertainties were to materialise or occur, including those which the Group has identified in this Base Prospectus, or if any underlying assumptions prove to be incomplete or inaccurate, its results of operations may vary from those it expected, estimated or projected.

Forward-looking statements that the Group may make from time to time (but that are not included in this Base Prospectus) may also include projections or expectations of interest income, net interest income, operating income, profit (or loss) for the period (including on a per share basis), dividends, capital structure or other financial items or ratios.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. 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:

- (a) inflation, interest rate fluctuations and exchange rate fluctuations in the Russian Federation;
- (b) prices for securities issued by Russian entities;
- (c) the health of the Russian economy, including the Russian banking sector;
- (d) the effects of, and changes in, the policy of the Russian Government and regulations promulgated by the CBR;
- (e) the effects of competition in the geographic and business areas in which the Group conducts its operations;
- (f) the effects of changes in laws, regulations and taxation or accounting standards or practices in the jurisdictions where the Group conducts its operations;
- (g) the Group's ability to maintain or increase market share for its products and services and control expenses;
- (h) the management of the rapid growth of the Group's business; and

- (i) the Group's success at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When reviewing 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 environment in which the Group operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Group is not obliged to, and does not intend to, update or revise any forward-looking statements after the date of this Base Prospectus or to conform these statements to actual results. All subsequent written or oral forward-looking statements attributable to the Group, or persons acting on the Group's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Base Prospectus. As a result of these risks, uncertainties and assumptions, a prospective investor should not place reliance on such forward-looking statements.

OVERVIEW OF THE PROGRAMME

The following overview contains basic information about the Notes and Loans and should be read in conjunction with the information set forth under "Terms and Conditions of the Notes" and "Facility Agreement" appearing elsewhere in this Base Prospectus. The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this document and, in relation to the terms and conditions of any particular Series of Notes, the applicable Final Terms. Words and expressions defined in "Terms and Conditions of the Notes" below shall have the same meanings in this summary. The Issuer and the Bank may agree with any Dealer that Notes may be issued in a form other than that contemplated in "Terms and Conditions of the Notes", in which event a supplement to this Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

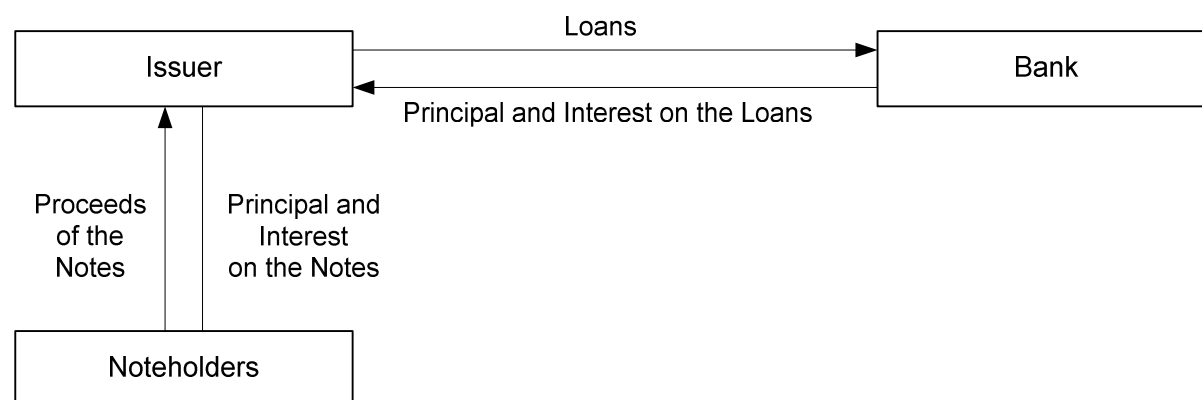
DESCRIPTION OF THE STRUCTURE

Each transaction will be structured as a Loan by the Issuer to the Bank of an amount equivalent to the gross proceeds of an issue of a Series of Notes. The Issuer will issue Notes to Noteholders for the sole purpose of funding such Loan. Each Series of Notes will be constituted by a principal trust deed as supplemented and amended in respect of such Series of Notes by a Supplemental Trust Deed (together, the "Trust Deed"), each entered into between the Issuer and the Trustee (as defined below). Pursuant to the Trust Deed the Issuer will (i) charge to the Trustee by way of a first fixed charge as security for a Series of Notes (a) all rights to principal, interest and other amounts payable by the Issuer under the relevant Loan Agreement, (b) the right to receive all sums which may be payable by the Issuer under any claim, award or judgment relating to the relevant Loan Agreement and (c) all rights, title and interest in and to all sums of money now or in the future deposited in an account established for the relevant Series of Notes with the Principal Paying Agent in the name of the Issuer (the "Account") including interest from time to time earned thereon and (ii) assign certain of its rights under the relevant Loan Agreement, (excluding any Reserved Rights (as defined in the Trust Deed)), to the Trustee for the benefit of the holders of the corresponding Series of Notes.

The Bank will be obliged to make payments under each Loan to the Issuer in accordance with the terms of the relevant Loan Agreement. The Bank will be obliged under the terms of the relevant Loan Agreement to make payments in respect of principal, interest and additional amounts (if any) to the Issuer to the Account, as a result of the Bank's obligations to pay under each Loan the Loans backing the Notes have characteristics which demonstrate capacity to produce funds to service any payments due and payable on the Notes. 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 any 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 each Loan Agreement. Any material amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with, and as more fully described in "Terms and Conditions of the Notes", and shall be binding on the Noteholders. Formal notice of the security interests created by any Trust Deed will be given to the Bank and the Principal Paying Agent who will each be required to acknowledge the same.

Each Series of Notes will constitute limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to Noteholders for payments of principal, interest and additional amounts, if any, received by it or for its account pursuant to the relevant Loan.

Set out below is a diagrammatic representation of the structure:



NOTES TO BE ISSUED UNDER THE PROGRAMME

Issuer	PBB LPN Issuance Limited.
The Bank (as Borrower)	Joint-Stock Commercial Bank "Probusinessbank" (open joint-stock company) with its registered office at 3 Pudovkina Street, Moscow 119285, Russian Federation.
Description	Programme for the Issuance of Loan Participation Notes pursuant to which the Issuer may issue Notes.
Programme Size	Up to U.S.\$750,000,000 (or its equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time. The Bank may increase the amount of the Programme in accordance with the Dealer Agreement (as defined herein). In this respect, for the purpose of calculating the aggregate principal amount of Notes outstanding, Notes issued at a premium shall be treated as having been issued at the amount of their net proceeds received by the Issuer.
Arranger	BCP Securities LLC.
Dealer	BCP Securities LLC. Pursuant to the terms of the Dealer Agreement, the Issuer, on the Bank's instructions, may from time to time terminate the appointment of any Dealer under the Programme or appoint additional Dealers either in respect of one or more Series of Notes or in respect of the whole Programme. References in this Base Prospectus to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "Dealers" are to all Permanent Dealers and all persons appointed as dealers in respect of one or more Series of Notes.
Trustee	The Bank of New York Mellon

Principal Paying Agent

The Bank of New York Mellon unless it is specified in the relevant Final Terms relating to a Series of Notes that another principal paying agent is appointed in respect of that Series. References in this Base Prospectus to "Principal Paying Agent" are to The Bank of New York Mellon or such alternative principal paying agent or agents, as the case may be.

Registrar

The Bank of New York Mellon, unless it is specified in the relevant Final Terms relating to a Series of Notes that an alternative registrar is appointed in respect of that Series. References in this Base Prospectus to "Registrar" are to The Bank of New York Mellon or such alternative Registrar, as the case may be.

Paying Agents

The Bank of New York Mellon unless it is specified in the relevant Final Terms or Pricing Supplement relating to a Series of Notes that another paying agent is appointed in respect of that Series. References in this Base Prospectus to "Paying Agents" are to The Bank of New York Mellon and/or such alternative paying agent, as the case may be.

Transfer Agents

The Bank of New York Mellon, unless it is specified in the relevant Final Terms relating to a Series of Notes that another transfer agent is appointed in respect of that Series. References in this Base Prospectus to "Transfer Agent" are to The Bank of New York Mellon and/or such alternative transfer agent, as the case may be.

Calculation Agent

The Bank of New York Mellon unless it is specified in the relevant Final Terms relating to a Series of Notes that another calculation agent is appointed in respect of that Series. References in this Base Prospectus to "Calculation Agent" are to The Bank of New York Mellon or such alternative calculation agent, as the case may be.

Method of Issue

The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. The specific terms of each Series will be set out in a Pricing Supplement or Final Terms supplement to this Base Prospectus which shall supplement the "*Terms and Conditions of the Notes*".

Issue Price of Notes

Notes may be issued at their principal amount or at a discount or premium to their principal amount.

Status of the Senior Loans

The Senior Loans and all payment obligations expressed to be assumed by the Bank thereunder constitute direct, general, unconditional, unsecured and unsubordinated obligations of the Bank 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.

Status of the Subordinated Loans

Any claims of the Issuer under the provisions of a Subordinated Loan Agreement, excluding the Reserved Rights, will be subordinated upon a Bankruptcy Event (as defined in the Subordinated Facility Agreement) in accordance with the Federal Law "On Insolvency (Bankruptcy) of Credit Organisations" No. 40-FZ dated 25 February 1999 (as amended), will rank at least equally with the claims of other subordinated creditors of the Bank and will be senior to the claims of holders of (a) the Bank's share capital (including preference shares) and (b) all other obligations ranking junior to the claims of the Issuer pursuant to applicable law or otherwise (excluding the Reserved Rights), all as more fully described in the Subordinated Facility Agreement.

Subordinated Loan Prepayment Option

Under the terms of a Subordinated Facility Agreement, and except as otherwise provided in the corresponding Loan Supplement, the Bank shall be entitled to prepay a Subordinated Loan in whole but not in part, plus accrued and unpaid interest if, as a result of any amendment to, clarification of or change in (including a change in interpretation or application of) the Additional Capital Regulation or other applicable requirements of the CBR such Subordinated Loan would cease to qualify as Additional Capital. See clause 5.2 of the Subordinated Facility Agreement.

Security

The Issuer's payment obligations in respect of each Series of Notes will be secured by a first fixed charge on:

- all of the Issuer's rights to principal, interest and additional amounts paid and payable by the Bank to the Issuer as lender under the relevant Loan Agreement and its right to receive all sums paid and payable by the Bank under any claim, award or judgment relating to such Loan Agreement; and
- all the rights, title and interest in and to all sums of money held from time to time in an account for the particular Series specified in the relevant Pricing Supplement or Final Terms, together with the debt represented thereby (including interest from time to time) pursuant to the Trust Deed.

(save, in each case, for any Reserved Rights (as defined in "*Terms and Conditions of the Notes*").

Assignment of Rights

The Issuer will assign its rights under the relevant Loan Agreement (save for any Reserved Rights and those rights charged above) to the Trustee upon the closing of the offering of the corresponding Series of Notes.

Form

Each Series of Notes will be issued in registered form. The Notes will be represented by the Global Note, without interest coupons. The Global Note will be exchangeable for Definitive Notes in the limited circumstances specified in the Global Note.

Clearing Systems

Euroclear and Clearstream, Luxembourg and such other clearing system as may be agreed between the Issuer, the Bank, the Paying Agents, the Trustee and the relevant Dealer(s).

Initial Delivery of Notes

On or before the issue date for each Series, the Global Note will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. The Notes will be registered in the name of a nominee of Euroclear and Clearstream, Luxembourg. The Global Note may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Bank, the Paying Agents, the Trustee and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of a nominee or nominees for such clearing systems.

Currencies

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Bank and the relevant Dealer(s).

Maturities

Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, the Bank and the relevant Dealer(s).

Denomination

Notes will be in such denominations as may be specified in the relevant Pricing Supplement or Final Terms, save that unless otherwise permitted by then current laws and regulations: (i) Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies) and (ii) the minimum denomination of any Notes shall be €50,000 (or its equivalent in any other currency as at the issue date of the relevant Notes).

Rate of Interest	The Notes may be issued on a fixed rate or a floating rate basis.
Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Pricing Supplement or Final Terms.
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series and corresponding Loan as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or (ii) by reference to LIBOR or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement or Final Terms.
Redemption	The relevant Pricing Supplement or Final Terms will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Issuer's Restrictions and 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, or enter into other transactions or engage in any business (other than transactions contemplated by this Base Prospectus), declare any dividends or have any subsidiaries. See "Terms and Conditions of the Notes", Condition 4. Furthermore, the Issuer will agree in the Trust Deed not to make or consent to any amendment or modification or waiver of, or authorise any breach or proposed breach of any Loan Agreement unless the Trustee has given its consent.

Early Redemption at the Option of the Bank or Issuer

The Senior Notes will be redeemed in whole, but not in part, at any time, upon notice having been given to the Noteholders, at their principal amount together with accrued and unpaid interest to the date of redemption and any additional amounts (if any) then due if the Bank elects to prepay the Senior Loan for tax reasons or by reason of increased costs or, at the option of the Issuer, in the event that it becomes unlawful for the Issuer to fund the Senior Loan or to allow it to remain outstanding under the Senior Loan Agreement, all as more fully described in the Senior Loan Agreement.

The Subordinated Notes will be redeemed in whole, but not in part, at any time, upon notice having been given to the Noteholders, at their principal amount together with accrued and unpaid interest to the date of redemption and any additional amounts (if any) then due, but subject to the Bank obtaining the prior written consent from the CBR, if the Bank elects to prepay the Subordinated Loan for tax reasons or by reason of increased costs, or, at the option of the Issuer, in the event that it becomes unlawful for the Issuer to fund the Subordinated Loan or to allow the Subordinated Loan or the Notes to remain outstanding, all as more fully described in the Subordinated Loan Agreement.

Relevant Event / Event of Default/Insolvency Event

In the case of a Relevant Event that is continuing (as defined in a Trust Deed) the Trustee may, subject to the provisions of the relevant Trust Deed, enforce the security created in such Trust Deed in favour of the Noteholders.

Under the terms of a Senior Loan Agreement, in the case of an Event of Default (as defined in the Senior Facility Agreement) that is continuing, the Trustee may, subject to the provisions of the relevant Trust Deed, declare all amounts payable by the Bank under such Senior Loan Agreement to be due and payable. Upon repayment of such Senior 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 redemption and any additional amounts then due (if any), and thereupon shall cease to be outstanding.

Under the terms of each Subordinated Loan Agreement, if an Insolvency Event (as defined in the Subordinated Facility Agreement) has occurred and is continuing (a) the Issuer will be entitled by giving notice in writing to the Bank (i) to declare such Subordinated Loan Agreement to be cancelled; and/or (ii) to declare all amounts payable under such Subordinated Loan by the Bank to be immediately due and payable and (b) the Trustee will be entitled, subject to the provisions of the relevant Trust Deed, to declare all amounts payable by the Bank under such

Subordinated Loan Agreement to be due and payable. Upon repayment of such Subordinated Loan following an Insolvency Event, the Notes will be redeemed or repaid at their principal amount, together with interest accrued to the date fixed for redemption and any additional amounts then due (if any), and thereupon shall cease to be outstanding.

Withholding Tax

All payments of principal and interest in respect of each Series of Notes will be made in full without set-off or counterclaim and free and clear of and without deduction for or on account of all taxes, which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation or Cyprus, or any taxing authority thereof or therein, other than as required by law. If any such taxes, duties and other charges are payable, the sum payable by the Bank to the Issuer under the relevant Loan Agreement will (subject to certain exceptions) be required to be increased to the extent necessary to ensure that the Noteholders receive the net sum which they would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from the Bank.

Further Issues

The Issuer may from time to time issue further Notes of any Series on the same terms as existing Notes and such further Notes shall be consolidated and form a single Series with such existing Notes of the same Series. In the event of such further issuance, the principal amount of the relevant Loan will be correspondingly increased.

Listing

Application has been made to the Irish Stock Exchange for the Notes issued under the Programme to be admitted to the Official List and trading on the Main Securities Market.

Governing Law

The Notes will be governed by the laws of England and Wales.

Selling Restrictions

United States, United Kingdom, Russian Federation, Cyprus, Italy, Singapore, Japan and any other jurisdiction relevant to any Series. See "Subscription and Sale."

RISK FACTORS

Investment in the Notes issued under the Programme involves a high degree of risk. Potential investors should carefully review this entire Base Prospectus and in particular should consider, among other things, 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 Bank's business, financial condition, prospects or operations which, in turn, could have a material adverse effect on its ability to service its payment obligations under the Loan Agreement and, as a result, the ability of the Issuer to make payments under the Notes. In addition, the value of the Notes could decline due to any of these risks, and prospective investors may lose some or all of their investment.

Prospective investors should note that the risks described below are not the only risks the Bank faces. These are the risks the Bank currently considers material. There may be additional risks that the Bank currently considers immaterial or of which it is currently unaware, and any of these risks could have similar effects to those set forth below.

Risks Related to the Group's Business and Industry

Turmoil in global credit markets has already adversely affected, and may continue to adversely affect, the Russian economy, the Russian banking industry in general and the Group in particular

Historically, the Russian economy has been adversely affected by market downturns and economic slowdowns elsewhere in the world, including the global economic crisis (which began with the sub-prime mortgage crisis in the United States and developed into a global economic crisis in 2008 (the "**global economic crisis**")). The global economic crisis has had a material adverse effect on the Russian economy and reduced foreign investment in the Russian Federation. In February 2009, in large part due to the impact of the global economic crisis on the Russian economy, Fitch Ratings Ltd ("**Fitch**") downgraded its long term sovereign rating for the Russian Federation from "BBB+" to "BBB" and downgraded Russia's country ceiling rating to "BBB+" from "A." On 22 January 2010, Fitch raised the Russian Federation's ratings outlook to "stable" from "negative". On 8 December 2008, Standard & Poor's Rating Services, a division of McGraw Hill Companies Inc. ("**Standard & Poor's**") downgraded its foreign currency sovereign credit rating on the Russian Federation from "BBB+/A 2" to "BBB/A 3", stating that the lowering of the ratings of the Russian Federation reflects risks associated with the sharp reversal in external portfolio and other investment flows, which increased the cost and difficulty of meeting the country's external financing needs. For a more detailed description of the impact of the global economic crisis on the Russian economy and the business activities of the Group, see "*Operating and Financial Review of the Group—Factors Affecting the Group's Results of Operations and Financial Condition—The Russian Federation's Economic Condition.*"

As the Russian Federation produces and exports large volumes of oil and gas and other commodities (such as steel), the dramatic falls in the global prices of these commodities in the summer of 2008 resulted in sharp decreases in the revenues of the Russian federal budget and of Russian companies operating in these sectors, which, in turn, had a significant adverse impact on the Russian economy. While oil prices recovered to a degree in 2009, they still remain well below the levels reached in 2008. In addition, according to the Federal State Statistics Service ("**Rosstat**") oil extraction in the Russian Federation declined by approximately 0.7 per cent. in 2008 and although it increased by 1.3 percent in 2009, there can be no assurance that production will remain at current levels. In the year ended 31 December 2009, according to Rosstat, the Russian Federation's real GDP showed a 7.9 per cent. decline compared to an increase of 5.6 per cent. in 2008 and 8.1 per cent. in 2007. According to the CBR, the Russian Federation's foreign currency reserves fell from a peak of U.S.\$ 598.10 billion in August 2008 to U.S.\$ 383.7 billion in May 2009, although they recovered to U.S.\$ 447.0 billion by April 2010.

Rosstats' figures for 2009 also show industrial production and exports declining by 10.8 per cent. and 39.1 per cent. respectively, and unemployment increasing by 48.9 per cent.

During the first quarter of 2010 according to Rosstat, industrial production grew by 5.8 per cent. as compared to the same period in 2009. Exports in the first quarter of 2010 had increased by 59.3 per cent., compared to the same period in 2009 according to the Russian Ministry of Economic Development, which estimates that the Russian Federation's real GDP will grow by not less than 4 per cent. in 2010.

During the global economic crisis there were periodic suspensions of trading at the Russian stock market, extreme volatility in the Russian securities markets and sharp fluctuations in the share prices of Russian financial institutions. As of October 2008, the RTS stock index had declined by over 70 per cent. from its highest levels reached in May 2008 and the IFX-cbonds bond index had declined by approximately 13.8 per cent. from its highest levels reached in June 2008. However, by the end of April 2010, the RTS stock index and the IFX-cbonds bond index had recovered by 22.7 per cent. and 42.5 per cent. respectively, from their lowest levels.

The disruptions in the global markets have had a severe impact on the liquidity of Russian banks and other financial institutions, and have significantly affected the financial markets by reducing the availability of liquidity and increasing the cost of funding in the Russian Federation. Russian banks, including the Group, have experienced a reduction in the availability of funding at an affordable price from the debt markets.

The majority of the Group's profit is generated in the Russian Federation and, therefore, the Group is particularly exposed to the economic conditions in the Russian Federation. The deterioration of economic conditions in the Russian Federation in general and the decline in the growth rate of the Russian banking sector in particular, have had and may continue to have an adverse effect on the Group's results of operations and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. Continued uncertainty in the international financial markets and any deterioration in credit conditions could adversely impact the business, financial condition or results of operations of the Group due to:

- (a) decreases in the Group's net interest income and Net Interest Margin;
- (b) decreases in the demand for the Group's credit products as a result of higher interest rates;
- (c) assets or collateral impairment, significantly increased number of overdue loans and loan provision impairment amounts;
- (d) decreases in the business activity of Russian companies and the credit-worthiness of Russian companies and individuals;
- (e) reduced access of the Group to capital markets;
- (f) increases in borrowing costs;
- (g) constrained liquidity that limits the ability of the Group to grow its business;
- (h) decreases in fee and commission income due to slowing of capital markets activity or significant declines in market values; and
- (i) rising cost base due to high inflation.

The Group believes that its funding from customer deposits, together with its other funding sources and its liquidity risk management policy, allow it to meet its liquidity needs. Nevertheless, a decrease in the Group's ability to rely on its customer deposit base as a source of funding or

maturity mismatches between the Group's assets and liabilities may have a material adverse effect on the business, financial condition or results of operations of the Group.

The global economic crisis may lead to a further deterioration of the Group's loan portfolio

The Group is subject to risks regarding the credit quality of, and the recovery on loans to and amounts due from, customers and market counterparties, which are affected by general economic conditions.

Changes in the credit quality of the Group's customers and counterparties, or in their behaviour, or arising from systemic risks in the Russian and global financial system, can negatively affect the value of the Group's assets. Such changes have led to increased volumes of non-performing loans and, increased provisions for loan impairment within the Group. Various factors, including increased unemployment in the Russian Federation, reduced corporate liquidity and an increase in the number of corporate insolvencies and individual bankruptcies can reduce the ability of the Group's customers and counterparties to repay loans. In addition, changes in economic conditions may result in the deterioration in the value of collateral and increase the risk of loss in the event of counterparty default, which could have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects. Although in April 2010, Sergey Ignatiev, Chairman of the CBR pointed to the stabilisation in the banking sector, supported by the availability of liquidity and the slow-down in the growth of non-performing loans, there is no guarantee that this stabilisation will continue. Any further instability and negative trends could have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

The Group's provision for impairment increased to RUB 8,608.3 million or 16.8 per cent. of the Group's gross loan portfolio as at 31 December 2009, compared with RUB 4,238.5 million, or 8.9 per cent. of the Group's gross loan portfolio as at 31 December 2008, and RUB 1,765.4 million, or 4.6 per cent. of the Group's gross loan portfolio as at 31 December 2007. The proportion of the Group's gross loan portfolio that was over 90 days overdue as at 31 December 2009 was approximately 18.9 per cent., compared to 8.2 per cent. and 4.3 per cent., respectively, for the years ended 31 December 2008 and 31 December 2007. See *"Operating and Financial Review of the Group—Factors Affecting the Group's results of Operations and Financial Condition—Provisions for Impairment."* While the Group has adapted its risk management strategies in the light of the global economic crisis, this has not protected it from substantially increased levels of non-performing loans in its portfolio, although the level is lower than the market average based on its analysis of CBR statistics. For more information, see *"Risk Management—Loan Portfolio—Provisions for Impairment."* If the amount of the Group's overdue loans were to continue to increase significantly, whether or not the Group is required to increase its reserves in response to any such increase, this could have a material adverse effect on the Group's business, financial condition, results of operation or prospects.

Russian Government measures of support of financial markets may be insufficient

As early as October 2008, the CBR took action to improve liquidity in the Russian banking sector, including by temporarily reducing the mandatory reserve requirements for Russian banks. Beginning in October 2008, the Russian Government, acting through State Corporation "Bank for Development and Foreign Economic Affairs ("**Vnesheconombank**")", and the CBR, announced and implemented a number of measures intended to support the liquidity and solvency of Russian banks and to increase the availability of credit to businesses. These measures have been seen as critical for restoring investor confidence and supporting the medium term economic growth of the Russian economy. For a description of these measures, see *"Overview of the Russian Banking Sector and Banking Regulation in the Russian Federation—Measures to support the liquidity of the Russian banking system"*.

There can be no assurance that the measures taken by the Russian Government and the CBR will succeed in materially improving the liquidity position and financial condition of Russian banks. If, despite such measures, the Group's liquidity position deteriorates or it is not able to obtain funding to run its business and satisfy its liabilities as they fall due, this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Instability of the Russian and international banking sector, including a deterioration of the soundness or the perceived soundness of other financial institutions, may adversely affect the Group's operations

In 2008, as a result of the negative impact of the global economic crisis on the Russian banking sector, Moody's Investors Service ("**Moody's**") changed its outlook on the Russian banking sector from "stable" to "negative" in the third quarter of 2008. Although the Group, like many other Russian banks, did experience some deposit withdrawals at that time and in the autumn of 2008 with the onset of the global economic crisis, such withdrawals did not have a material adverse effect on the Group's business. However, no assurance can be given that the Group will not, in the event of any future disruptions, face losses, early deposit withdrawals or other pressures as a result of the insolvency of other Russian banks or their corporate customers.

Against the backdrop of the limited liquidity and high cost of funds in the international and Russian domestic interbank lending markets, many Russian banks have been and remain subject to the risk of deterioration of the soundness and/or perceived soundness of other financial institutions within and outside the Russian Federation. Financial institutions that transact with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies and houses, banks, securities firms and exchanges with which the Group interacts, all of which could have an adverse effect on the Group. Although the Group's reliance on funding from domestic and international financial institutions is quite limited and customer deposits form the main source of funding of the Group, a default by, or concerns about the stability of, one or more financial institutions (whether or not a counterparty of the Group) could also lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could destabilise the banking sector and may cause the Group's customers to withdraw the deposits prior to their started maturity. This in turn could have a material adverse effect on the Group's business, financial condition, result of operations and/or prospects. See "*A significant part of the Group's funding is based on deposits that can be withdrawn on demand.*"

A significant part of the Group's funding is based on deposits that can be withdrawn on demand

The Group has liquidity risk management procedures and analyses its deposit flows on the basis of scenario analysis and stress testing. See "*Risk Management—Liquidity Risk*". The Group is exposed to liquidity risk as a result of possible deposit outflows in light of the global economic crisis. Historically, the Group's principal source of funds has been customer accounts, which represented 71.1 per cent. of total liabilities as at 31 December 2009 and 59.2 per cent. and 58.5 per cent. of total liabilities as at 31 December 2008 and 31 December 2007, respectively. As at 31 December 2009, customer accounts held by individuals amounted to 72.8 per cent. of total customer accounts, compared to 71.1 per cent. and 54.4 per cent. as at 31 December 2008 and 31 December 2007, respectively.

Russian companies have significant capital requirements, which have been further increased by the lack of liquidity in the financial markets as a result of the global economic crisis. These customers may withdraw their on-demand deposits from the Group immediately to satisfy any funding shortfalls and may not be in a position to replace such deposits. Further, the Civil Code of the Russian Federation (the "**Civil Code**") allows retail customers to withdraw any deposits, including term deposits, at any time and to safeguard against such withdrawals, the Group holds

liquidity reserves in excess of the regulatory minimum. The Group's high concentration of individual customer deposits renders it more vulnerable to swings in retail customer confidence. Unscheduled decreases in corporate or retail deposits may result in liquidity gaps that the Group may not be able to cover and may have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

The Group's ability to generate cash and raise funding depends on many factors beyond its control, and the Group may not be able to generate the cash required to grow its business and satisfy its liabilities as they fall due

The Group's ability to satisfy its liabilities as they fall due depends on the future operating and financial performance of the Group, its ability to generate cash from its business and its ability to access domestic and international sources of funding. This ability may be adversely affected by any failure on the part of the Group to implement successfully its business strategy, as well as general economic, financial, competitive, regulatory and other factors beyond its control. If the Group cannot generate sufficient cash or access funding to grow its business and satisfy its liabilities the Group may, among other things, need to delay capital expenditures or sell assets, and any failure to do so would be likely to have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

Substantial levels of borrower and industry concentration in the Group's loan portfolio and customer accounts may affect its operations

The borrower concentration in the Group's loan portfolio is increasing. As at 31 December 2009, the Group's ten largest corporate borrowers accounted for 14 per cent. of the total loan portfolio of the Group and the 20 largest corporate borrowers accounted for 21 per cent. of the total loan portfolio of the Group (compared to 12 per cent. and 17 per cent., respectively, as at 31 December 2008 and 10 per cent. and 16 per cent., respectively, as at 31 December 2007). If the Group loses the business of a significant borrower or if there is any significant impairment in the ability of any of the Group's largest borrowers to service or repay their loans, which prospect has increased significantly in light of the global economic crisis, it could have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

Industry concentration in the Group's loan portfolio is relatively stable. As at 31 December 2009, the trade, manufacturing, leasing and construction sectors accounted for 19.8 per cent., 7.1 per cent., 7.6 per cent. and 5.5 per cent., respectively, of the Group's loan portfolio, compared to 16.5 per cent., 7.5 per cent., 4.4 per cent. and 4.4 per cent., respectively, as at 31 December 2008, and 26.5 per cent., 4.9 per cent., 2.9 per cent. and 6.5 per cent., respectively, as at 31 December 2007. The global economic crisis has negatively affected the financial condition of the companies operating in such sectors and has resulted, among other things, in defaults on, or a need for increased provisions in respect of, the obligations of such companies to the Group. See "*The Group may not be able to accurately assess the credit risk of potential borrowers and the Group has unpredictable exposure to the credit risk of Russian corporations and individuals*".

The CBR imposes a limit on all Russian banks' exposure to a single borrower or group of related borrowers of 25 per cent. of such bank's regulatory capital, which must be monitored on a daily basis. See "*Overview of the Banking Sector and Banking Regulation in the Russian Federation — Regulation of the Russian banking sector — Capital adequacy*". As at the date of this Base Prospectus, each of the Group's banking entities is in compliance with the CBR's limit on exposure to a single borrower or a group of related borrowers. However, any Group banking entity's exposure to a single borrower or a group of related borrowers could rise above this limit, either due to a change in the composition of its loan portfolio or changes in the CBR's limit level or interpretation of how the limit should be calculated. The sanctions for failure to comply with this requirement could include fines, the temporary administration of the relevant entity by the CBR or the revocation of the relevant Group entity's licence. If a Group banking entity exceeds its exposure to a single borrower or a group of related borrowers and the CBR took such steps, the

relevant Group banking entity's business, financial condition, results of operations or prospects could be materially adversely affected.

As at 31 December 2009, the Group's ten largest customer depositors accounted for 7.0 per cent. of total customer accounts and the 20 largest depositors accounted for 9.7 per cent. of total customer accounts (compared to 10.3 per cent. and 13.8 per cent. and 10.7 per cent. and 16.4 per cent. respectively for the years ended 31 December 2008 and 2007, respectively). Although the concentration among top 20 customer deposits has declined since 2007, any loss by the Group of one or more significant depositors could have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

The Group may not be able to accurately assess the credit risk of potential borrowers and the Group has unpredictable exposure to the credit risk of Russian corporations and individuals

Although the Group focuses greatly on accurately assessing credit risk, there is no assurance that the Group will always make such assessments correctly. Many businesses in the Russian Federation have considerably less operating experience in competitive market conditions than their Western counterparts. Accordingly, the financial performance of Russian companies is generally more volatile, and the credit quality of Russian companies has been less predictable than those of similar companies doing business in more mature markets and economies. If a substantial part or all of the Group's clients were to experience poor financial performance due to a downturn in the Russian economy generally or volatility in certain sectors of the Russian economy and such performance were to negatively impact the capacity of such entities to satisfy their liabilities to the Group, this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

While the Group believes that its risk assessment procedures allow it to predict potential loan impairment (see "*Risk Management*"), there is no assurance that such procedures, its provision for impairment and supporting collateral will protect it against defaults, write-offs, and losses in the future. Many of the Group's corporate and retail customers do not typically have extensive or externally verified credit histories and there are limited third party resources available to banks to ascertain the credit history of borrowers. The system of credit bureaus in the Russian Federation is incomplete and the credit history data held by such organisations is limited. Although banks have access to credit bureau data, the Group and its competitors do not share all their customer information other than on a bespoke basis and there is no single credit bureau with data on every corporate entity and individual in the Russian Federation. Moreover, due to lack of frequent and reliable information on borrowers in the Russian Federation, the Group uses statutory financial statements and public sources of information on its corporate borrowers to evaluate their financial condition and monitor credit quality. The financial statements of many of the Group's corporate clients are not prepared in accordance with United States Generally Accepted Accounting Principles ("**US GAAP**") or IFRS and are not audited in accordance with Statements on Auditing Standards or International Standards on Auditing. Even though the Group its clients to regularly disclose their financial information to it, such financial information may not always present a complete and comparable picture of a client's financial condition. As a result, customers may be overextended by virtue of other credit obligations of which the Group is unaware and/or may complete applications for credit inaccurately or fraudulently. The Group is therefore exposed to credit risks, which it may not be able to accurately assess and provide for. The Group's failure to assess correctly the credit risk of potential borrowers, or inability to attract customers that meet the Group's financial and credit requirements, may have a material adverse effect on its business, financial condition, results of operations or prospects.

A decline in the value or illiquidity of the collateral securing the Group's loans to legal entities may materially adversely affect the Group's corporate loan portfolio and it may be difficult for the Group to enforce collateral or other security under Russian law

While the majority of the Group's loan portfolio is unsecured (see "*The majority of the Group's loan portfolio is unsecured which may leave the Group unable to satisfy its claims against unsecured borrowers*"), the Group's loans to legal entities (other than overdrafts or loans of less than U.S.\$ 5,000) in the Russian Federation are secured by collateral over assets such as real estate, land leasing rights, production equipment, securities, precious metals, raw materials, inventory and/or guarantees. See "*Risk Management—Credit Risks*" and "*Lending Policies and Procedures*". Although the Group tends to take collateral in excess of the loan value, continued fluctuations in the relevant markets or a general deterioration in economic conditions in the Russian Federation may result in a decline in the value of collateral securing loans to levels below the outstanding principal balance and accrued interest on those loans. If collateral values decline, they may not be sufficient to cover uncollected amounts of the Group's secured loans. A decline in the value of collateral securing the Group's loans or its inability to obtain additional collateral may, in some cases, require the Group to reclassify the relevant loans, establish additional allowances for loan impairment and increase reserve requirements. For further information, see "*Lending Policies and Procedures—Collateral*".

Under Russian law, security (which includes pledges and mortgages) and guarantees (other than bank guarantees) are considered secondary obligations, which automatically terminate if the underlying secured or guaranteed obligation becomes void. Foreclosure under Russian law may in certain cases require a court judgment but Russian law also provides for the possibility of realising a pledge through the sale of the assets at an auction pursuant to an out-of-court order. Upon the application of the pledgor, a court may delay such sale through a public auction for a period of up to a year. A mortgage under Russian law is a pledge over real estate, such as land and buildings, which requires state registration in order to be valid. Such state registration may be difficult to obtain, especially for real estate under construction. Russian law has no perfection system for collateral other than mortgages or pledges of shares in joint stock companies, and the absence of this system may lead to unexpected and/or conflicting claims of secured creditors against the pledged property. While the Group considers that its procedures in place at the date of this Base Prospectus for determining credit risk are adequate, there can be no assurance that the Group will be able to enforce any security in the event of a borrower's default or that the relevant collateral will be sufficient to cover the value of the loan secured on it.

Although in January 2009, a series of laws came into force significantly amending the rights of secured creditors under Russian law. These provisions are new and still have not been properly tested in practice. Therefore, there can be no assurance that they will in fact facilitate enforcement on the part of secured creditors under Russian law. As a result, the Group may have difficulty foreclosing on collateral or enforcing suretyships or other third party credit support arrangements when clients default on their loans. Any failure to recover the expected value of collateral or expenditure of time and resources on a non-core asset acquired following foreclosure may expose the Group to losses, which may materially adversely affect the Group's business, financial position, results of operations and prospects.

Further, even if the Group is successful in foreclosing on collateral, it may be difficult to find buyers for such collateral and it may be sold for significantly less than its appraised value or retained as a non-core asset pending its sale. Non-core assets acquired in this way may take up valuable Group resources and require significant expenditure to maintain their value

A substantial part of the Group's loan portfolio is unsecured, which may leave it unable to satisfy its obligations against unsecured creditors

As at 31 December 2009, 64.8 per cent. of the Group's gross loan portfolio was unsecured, compared to 65.0 per cent. and 50.8 per cent. for the years ended 31 December 2008 and 31

December 2007, respectively. If all or a substantial part of the Group's unsecured borrowers default on their loans and the Group is unable to identify unsecured assets of such borrowers against which to enforce its claims, this could have a material adverse effect on the Group's business, financial position, results of operations and/or prospects.

The Group faces significant competition in the Russian banking market

The Russian market for financial and banking services is highly competitive. Although the industry is dominated by a few Moscow-based banks, according to the CBR, 1,170 banks and non-banking credit organisations entitled to carry out banking operations were registered in the Russian Federation as at 1 April 2010. Due to the large number and variety of banks in the Russian Federation, the Group faces competition from different banks in each of the business sectors and regions in which it operates.

Moreover, although foreign banks are currently allowed to operate in the Russian Federation only through their locally licensed subsidiaries, the Group expects that access of foreign banks to the Russian market will be facilitated by the Russian Federation accession to the World Trade Organisation ("**WTO**"). However, as at the date of this Base Prospectus it is unclear if the Russian Federation will accede to the WTO, and on which terms

The Group faces competition from banks in each of the business areas and regions of the Russian Federation in which it operates. In the corporate banking sector, the Group considers that its main competitors include OJSC Promsvyazbank ("**Promsvyazbank**"), Joint Stock Commercial Bank "Soyuz" ("**Bank Soyuz**") and Open Joint Stock Company "Credit Bank of Moscow" ("**Credit Bank of Moscow**"), Commercial Bank MDM-Bank ("**MDM Bank**"), "Absolut Bank" (ZAO) ("**Absolut Bank**") and CJSC Raiffeisenbank ("**Raiffeisenbank**") in respect of certain of its niche units, Bank VTB 24 (closed joint-stock company) ("**VTB 24**") and various regional banks in respect of the operations of VUZ-Bank and Express-Volga and JSC "TransCreditBank" ("**TransCreditBank**") in respect of the operations of Express-Volga. In respect of the small and medium-size enterprise ("**SME**") market, the Group believes its main competitors include certain SME-focussed banks such as VTB 24, Bank Soyuz, Credit Bank of Moscow, OJSC "IMPEXBANK" ("**IMPEXBANK**") and LOCKO-Bank (closed joint-stock company) ("**LOCKO-Bank**"), and also certain banks specialising exclusively in SME business, such as NBD Bank ("**NBD Bank**") and Bank Intesa (ZAO) ("**Bank Intesa**"). The Group believes its main competitors in retail banking include Raiffeisenbank, VTB 24, Joint stock commercial bank - Bank of Moscow (open joint stock company) ("**Bank of Moscow**"), ZAO Citibank ("**Citibank**"), OJSC "Alfa-Bank" ("**Alfa-Bank**"), CJSC GE Money Bank ("**GE Money Bank**"), CETELEM Bank ("**CETELEM**"), BNP Paribas ZAO ("**BNP Paribas**"), OJSC "Home Credit Bank" ("**Home Credit Bank**"), JSC "Russian Standard Bank" ("**Russian Standard Bank**") and LLC "Rusfinansbank" ("**Rusfinansbank**"). The Group believes its main competitors in consumer finance include Home Credit Bank, GE Money Bank, Russian Standard Bank, Citibank, Open Joint Stock Company "OTP Bank" ("**OTP Bank**"), Open Joint Stock Company "Orient Express Bank" ("**Orient Express Bank**"), Limited Liability Company Investment Commercial Bank "Sovcombank" ("**Sovcombank**") and the credit business of Commercial Bank Renaissance Capital (Limited liability company) ("**RenCredit**"). For a more detailed description of the Group's competitors, see "*Business—Competition*." If the Group is unable to continue to compete successfully in the sectors where it does business and if it is unable to respond to increased competition, it may have difficulty in maintaining its existing position and realising its strategy of diversifying its customer base, which may have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

In the second half of 2006, the CBR adopted a package of regulatory measures designed to liberalise the process by which Russian banks raise equity financing. Such measures include the elimination of, or significant reductions in, restrictions applicable to foreign investors acquiring shares of Russian banks. Such measures facilitate the ability of the Group's current competitors to more easily access sources of capital both in and outside of the Russian Federation and, as a

result, to compete more effectively with the Group. It may also lead to the entry into the market of new competitors, which could materially adversely affect the Group's business, financial condition, results of operations and prospects. For more details see *"Overview of the Banking Sector and Banking Regulation in the Russian Federation."*

The Group may lose some or all of its banking and lending business and some or all of its funding sources (deposits from commercial and governmental entities) to its competitors, which may have a material adverse effect on its business, financial condition, results of operations or prospects.

Recent expansion of the Group's operations exposes it to increased credit risk and the Group may fail to manage this increased risk adequately

Until the onset of the global economic crisis, the Group experienced significant growth, particularly in the size of its loans to customers, which increased by 24.0 per cent. to RUB 47.7 billion as at 31 December 2008 from RUB 38.5 billion as at 31 December 2007. However, the Group's loans to customers increased less significantly in the year ended 31 December 2009 by 7.1 per cent. to RUB 51.1 billion. This smaller increase in the year ended 31 December 2009 resulted primarily from the Group's more conservative approach to evaluating the quality of borrowers' financial condition, which led it take a more restrictive approach to granting new loans. For a more detailed discussion of the Group's loan portfolio and loan impairment provisioning, see *"Operating and Financial Review of the Group—Combined Results of Operations for the Years 2009, 2008 and 2007—Provisions for impairment"* and *"Operating and Financial Review of the Group Assets—Loans to customers."* The Group believes that notwithstanding the deterioration in its loan portfolio, its loan portfolio is of good quality due to the Group's lending policies, procedures and risk management system, which differ from those of many other banking groups in the Russian Federation as they place a high level of responsibility in their credit officers, rather than relying on heavily-automated and centralised credit assessment systems See *"Risk Management"* and *"Lending Policies and Procedures"* for a more detailed description of the Group's approach to risk management lending procedures.

Historically, low default rates on loans extended by the Group to its customers enabled it to set relatively low provisions for impairment. However, as a result of the Group's recent growth and the onset of the global economic crisis, the Group's credit exposure has increased significantly, which has required continued and improved monitoring by management of credit quality and the adequacy of the Group's provisioning levels. Future growth of the Group's loan portfolio could put additional pressure on the Group's loan monitoring and control procedures.

The Group may fail to manage its growth adequately and efficiently integrate its newly-acquired banking subsidiaries

Overall growth in the Group's business requires greater allocation of management resources away from day-to-day operations, continued development of its financial and information management control system, continued training of management and other personnel, presence of adequate supervision and maintenance of consistency of client services across extended regions throughout the Russian Federation.

The Group's growth strategy has included the acquisition of other banks, a substantial expansion of its branch network and an increase in the size of its overall loan portfolio in a relatively short period of time.

The Group has acquired six banks since 2003 (see *"Overview of the Group's Member Banks and Associated Companies"*). Although the Group considers its ability to efficiently integrate the system, staff and customers into the Group to be one of its strengths (see *"Competitive Strengths—Successful approach to acquisitions"*), such acquisitions require significant allocation of capital and management sources, further development of the Group's internal controls and reporting and IT systems, upgrading and streamlining its risk management systems and

additional training of personnel. There is no guarantee that the Group will achieve a positive return on its investments or that its overall growth will not, over time, result in an overall decline in the credit quality of the expanded loan portfolio or that the Group will be successful in integrating any newly-acquired banks and any failure to do so may have a material adverse effect on its business financial condition, results of operations and/or prospects.

The Group is exposed to interest rate risk

The global economic crisis has put upward pressure on interest rates in the Russian Federation and the official figures for inflation in the Russian Federation in 2009, 2008 and 2007 were 8.8 per cent., 13.3 per cent. and 11.9 per cent. respectively. As at the date of this Base Prospectus, the rate of inflation in the Russian economy is decreasing (the official projected figure for inflation in the Russian Federation in 2010 is 6.5 - 7.5 per cent. according to the estimates of the Russian Government). While the Group is increasing its fee and commission income as a proportion of its overall income, its overall income remains mainly derived from net interest income and, accordingly, is highly sensitive to fluctuations in interest rates charged to its borrowers and interest expenses that it incurs through borrowing. The Group is exposed to interest rate risk principally as a result of lending and making advances to customers and other banks at fixed interest rates and in amounts and for periods which may differ from the Group's funding sources (customer accounts, bank borrowings and securities offerings). While the Group monitors interest rates with respect to its assets and liabilities and seeks to match its interest rate positions, the Group is unable to predict with any certainty changes in market interest rates, which are affected by many factors outside its control, including inflation, money supply, domestic and international events and changes in the Russian and global financial markets. Interest rate movements may adversely affect the Group's business, financial condition, results of operations and prospects.

Fluctuations in interest rates could adversely affect the Group's operations and financial condition in a number of different ways. An increase in interest rates generally may decrease the value of the Group's fixed rate loans if the Group is unable to pass on such increase to its borrowers and raise the Group's funding costs. Such an increase could also generally decrease the value of fixed rate debt securities in the Group's securities portfolio. In addition, an increase in interest rates may reduce overall demand for new loans and increase the risk of customer default, while general volatility in interest rates may result in a gap between the Group's interest rate sensitive assets and liabilities. As a result, the Group may incur additional costs and expose itself to other risks by adjusting such asset and liability positions through the use of derivative instruments. Interest rates are sensitive to many factors beyond the Group's control, including the policies of central banks, including the CBR, domestic and international economic conditions and political factors. The Group's Net Interest Margin grew from 10.6 per cent. in 2007 to 12.0 per cent. in 2008 and the Group managed to achieve a 10.5 per cent. net interest margin in 2009 in spite of the global economic crisis. Although the Group has maintained a relatively high level of Net Interest Margin since the start of 2009 through its flexible approach to funding sources and increasing fee income and has interest rate risk management procedures, there can be no assurance that these strategies will protect the Group from the negative effects of future interest rate fluctuations and that adverse interest rate movements will not affect its business, financial condition, results of operations or prospects. Any fluctuations in market interest rates could lead to a reduction in net interest income and adversely affect the Group's financial condition, results of operations and/or prospects. See "*Risk Management—Market Risk— Interest rate risk*".

The Group's exposure to currency risk may increase, particularly as it returns to the international capital markets

As at 31 December 2009, 89 per cent. of the Group's loans to customers were denominated in Roubles, compared to 92 per cent. as at 31 December 2008 and 31 December 2007. This exposes the Group to exchange rate risk, which risk has increased significantly in light of the Rouble's recent volatility against the U.S. dollar and the Euro as a result of the global economic crisis. Upon a depreciation of the Rouble against foreign currencies, the Group becomes subject

to higher interest payments on its foreign currency denominated liabilities when calculated in Rouble terms and vice versa.

The Group plans to return to the international debt markets, which will subject it to the greater risks inherent in currency fluctuations and the uncertainty of these markets as a reliable funding source. Although the Group sets limits and performs certain other measures aimed at reducing currency risk, such as limiting its open currency positions to 10 per cent. of its capital, there is no guarantee it will be successful. Fluctuations in prevailing exchange rates may adversely affect the Group's business, financial condition, results of operations and prospects. Although the Group endeavours to manage this risk, there is no guarantee that it will be successful in avoiding the effects of exchange rate fluctuations. See "*—Risks relating to the Russian Federation—Exchange rates, exchange controls and repatriation restrictions could adversely affect the value of investments in the Russian Federation*" and "*Risk Management—Liquidity Risk*" and "*Risk Management—Market Risk*".

The Group's risk management strategies and procedures may leave it exposed to unidentified and unanticipated risks

Although the Group invests substantial time and effort in its risk management strategies and procedures, such strategies and procedures may nevertheless fail under certain circumstances, particularly when confronted with risks that are not identified or anticipated. Some of the Group's risk management methods are based upon observations of historical market behaviour and place a great deal of reliance on the individual judgment of credit managers. While the decision-making powers of credit managers are defined within clear parameters, and the Group selects, trains and monitors its credit managers with great care, there is no assurance that its credit managers' assessments will prove to be correct. See "*Risk Management—Liquidity Risk*" and "*Risk Management—Market Risk*". Although the Group believes its risk management strategies and procedures have protected it well in the recent economic downturn in the Russian Federation, there is no guarantee that they will continue to do so. See "*—Turmoil in global credit markets has already adversely affected, and may continue to adversely affect, the Russian economy, the Russian banking industry in general and the Group in particular*". If the Group's measures to assess and mitigate risks prove insufficient, its losses may be greater than expected and this could have a material adverse effect of the Group's financial condition, prospect or results of operations.

The Group's business entails operational risks and technological risks

The Group is exposed to many types of operational risk, including the risk of fraud by employees or outsiders, unauthorised transactions by employees or operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems. Although the Group monitors its operations closely and on a regular basis, the high volume of transactions it performs presents the risk that errors may be repeated or compounded before they are discovered and rectified. A number of transactions at the Group are processed manually, which may further increase the risk that human error or employee tampering, manipulation or fraud could result in losses that are difficult to detect. See "*Business—Information Technology*". See "*Lending Policies and Procedures—Credit approval process*." The Group relies on controls, such as the regular centralised monitoring of its loan portfolio's performance by its senior management, and has computer systems that highlight potentially suspicious transactions. However, there can be no assurance that it will not suffer losses from failure of these controls to detect or contain operational risk in the future.

The Group also manages its operational risk through obtaining outside insurance. See "*Risk Management—Operational Risk*" and "*The Group may lack sufficient insurance cover*".

The Group is also exposed to technological risks. The Group's banking business requires the development of sufficient communication channels and software, the creation of large automated

systems and considerable computer capacity located throughout the Russian Federation. The Group positions itself as a full-service provider of commercial banking services that offers high quality services to clients in many Russian regions and it seeks to ensure the same technological capabilities for all of its business units. Matching the capacities of its information systems, network and technologies and the pace of its business development requires considerable expenditure. See "*Business—Information Technology*".

The Group's financial performance, its ability to meet its strategic objectives, manage risks arising out of the current market environment, manage the future growth of its subsidiary banks, its innovative and information technology ("IT") IT-intensive marketing projects, such as the Federal Programme of Lending to State Employees (see "*Business—Banking Services and Activities—NSB—Federal Programme of Lending to State Employees*") and the expansion of its branch and office network depend and will continue to depend to a significant extent upon the functionality of its IT and its ability to increase its system capacity and functionality. There is no assurance that the Group's back-up systems would be sufficient in the case of a disruption to the Group's IT systems. Further, since they are located in the same building as the Group's main IT systems, this increases the risk of such systems failing to provide independent back-up in the case of a disruption. A disruption (even short term) to the functionality of the Group's IT systems, or delays in increasing the capacity of the IT systems, would be likely to have a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

The Group has invested heavily in its IT systems to update its platform in cooperation with Gartner, Inc ("**Gartner**"). While the Group considers that its IT systems support its operations, these systems are currently significantly less developed in certain respects than those of banks in more developed countries. In addition, the integration of the Group's banking subsidiaries' IT systems increases the Group's operational risks and the costs of further business development. If the Group's IT systems become unable to adequately support its operations and fail to allow it to effectively monitor and manage its operations, this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. See "*Business—Information Technology*".

The expansion of operations and the introduction of new technologies result in correspondingly greater risks, as the financial consequences of any failure of equipment, networks or software become more severe. Taking into account international experience, the Group invests considerable time and money in order to keep its technology up to date, centralise its information systems, create appropriate reserves and duplicate capacities, develop internal audit functions and control the operation of its hardware and software. Nevertheless, the Group cannot eliminate the possibility of a banking system failure that may, for some time, impact its operational activities and lead to expenses that may materially adversely affect its financial performance or reputational damage that may affect the Group's ability to attract new customers.

The Group may lack sufficient insurance cover

While applicable laws do not require banks to maintain a variety of insurance cover on their material assets or liabilities, other than the mandatory insurance of retail deposits, the Group voluntarily insures the majority of its property and operating assets (see "*Business—Insurance*"). However such insurance does not cover all of the Group's assets and liabilities. Furthermore, the Russian insurance industry is relatively undeveloped, and many forms of insurance offered in Western countries are unavailable to the Group on the terms common in such countries, including insurance coverage for business interruption. As a result, the Group may incur uninsured losses of assets and face claims not covered or inadequately covered by insurance. Any such loss or claim may have a material adverse affect on the Group's business, financial condition, results of operations and/or prospects.

The Group's employees may not adhere to compliance procedures

The Group runs the risk that its employees will not adhere to its compliance procedures and limits on risk related activities. This risk is accentuated by its growth through strategic acquisitions since the Group needs to train the employees of the newly-acquired banks to comply with its internal procedures. The Group takes training very seriously and has controls to guard against and detect misconduct; however, these controls may not be effective in all cases. Misconduct by employees could result in binding the Group to transactions that exceed authorised limits or present unacceptable risks, or the concealment of unauthorised or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use or disclosure of confidential information that could result in regulatory and legal sanctions and significant reputational or financial harm, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's measures to prevent money laundering may not be completely effective

In 2006 and the first part of 2007, the CBR excluded several banks from the deposit insurance system based on suspicions of money laundering and revoked a number of banking licences for violations of reporting requirements under Federal Law No. 115-FZ "On Combating of the Legalisation of Illegal Earnings (Money Laundering) and Terrorism Financing" dated 7 August 2001 (as amended) (the "**Anti-Money Laundering Law**"). Although the Group believes that it fully complies with the reporting requirements under the Anti-Money Laundering Law, there is no guarantee that it will not, due to technical or other reasons stemming from the complexity of the regulations or undetected fraudulent representations by customers, breach the Anti-Money Laundering Law. Any such breach could result in certain enforcement actions, which could have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects, either through an inability to operate or a reduction in interbank liquidity available to it. While the Group believes there are no grounds to indicate that the Group is likely to lose its banking licence on these or other grounds, it is difficult to predict what impact a prolonged or serious banking crisis or the insolvency of a number of banks could have on the Group's business, financial condition, results of operations or prospects.

The Group's accounting systems may not be as sophisticated as those of companies organised in jurisdictions with a longer history of compliance with international accounting standards and there is less publically available information about the Group than there would be for comparable companies in certain other jurisdictions which may make it more difficult to understand the risks associated with the Group

Accounting and reporting requirements in the Russian Federation are not comparable to those in other jurisdictions, such as the United States and the United Kingdom and RAS are not comparable to either IFRS or US GAAP. Russian accounting legislation continues to develop and has been subject to change on a regular basis in recent years. As of 1 January 2004, all credit organisations in the Russian Federation must prepare financial statements in accordance with IFRS in addition to the statutory accounting reports in accordance with RAS. Federal Law No. 395-I "On Banks and Banking Activity" dated 2 December 1990, as amended (the "**Banking Law**") contains certain periodic disclosure requirements, including the requirement to publish annual statutory accounting reports in accordance with RAS. As its systems and processes are tailored to the requirements of RAS, it may take the Group longer than comparable companies in other jurisdictions to prepare its consolidated annual and interim financial statements in accordance with IFRS. In accordance with the Banking Law, the Group is required to publish certain RAS accounting reports quarterly, including a balance sheet, income statement and information on its assets, capital reserves and allowances for non-performing loans, which do not contain all of the information contained in the Group's IFRS consolidated financial statements. The Group has regularly published and filed such reports since its establishment and has complied with the relevant reporting requirements. In accordance with Russian legislation applicable to securities issuers, the Group is required to file quarterly reports with the CBR.

These reports include certain information about the Group, its management, subsidiaries, affiliates and selected financial and business information (such as events of litigation and quarterly statutory accounting reports prepared in accordance with RAS). Despite recent initiatives to improve corporate transparency in the Russian Federation, there is less publicly available information about the Group than there is for comparable companies in other jurisdictions, such as the United States and the United Kingdom.

The Group depends on its senior management and key personnel and it may have difficulty attracting and retaining qualified professionals

Future operating results of the Group depend to a large extent upon the continued contributions of senior managers and key personnel. The Group could be adversely affected if any of the senior managers or key personnel of the Group cease to actively participate in the management of its business. In addition, the Group depends in large part on its ability to attract, train, retain and motivate highly skilled employees and management. There is significant competition for employees with experience in banking, technology and programming. In particular, competition within the Russian banking industry is intense for personnel with relevant experience, especially in regions outside Moscow where the number of qualified personnel is relatively limited. In the future, it may be increasingly difficult for the Group to hire and retain qualified personnel. In addition, the Group may lose some of its most qualified and experienced personnel to its competitors. In order to recruit qualified and experienced employees and to minimise the possibility of their departure to other banks, the Group provides compensation packages that it believes are consistent with the evolving standards of the Russian labour market, and as a result may encounter larger than expected operational costs. If the Group cannot attract, train, retain and motivate qualified personnel, then it may be unable to compete effectively in the Russian banking industry and its growth strategies may be limited, which in each case could materially adversely affect the Group's business, financial condition, results of operations and prospects. For a more detailed discussion of the Group's management, see "Management".

The Group's principal shareholders are involved in the day-to-day management and strategy development of the Group exposing the Group to the risk of excessive dependence and the potential for a conflict of interest arising between the interests of the principal shareholders and those of the Group as a whole

Messrs Leontiev, Bikmaev, Zheleznyak and Panteleev are the Group's principal ultimate shareholders, controlling collectively 58.41% of the Group as at the date of this Base Prospectus (the "**Management Shareholders**"). See "Principal Shareholders". The Management Shareholders play a key role in managing the Group and in formulating its strategy. If the interest of the Management Shareholders were to differ from that of its minority shareholders, they would nonetheless be able to run the Group in a manner contrary to the interests of the Group's other shareholders and in a manner contrary to the interests of the Group as a whole. If the Management Shareholders were to cease their involvement in the management and strategy of the Group, or run it in a manner that is adverse to the interests of the Group as a whole or the Group's other shareholders, there is no guarantee that the Group would continue to grow and develop as it has done in the past, and there is a risk that such an approach would have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Russian deposit insurance system is relatively new and there can be no assurance that implementation of the system or other possible banking reform will not negatively impact on the businesses of Russian banks, including the Group

As part of the Russian banking reform, the Federal Law No. 177-FZ "On Insurance of Deposits of Individuals Placed with Banks of the Russian Federation" dated 23 December 2003 (as amended) (the "**Deposit Law**") implemented a framework for credit organisations wishing to take retail customer deposits (the "**Deposit Insurance System**"). The Deposit Law, together with

ensuing CBR regulations (the "**Deposit Regime**"), has introduced new requirements for banks in the Russian Federation wishing to participate in the Russian Deposit Insurance System.

In particular, under the Deposit Regime, banks are required to meet certain standards in relation to the accuracy of their financial reports and to comply with the CBR prudential requirements and financial stability requirements. The adequacy of a bank's financial stability is assessed on, *inter alia*, certain transparency criteria, such as the transparency of a bank's shareholding structure, the transparency of the parties exercising a material influence (direct or indirect) on the management of a bank and the significance of the influence of off-shore entities on the management of a bank.

All banks wishing to continue to accept individuals' deposits in the Russian Federation and participate in the Deposit Insurance System were required to apply to the CBR prior to 27 June 2004 for a certificate confirming compliance with the Deposit Regime. All the banks within the Group are members of the Deposit System. As a member of the Deposit Insurance System, each member of the Group is required to comply with its requirements on an ongoing basis. Failure to meet these requirements in certain instances may lead to the expulsion of a bank from the Deposit Insurance System and revocation of its licence to accept deposits from individuals. If any member of the Group were to be expelled from the Deposit Insurance System, this would cause the Group to lose all or part of its retail client base and would be likely to have a significant adverse effect on the business, financial condition, results of operations and/or prospects of such Group member and/or the Group. See "*Overview of the Russian Banking Sector and Banking Regulation in the Russian Federation.*"

The Group is a highly regulated entity and it may fail to comply with applicable legal requirements, which could lead to a licence required by the Group in connection with its operations being revoked or the Group failing to receive a licence that it requires

Regulatory authorities in the Russian Federation exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licences, permits, approvals and authorisations. The Group is subject to strict regulation in the Russian Federation by governmental organisations, particularly the CBR and the FSFM. The requirements, including capital adequacy requirements, imposed by the regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties with whom the Group deals. These requirements may limit the Group's activities and increase its costs of doing business. A breach of regulatory guidelines could expose the Group to potential liability and other sanctions, including the loss of its banking licences.

Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities and the regulatory structure governing the Group's operations is continuously evolving. Existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change and new laws or regulations could be adopted. If the existing interpretation of the regulations changed or future regulations were imposed on the Group and the Group became unable to comply with such regulations, it could have an adverse effect on its business, financial condition, results of operations and prospects.

The Group has taken, at different times, a variety of actions relating to share issuances, share disposals and acquisitions, valuations of property, interested party transactions, major transactions, antimonopoly issues and other corporate matters that, if successfully challenged on the basis of non compliance with applicable legal requirements by competent state authorities, counterparties in such transactions or the Group's shareholders, could result in the invalidation of such transactions or the imposition of other liabilities. As applicable provisions of Russian law are sometimes subject to inconsistent interpretations and application, there can be no assurance that the Group would be able to successfully defend itself against any challenge brought against such transactions or corporate decisions, and the invalidation of any such transactions or decisions or

the imposition of any such liability may, individually or in the aggregate, have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In addition, the regulatory authorities have the right to conduct periodic inspections of the Group's operations and properties. Any such future inspections may result in a determination that the Group has violated laws, decrees or regulations, and the Group may be unable to refute such determination or remedy the violations. The Group's failure to comply with existing or future laws and regulations, the terms and conditions of its licences and permits or the findings of governmental inspections may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of the Group's licences, permits, approvals and authorisations, or in requirements that the Group cease certain of its business activities, or in criminal and administrative penalties applicable to its officers. Any such decisions, requirements or sanctions, or any increase in governmental regulation of the Group's operations, could increase its costs and materially adversely affect its business, financial condition, results of operations and prospects.

The Group has obtained necessary licences in connection with its current banking operations. Although the Group has been successful in obtaining CBR and the FSFM licences in the past, there can be no assurance that the Group will be able to obtain new licences or maintain its existing licences in the future. Each of the CBR and the FSFM may, in its discretion, impose additional requirements or deny the Group's request for licences. The loss of or breach of the terms of, or the failure to obtain, a CBR or a FSFM licence in the future could result in cash-flow difficulties and penalties such as the imposition of fines on the Group by the CBR and/or the FSFM, which may, in turn, affect the Group's ability to satisfy its liabilities and run its business, and would be likely to have a material adverse effect on its business, financial condition, results of operations and prospects. The loss of the banking licence of any Group banking entity will result in such entity being unable to perform any banking operations.

In addition, the Group is exposed to the risk that the CBR may impose sanctions on the Group for non-compliance with certain mandatory economic ratios or other regulations. Such sanctions could include a fine, the initiation of temporary administration of the Group by the CBR or revocation of its banking licence. Under Russian law, the CBR may appoint a temporary administrator for a term of up to six months if a bank fails to comply with CBR orders to remedy breaches, or if those breaches have created an actual threat to the interests of its creditors (i.e. depositors). A bank's banking licence may be revoked after the repeated imposition on the bank of other sanctions during the same calendar year. While the Group's banking entities make strenuous efforts to comply with the applicable regulations, there is no assurance that they will always be successful in doing so. Any failure on the part of a Group banking entity to comply with such regulations could result in the withdrawal of a licence that is required by such entity to run its business successfully, which would be likely to have a material adverse effect on such entity's business, which could have a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

Certain covenants in the Group's debt agreements restrict its operations and any failure of the Group to comply with such covenants may have a material adverse effect on the Group's business, financial condition, results of operations or prospects

The restrictions in the Group's international borrowings (see "*Operating and Financial Review of the Group—Liquidity and Capital Resources—Contractual Obligations*"), the terms of which vary significantly, limit, and in some cases prohibit, among other things, the ability of the Bank and certain of its subsidiaries to create liens on assets, enter into business combinations or engage in certain activities with companies within the Group's group. A failure by the Group to comply with these restrictions would constitute a default under certain of its international borrowings and could result in a cross-default under other agreements to which the Group is a party. In the event of such a default, the Group's obligations under one or more of these agreements could, under

certain circumstances, become immediately due and payable, which would have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

In addition, certain of the Group's credit facilities contain covenants regarding capital adequacy, any breach of which could have a material adverse effect on the Group's business, financial performance, results of operations and/or prospects.

Some transactions between the Group and interested parties or affiliated companies require the approval of disinterested directors or shareholders and the failure to obtain these approvals could materially adversely affect the Group's business

The banks that make up the Group are required by the Joint Stock Companies Law and their charters to obtain the approval of disinterested directors or shareholders for transactions with "interested parties". In general terms, "interested parties" include any of the Group's shareholders that, together with their affiliates, own at least 20 per cent. of the voting shares of the members of the Group, members of the Boards of Directors and Management Boards of the Group, the Chairman of the Management Boards of the Group or any entity that has the legal right to give mandatory instructions to the members of the Group. Due to the technical requirements of Russian law, these parties may also be deemed to be "interested parties" with respect to certain transactions between entities within the Group. From time to time, the Group and its subsidiaries (including its banking subsidiaries) engage in various transactions that require special approvals under Russian law, and the Group's subsidiaries (including its banking subsidiaries) may engage in transactions that require "interested party" transaction approvals in accordance with Russian law. Failure to obtain the necessary "interested party" transaction approvals could have a material adverse effect on the Group's business, results of operations, financial conditions and/or prospects.

In addition, the concept of "interested parties" is defined by reference to the concepts of "affiliated persons" and "beneficiaries" under Russian law, which are subject to different interpretations. Moreover, the provisions of Russian law defining which transactions must be approved as "interested party" transactions are subject to different interpretations. The Group cannot be certain that its application of these concepts will not be subject to challenge. Any such challenge could result in the invalidation of transactions that are important to the Group's business.

The Group may require additional capital in the future in order to meet CBR capital adequacy requirements

The Group is required to comply with the capital adequacy requirements of the CBR, which differ in some significant respects from the regulations applied in those countries that have adopted the guidelines regarding solvency and capitalisation adopted by the Basel Committee on Banking Supervision of the Bank for International Settlements as provided in such Committee's paper entitled "*International Convergence of Capital Measurement and Capital Standards*" dated July 1988, as updated (the "**BIS Guidelines**"). Calculated under BIS Guidelines, the Group had Tier I and total capital adequacy ratios of 9.4 per cent. and 12.4 per cent. respectively as at 31 December 2009.

Under Russian law, the minimum capital adequacy ratio that the banks are required to maintain is calculated (on an unconsolidated basis) as the ratio of regulatory capital to the total amount of its risk weighted assets. The minimum capital adequacy ratio required by the CBR currently is 10 per cent. for banks whose capital is RUB 180 million (approximately EUR 4.3 million) or more and 11 per cent. for banks whose capital is less than RUB 180 million (approximately EUR 4.3 million). If the capital adequacy ratio of a bank drops below 2 per cent., then the CBR must revoke its banking licence. The Bank's unconsolidated total capital adequacy ratio calculated by the Bank on the basis of the statutory RAS audited financial statements of the Bank adjusted for post-balance sheet events (in accordance with the applicable CBR regulations) amounted to 12.9 per cent. as at 31 December 2009, 13.5 per cent. as at 31 December 2008 and

10.9 per cent. as at 31 December 2007. As of the date of this Base Prospectus each of the Group's banking subsidiaries is in compliance with its capital adequacy requirements. The Group's ability to obtain additional capital may be restricted by a number of factors, including the Group's future financial condition, results of operations and cash flows, any necessary government regulatory approvals, the ability of the Group's shareholders to provide additional capital, and general market conditions for capital-raising activities by banks and other financial institutions.

If the Group requires additional capital in the future in order to meet CBR capital adequacy requirements, it cannot guarantee that it will be able to obtain this capital on favourable terms, in a timely manner or at all. The Group's shareholders are under no obligation to inject additional capital into the Group. In April 2009 the Group breached its capital adequacy ratio calculated in accordance with the CBR's methodology due to the early repayment of a RUB 624.9 million subordinated loan from East Capital Financials Fund AB for the purposes of the further payment of these funds for an additional issuance of ordinary shares of the Bank (see "*Operating and Financial Review—Capital Adequacy*"). Although these breaches were agreed in advance with the CBR and no penalties were imposed in connection to them, if the Group is unable to raise further capital to support its growth or if its capital position otherwise declines and it is unable to ensure that the Bank and the Group's banking subsidiaries comply with the CBR's capital adequacy requirements, then it may face fines and sanctions from the CBR, and its ability to run its business may be materially adversely affected. After the CBR has imposed sanctions and fines, any failure on the part of the Bank and its banking subsidiaries to eliminate any violations could threaten such entities' ability to manage their own activities, accept retail deposits and ultimately continue their businesses, which could have a material adverse effect on the Group's business, financial conditions, results of operations or prospects.

Revisions to the capital adequacy standards under the Basel Accord could limit the use and amount of capital that the Group has available for its business

The risk-adjusted capital guidelines promulgated by the Basel Committee on Banking Supervision (the "**Basel Accord**"), form the basis for the capital adequacy guidelines of the CBR. The implementation of the Basel Accord in the Russian Federation is still underway. In November 2009, the CBR adopted a number of regulations aimed at the implementation of the Basel Accord, which will take effect as of 1 July 2010. The effect these revised guidelines will have on the Group's requirements for capital and its capital position is not currently known. If any future alterations to the capital adequacy standards under the Basel Accord with regard to limits on the deployment and use of capital require the Group to maintain higher capital levels or limit the use of significant portions of the Group's capital such that it is unable to execute its strategy, there could be a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Changes in the Group's customer focus may have a material adverse effect on its business, financial condition or results of operations

The Group's strategy is, among other things, to continue to grow its SME, retail and consumer customer base. See "*Business—Strategy—Focus on key customer segments*". In order to achieve this, the Group is seeking to offer new lines of products and leverage its subsidiary and branch network to exploit cross-selling opportunities across its business segments. There is a risk that, despite significant amounts being spent, the Group might fail to attract sufficient new SME, consumer and retail customers to allow it to recoup its significant investments in these areas of its business (see "*Operating and Financial Review of the Group—Segment Operations*"). This could have an adverse impact upon the business, financial condition or results of operations of the Group.

In addition, although increased lending to SME, consumer and retail customers may diversify the Group's loan portfolio and generate significantly higher rates of interest for the Group than

lending to large corporates, it also increases the credit risk exposure in the loan portfolio. See *"The Group may not be able to accurately assess the credit risk of potential borrowers and the Group has unpredictable exposure to credit risks of Russian corporations and individuals"*. Negative developments in the Russian economy have affected these borrowers more significantly than large corporates. As a result, lending to these segments represents a relatively higher degree of risk than lending to other groups and results in higher levels of overdue loans and losses. This, in turn, has resulted in higher levels of provisions for loan impairment. *"Operating and Financial Review of the Group—Factors Affecting the Group's Results of Operations and Financial Condition—Provisions for Impairment"*. It is uncertain whether the high interest rates paid by these customer segments will offset the higher cost to the Group of loans to the SME and retail loan segments. Further, lending to these target segments has required the implementation and application of credit policies and provisioning procedures that differ from those used for large corporate borrowers. The ability of the Group to grow its customer base and expand its loan portfolio will depend upon the implementation of its credit policies and provisioning procedures, as well as capital growth, in order to maintain its capital adequacy requirements and any failure to implement such policies and procedures or meet capital adequacy requirements together with an accurate risk management policy may have a negative effect on the Group's business, financial condition, results of operations and prospects. See *"Lending Policies and Procedures—Credit approval process"* for a more detailed description of the Group's credit risk assessment procedure.

Liability for the obligations of the Group's subsidiaries could materially affect its financial position and business in general

The Civil Code and the Joint-Stock Companies Law generally provide that the shareholders in a Russian joint-stock company are not liable for the obligations of the joint-stock company and only bear the risk of loss of their investment. This may not be the case, however, when one company (the parent) is capable of determining decisions made by another company (the subsidiary). The parent company bears joint and several liability for transactions concluded by the subsidiary in carrying out these decisions if: (a) this decision-making capability arises from prevailing participation in the charter capital of the subsidiary or it is provided in a contract between the companies or arguably arises under other circumstances and (b) the parent company gives obligatory directions to the subsidiary.

In addition, the parent company is liable secondarily for the debts of the subsidiary if the subsidiary becomes insolvent or bankrupt as a result of the action or inaction of the parent company. This is the case regardless of how the parent's capacity to determine the decisions of the subsidiary arises. The Bank acquired two of its subsidiaries (Gazenergobank and Bank24.ru) with the assistance of State Corporation "Deposit Insurance Agency" (the "DIA") when they were on the verge of insolvency. Any failure on the Group to deal with any systemic weakness in these two subsidiary banks may heighten the risk of such banks facing solvency problems in the future. If the Bank is held liable for the obligations and debts of its subsidiaries, such liability could materially affect the business, financial condition, results of operations and/or prospects of the Group.

Further, other shareholders of a subsidiary may claim compensation for the subsidiary's losses from the parent company if it caused the subsidiary to take action(s) knowing that such action(s) would result in losses. Such liability may apply to the Bank with respect to its subsidiaries. Were the Bank found to be so liable, this could have a material adverse effect on its business, financial condition, results of operations and/or prospects of the Group.

Risks Related to the Russian Federation

Economic instability in the Russian Federation could materially adversely affect the Group's business

Since the dissolution of the Soviet Union in 1991, the Russian Federation's society and economy have been undergoing a rapid transformation in the context of the Russian Government's attempts to transform the Russian Federation from a one-party state with a centrally-planned economy to a pluralist democracy with a market-oriented economy. This transformation has been marked by periods of instability, and the Russian economy at various times has experienced:

- (a) significant declines in GDP;
- (b) hyperinflation;
- (c) an unstable currency;
- (d) high government debt relative to GDP;
- (e) significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- (f) widespread tax evasion;
- (g) growth of "black" and "grey" market economies;
- (h) high levels of capital flight;
- (i) corruption and extensive penetration of organised crime into the economy;
- (j) social and governmental instability;
- (k) lack of consensus between federal and local governments;
- (l) ethnic and religious tensions;
- (m) significant increases in unemployment and underemployment;
- (n) high poverty levels among the population; and
- (o) outdated and deteriorating physical infrastructure.

The Russian economy has historically been subject to abrupt downturns. The events and aftermath of 17 August 1998 when the Russian Federation defaulted on its short-term Rouble-denominated treasury bills and other Rouble-denominated securities, the CBR abandoned the Rouble currency band and its efforts to maintain the Rouble/U.S. dollar rate within it and imposed a temporary moratorium on certain hard currency payments to foreign counterparties, led to an immediate and severe devaluation of the Rouble, a sharp increase in the rate of inflation, a significant deterioration in the Russian banking system, significant defaults on hard currency obligations, a dramatic decline in the prices of Russian debt and equity securities, and an inability to raise funds on the international capital markets by Russian borrowers.

From May to July 2004, following a general fall in confidence in the Russian banking system, the Russian interbank lending market contracted significantly, resulting in a decrease in liquidity in the Russian Federation. In addition, the Russian Federation's financial markets and economy as a whole suffered a sharp decline due to the global economic crisis. The positive trends in the Russian economy in the years preceding the global economic crisis, such as increases in GDP, a relatively stable currency and a reduced level of inflation, have begun to reverse as a consequence of the global economic crisis. As the Russian Federation produces and exports

large quantities of crude oil, natural gas and other commodities (such as steel), the Russian economy is particularly vulnerable to fluctuations in the prices of such commodities on the world market, which reached record high levels in the first half of 2008 and have since experienced significant decreases, particularly in the price of crude oil which decreased by approximately 70 per cent. in the second half of 2008. The greatly reduced level of revenue generated for the Russian budget due to the decline in the price of such key revenue-generating commodities has led the Russian Government to cut spending. The global economic crisis in the Russian Federation has also seen significant volatility in the Rouble against the U.S. dollar and Euro between the second half of 2008 and the date of this Base Prospectus. Such volatility has had a destabilising and adverse effect on the Russian economy and could have a similar effect on the Group's business, financial condition, results of operations and prospects.

In addition, the Russian Federation's financial markets suffered a severe decline due to the global economic crisis. There can be no assurance that a future significant deterioration in the liquidity of, or significant volatility in, the Russian economy will not have a material adverse effect on the Group's business, financial condition or results of operations. The Russian economy has recently been characterised by extreme volatility in debt and equity markets and sharp reductions in foreign investment. In light of these recent developments, international rating agencies have downgraded the Russian Federation's sovereign credit rating, which reflects an assessment by such agencies that there is an increased credit risk that the Russian Government may default on its obligations. These assessments may lead to a further reduction in foreign investment and an increased cost of borrowing for the Russian Government. In late 2008, the Russian Government announced plans to institute more than U.S.\$ 200 billion in emergency financial assistance measures in order to ease taxes, refinance foreign debt and encourage lending. Since the advent of the global economic crisis, the Russian Government made approximately U.S.\$ 1 trillion available to the banking sector in an effort to stimulate new lending and keep financial institutions afloat. See *"Overview of the Banking Sector and Banking Regulation in the Russian Federation—Measures to support the liquidity of the Russian banking system"*. Although since the beginning of 2009, the Russian Federation's financial markets, the stock market and the Rouble have shown signs of improvement, there can be no assurance that these or other measures will continue or will result in a sustained recovery of the Russian economy.

In view of the above, the Group has carried out scenario analyses and stress tests with macroeconomic scenarios with adverse effects comparable to the 1998 crisis. The Group closely monitors the possible adverse effects of such events on the Group's business, financial condition and results of operations. See *"Risk Management—Credit Risk"*, *"Risk Management—Market Risk"* and *"Risk Management—Liquidity Risk"*. However, there can be no assurance that, notwithstanding these risk management processes, the Group is appropriately prepared for all such possible crises and any failure to manage a crisis going forward could have a material adverse effect on the financial condition, business, results of operations and prospects of the Group.

Emerging markets such as the Russian Federation are subject to greater risks than more developed markets, and turmoil in any emerging market could adversely affect the value of investments in the Russian Federation

Emerging markets such as the Russian Federation are subject to greater risk than more developed markets, including, in some cases, increased political, economic and legal risks. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Emerging markets such as the Russian Federation are subject to rapid change, and the information set out herein may become quickly outdated.

Moreover, financial turmoil in any emerging market country tends to affect adversely the value of investments in all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the

perceived risks associated with investing in emerging economies could dampen foreign investment in the Russian Federation and adversely affect the economies of such countries. In addition, during such times, companies in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in another emerging market country could seriously disrupt the business of companies operating in the Russian Federation, as well as result in a decrease in the price of the Notes.

If the Russian Federation were to return to heavy and sustained inflation, the Group's results of operations could be adversely affected

According to Rosstat's estimates, the consumer price index in the Russian Federation was approximately 19 per cent. in 2001, 15 per cent. in 2002, 12 per cent. in 2003 and 2004, 11 per cent. in 2005, 9 per cent. in 2006, 11.9% in 2007, 13.3% in 2008 and 8.8% in 2009. While the outlook for inflation in the Russian Federation in 2010 is for a further decline, any return to heavy and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and erosion of consumer confidence. Any one of these events could lead to decreased demand for the Group's products and services that could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Political and Russian Governmental instability could adversely affect the value of investments in the Russian Federation and the value of the Notes

Since 1991, the Russian Federation has sought to transform itself from a state with a centrally-planned economy to a market-oriented economy. 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 Russian Federation's business and investment climate. Former President Vladimir Putin generally increased governmental stability and presided over a period of high oil prices, which made the political situation in the Russian Federation appear more stable while the large oil revenues enhanced the image of the Russian economy.

The most recent State Duma elections, held in December 2007, and the City of Moscow Duma elections, held in October 2009, resulted in a further increase in the share of the aggregate vote received by the pro-presidential party, United Russia, mainly due to the influence of Mr. Putin. In March 2008, presidential elections were held in the Russian Federation, which resulted in Dmitry Medvedev being elected the President of the Russian Federation. In May 2008, Mr. Medvedev appointed Mr. 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 relatively stable, albeit with higher incidence of anti-Russian Government protests than in recent times, the potential for political instability resulting from the economic situation in the Russian Federation and the decline in living standards is hard to predict.

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 Russian Government's programme of reform and a continued increase in the level of insolvencies in the Russian Federation could lead to a further deterioration in the Russian Federation's investment climate that might prevent the Group from obtaining financing in the international capital markets or otherwise have a material adverse effect on its business, results of operations, financial condition and prospects.

Further, actions of the Russian legislative, executive and judicial authorities can affect the Russian securities market. In particular, the events surrounding tax 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 the Russian Federation 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 negatively effect investor confidence in the Russian Federation'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.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tension and, in certain cases, military conflict in certain regions of the Russian Federation. Violence and attacks relating to regional conflicts have spread to other parts of the Russian Federation. Russian military and paramilitary forces have been engaged in the Chechen Republic in the recent past and continue to maintain a visible presence there. In August 2008, the Russian Federation and Georgia were involved in an armed conflict and Russian stock exchanges experienced heightened volatility, significant overall price declines and capital outflow following these events and the international capital markets temporarily closed to the Russian Federation.

The growth of violence in the Russian Federation, could have significant political consequences, including the imposition of a state of emergency in some or all regions of the Russian Federation and thus could adversely affect the Group's business, financial condition, results of operations and prospects.

If reform policies in the Russian Federation are not pursued or are pursued at a slower rate, the Group's business and its ability to obtain financing could be harmed

Under the previous president, Vladimir Putin, the political and economic situation in the Russian Federation became more stable, thus creating better conditions for economic growth. While Mr. Putin's successor, President Dmitry Medvedev appears to be following Mr. Putin's lead in maintaining stability and policies generally oriented towards the continuation of economic reforms, future changes in the Russian Government, major policy shifts or a lack of consensus among various influential political groups could disrupt or reverse economic and regulatory reforms. Any deterioration of the investment climate in the Russian Federation could restrict the Group's ability to obtain future financing in international capital markets thereby limiting its growth strategy and the Group's business, financial condition, results of operations and prospects could be harmed if Russian Governmental instability recurs or if reform policies are reversed.

Conflict between federal and regional authorities and other conflicts could create an uncertain operating environment that would hinder the Group's long-term planning ability and could materially adversely affect the value of investments in the Russian Federation

The Russian Federation consists of 83 regions, some of which exercise considerable autonomy over their internal affairs. In practice, the division of authority between federal and regional authorities remains uncertain and contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatisation 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 the Russian courts, and such challenges may occur in the future. This uncertainty could hinder the Group's long-term planning efforts and may create uncertainties in its operating environment, which may prevent it from effectively and efficiently carrying out its business strategy. However, the recent amendments to Russian legislation whereby heads of regions are nominated by the President of the Russian Federation and appointed by regional legislatures (instead of direct election by the population) are designed to minimise conflict between federal and regional authorities and secure stability across the Russian Federation.

Social instability could renew support for a centralised authority, nationalism or violence, and thus materially adversely affect the Group's ability to conduct its business effectively

Social instability in the Russian Federation, coupled with difficult economic conditions and the failure of the Russian Government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living, have led in the past, and could lead in the future, to labour and social unrest. For example, in 2009, workers in the city of Pikalevo protested against non-payment of salaries, and in February and March 2010 there were anti-Russian Government protests in Kaliningrad and Arkhangelsk, respectively.

Such 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 economy of the Russian Federation, and increased violence. Any of these could restrict the Group's operations and materially adversely affect the Group's business, financial condition, results of operations and prospects.

Terrorism, crime and corruption could affect the Russian economy and disrupt the Group's ability to conduct its business

Terrorist activity inside and outside the Russian Federation have had a significant effect on the international and domestic financial and commodity markets. The most recent manifestation of terrorist acts in Moscow was 29 March 2010 suicide bombing on the Moscow metro, which left 39 civilians dead and around 70 civilians wounded. Any future acts of terrorism in the Russian Federation or internationally could have an adverse effect on the financial and commodities markets and the global economy. As the Russian Federation produces and exports large amounts of crude oil and gas, any acts of terrorism causing disruptions of Russian oil and gas exports could negatively affect the Russian economy and, therefore, adversely affect the Group's business, financial condition, results of operations or prospects.

Levels of organised criminal activity, particularly property crimes in large metropolitan centres, continue to be significant. In addition, the Russian and international press have reported high and increasing levels of official corruption in the Russian Federation and the former Soviet Union, 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. Reportedly, in March 2005, a CBR database containing confidential information about all inter-bank cash transfers during the period from April 2003 to September 2004 was illegally offered for sale in the market by computer hackers. Such database included information on corporate and individual customers of various Russian banks and their transactions. The Group's business could be materially adversely affected by illegal activities, corruption or by claims implicating the Group in illegal activities.

Further deterioration in the Russian Federation's physical infrastructure could have a material adverse effect on the Group's business

The Russian Federation's physical infrastructure is generally in poor condition, which could disrupt normal business activity. The Russian Federation's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past decades. Particularly affected are pipeline, rail and road networks, power generation and transmission, and communication systems. Furthermore, electricity and heating shortages in some regions of the Russian Federation have seriously disrupted local economies.

The Russian 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 implemented. 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 Russian Government is actively considering plans to reorganise the Russian Federation's rail and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The continued deterioration of the Russian Federation'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 interrupt business operations, any of which could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Exchange rates, exchange controls and repatriation restrictions could adversely affect the value of investments in the Russian Federation

While the Rouble appreciated against the U.S. dollar in real terms each year between 2001 and 2007, it experienced significant depreciation against the U.S. dollar in 2008 and in the beginning of 2009, largely as a result of the global economic crisis and the significant fall in prices of oil, gas and other key commodities that are principal generators of the Russian Federation's export earnings. The Rouble to U.S. dollar exchange rate has fluctuated significantly since autumn 2008, ranging from 23.13 per U.S.\$ 1.00 as at 16 July 2008 to 36.43 per U.S.\$ 1.00 as at 19 February 2009 and to 29.09 per U.S.\$ 1.00 as at 23 October 2009 and 29.50 per U.S.\$ 1.00 as at 1 April 2010.

The ability of the Russian Government and the CBR to prevent further fluctuation 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 and other factors outside their control. Further fluctuation of the Rouble against the U.S. dollar and other major currencies could negatively affect the Group in a number of ways, including, among other things, by increasing the actual cost to the Group of financing its foreign currency denominated liabilities and by making it more difficult for Russian borrowers to service their foreign currency denominated loans.

The Rouble remains difficult to convert outside the Russian Federation. From August 2008 through February 2008, the Russian Federation's foreign currency and gold reserves fell from U.S.\$ 583.0 billion to U.S.\$ 435.8 billion, although they rose again in 2009 and the beginning of 2010. Although the Russian Federation's current foreign currency and gold reserves may be sufficient to sustain the domestic currency market in the short term, there can be no assurance that the currency market will not further deteriorate in the medium or long term due to the lack of foreign currency funding available in the global markets. The lack of growth of the Russian currency market in the medium or long term may adversely affect the Group's business, financial condition and results of operations.

The Russian currency control regime could have an adverse effect on the Group's business

Notwithstanding significant recent liberalisation of the Russian currency control regime, the current Russian currency control laws and regulations still impose a number of limitations on currency operations, including banking transactions. In particular, foreign currency operations between Russian residents are generally prohibited (except for certain specified operations, including transactions between Russian authorised banks listed in the CBR Regulation No. 1425-U of April 28, 2004). Moreover, certain limitations not applicable to the Group apply to the Group's clients, such as the requirement to notify the Russian tax authorities regarding opening of a bank account abroad. These currency control restrictions may restrict the Group's and its clients' operational flexibility, which could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

The Russian taxation system is relatively underdeveloped

The Russian Government is constantly reforming the tax system by redrafting the Russian Tax Code; these changes have resulted in some improvement in the tax climate. As of 1 January 2009 the corporate profits tax rate was reduced to 20 per cent. For individuals who are tax residents in the Russian Federation the current personal income tax rate is 13 per cent. The general rate of value added tax ("**VAT**") is 18 per cent.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. For example, under certain circumstances, the current three-year statute of limitations for the assessment of taxes pursuant to a tax audit can be significantly extended. In accordance with the Constitution of the Russian Federation, laws that introduce new taxes or worsen a taxpayer's position cannot be applied retroactively. Nonetheless, there have been several instances when such laws have been introduced and applied retroactively.

Despite the Russian Government having taken steps to reduce the overall tax burden in recent years in line with its objectives, there is a likelihood that the Russian Federation will impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on each or any of the Group's business, financial condition, results of operations or prospects. Additionally, taxes have been utilised as a tool for significant state intervention in certain key industries.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. These uncertainties could expose the Group to significant fines and penalties and potentially severe enforcement measures despite the Group's best efforts at compliance, result in a greater than expected tax burden, and have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

In October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation (the "**Supreme Arbitration Court**") issued a ruling concerning judicial practice with respect to unjustified tax benefits. In this context, a tax benefit means a reduction in the amount of a tax liability resulting, in particular, from a reduction of the tax base, the receipt of a tax deduction or tax concession or the application of a lower tax rate, and the receipt of a right to a refund (offset) or reimbursement of tax. The ruling provides that where the true economic intent of operations is inconsistent with the manner in which they have been taken into account for tax purposes a tax benefit may be deemed to be unjustified. The same conclusion may apply when an operation lacks a reasonable economic or business rationale. As a result, a tax benefit cannot be regarded as a business objective in its own right. On the other hand, the fact that the same economic result might have been obtained with a lesser tax benefit accruing to the taxpayer does not constitute grounds for declaring a tax benefit to be unsubstantiated. Moreover, there are no rules and little practice for distinguishing between lawful tax optimisation and tax avoidance. The tax authorities have actively sought to apply this concept when challenging tax positions taken by taxpayers in court, and are anticipated to expand this trend in the future. Although the intention of this ruling 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 Arbitration Court.

Furthermore, Ruling No. 64 of the Plenum of the Supreme Court of the Russian Federation Supreme (the "**Supreme Court**") "Concerning the Practical Application by Courts of Criminal Legislation Concerning Liability for Tax Crimes" dated 28 December 2006 is indicative of the trend to broaden application of criminal liability for tax violations.

Generally, taxpayers are subject to tax audits for a period of three calendar years immediately preceding the year in which the audit commences. The tax authorities are prohibited from carrying out repeat on-site tax audits in respect of the same taxes for a tax period which has

already been audited (exceptions include where such audit is carried out in connection with the restructuring/liquidation of a taxpayer, or as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable, or by a higher-level tax authority for the purpose of checking the activities of lower-level tax authorities). However, on 17 March 2009, the Constitutional Court of the Russian Federation issued a decision that precludes the Russian tax authorities from issuing a decision in the course of a subsequent tax audit for the same tax period as an initial audit if a court decision in respect of a tax dispute resulting from the initial tax audit has not been revised or discharged. However, currently, it is unclear how this decision will be applied and followed in practice by the Russian tax authorities.

The statute of limitations for the commission of a civil (not criminal) tax offence is also limited to three years from the date on which it was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence). Nevertheless, based on current judicial interpretation, there may be cases where the statute of limitations may be extended beyond three years.

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

Russian law does not provide for the possibility of group relief or fiscal unity. Consequently, the financial results of any Russian companies belonging to the Group are not consolidated for tax purposes (that is, no offset of profits of one entity against losses of another entity in the Group is possible). The Russian Government in its Main Directions of Russian Tax Policy for 2010-2012 has proposed the introduction of consolidated tax reporting to enable the consolidation of the financial results of Russian taxpayers which are part of one group for corporate income tax purposes. At this stage, it is impossible to predict whether, when or how such consolidated tax reporting principles will be enacted.

The above 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 impose additional burdens and costs on the Group's operations, including management resources. Further, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing the Group to significant fines, penalties and enforcement measures, and could materially adversely affect the Group's business, results of operations or financial condition.

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may result in the Group's prices being challenged by Russian tax authorities

Transfer pricing legislation became effective in the Russian Federation on January 1, 1999. This legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs 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). Transfer pricing adjustments are also applicable to the trading of securities and derivatives. There has been no formal guidance (although some court practice is available) as to how these rules should be applied. Moreover, the State Duma of the Russian Federation is in the process of considering and adopting proposed amendments to the transfer pricing legislation, which may come into force as early as 2011. Such amendments, if adopted, are expected to result in stricter transfer pricing rules. 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 the Group's business, financial condition or results of operations.

Russian tax legislation is consistently becoming more sophisticated. It is possible that new additional revenue raising measures might be introduced. Although it is unclear how any new measures would operate, the introduction of such measures may affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable. The Group cannot offer prospective investors any assurance that additional tax exposures will not arise. Additional tax exposures could have a material adverse effect on the Group's business, financial condition or results of operations.

Weaknesses relating to the Russian legal system and Russian legislation could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and could prevent the Group from obtaining effective redress in court proceedings

The Russian legal framework applicable to a market economy is still under development. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution, the Civil Code, 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. These legal norms, at times, overlap or contradict one another. Several fundamental Russian laws have only recently become effective. The recent nature of much of Russian law and the rapid evolution of the Russian legal system places the enforceability and underlying constitutionality of laws in doubt and results in ambiguities, inconsistencies and anomalies. In addition, Russian law may be considered to leave gaps in the regulatory infrastructure.

Among the risks of the current Russian legal system are:

- (a) inconsistencies among federal laws, decrees, orders and regulations issued by the President, the Russian Government, federal ministries and regulatory authorities and regional and local laws, rules and regulations;
- (b) limited judicial and administrative guidance on interpretations of Russian law;
- (c) the relative inexperience of certain judges in interpreting new principles of Russian law, particularly business and corporate law;
- (d) the possibility that certain judges may be susceptible to economic, political or nationalistic influences;
- (e) a high degree of discretion on the part of governmental authorities; and
- (f) bankruptcy procedures that are still being developed.

All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Additionally, court claims are often used to further political aims. The Group may be subject to these claims and may not be able to receive a fair hearing. Additionally, court judgments are not always enforced or followed by law enforcement agencies. Any failure of the Group to obtain effective redress in court proceedings could have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

Foreign judgments and arbitral awards may not be recognised in the Russian Federation

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in the Russian Federation only if:

- (a) an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country in which the judgment is rendered; and
- (b) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments.

No such federal law has been passed and no such treaty exists between the Russian Federation and most Western jurisdictions for the reciprocal enforcement of foreign court judgments. Thus, enforcement of court judgments against the Group in the Russian Federation may be impossible. The Russian Federation is a party to the New York Convention. However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the lack of experience of Russian courts in international commercial transactions and their limited experience in the enforcement of foreign arbitral awards. The possible need to re-litigate in the Russian Federation a judgment obtained in a foreign court or an arbitral award not so recognised on the merits may significantly delay the enforcement of such judgment. See "*Limitation on Enforcement of Civil Liabilities*".

Developing securities laws and regulations in the Russian Federation may limit the Group's ability to attract future investment and could subject the Group to fines or other enforcement measures despite its best efforts at compliance, which could cause the Group's financial results to suffer and harm its business

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in the Russian Federation than in the United States and Western Europe. Disclosure and reporting requirements, antifraud safeguards, insider trading restrictions and fiduciary duties are relatively new to the Russian Federation and are unfamiliar to most Russian companies and managers. In addition, Russian securities rules and regulations can change rapidly, which may adversely affect the Group's ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian corporate entities in other areas impose obligations not found in other markets and result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether certain regulations, decisions and letters issued by the various regulatory authorities apply to the Group. The Group may be subject to fines or other enforcement measures despite the Group's best efforts at compliance, which could cause its financial results to suffer and harm its business.

Shareholder rights provisions under Russian law may impose additional costs on the Group, which could cause the Group's financial results to suffer

Under Russian law, the Group's shareholders who vote against or abstain from voting on some decisions have the right to sell their shares to the Group at market value. The obligation of the Group to purchase shares in these circumstances, which is limited to 10 per cent. of the Bank and the Group members' net assets calculated at the time the decision is taken according to RAS, could have an adverse effect on the Group's cash flow and the Group's ability to service its indebtedness. The decisions that trigger this right to sell shares include:

- (a) a reorganisation;
- (b) the approval by shareholders of a transaction involving property worth more than 50 per cent. of the gross book value of the each Group entity's assets calculated according to RAS, regardless of whether the transaction is actually consummated; and
- (c) an amendment of the each Group entity's charter in a manner that limits shareholder rights.

The Joint Stock Companies Law provides that shareholders who vote against or abstain from voting on a decision to place shares or convertible securities through a closed subscription (or private placement) have a pre-emptive right to acquire additional shares or convertible securities *pro rata* to the number of shares they own. This requirement may lead to further delays in completing offerings of equity and convertible debt securities and may lead to uncertainty with respect to sales of newly issued shares to strategic investors and affect the Group's ability to raise funds in the equity capital markets in the future.

Selective, unlawful or arbitrary action by the regulatory authorities may have a material adverse effect on the Group's business

State authorities have a high degree of discretion in the Russian Federation and at times exercise their discretion arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law. Moreover, the state also has the power in certain circumstances, by regulation or act, to interfere with the performance of, nullify or terminate contracts. Unlawful or arbitrary actions have included unscheduled inspections by regulators, suspension or withdrawal of licences and permissions, unexpected tax audits, criminal prosecutions and civil actions.

In the past, Russian authorities have prosecuted some Russian companies, their senior managers and their shareholders on tax evasion and related charges, in some cases for allegedly political reasons. Federal and local government entities 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. Such state action, if directed at the Group, could have a material adverse effect on its business, financial condition, results of operations or prospects.

Expropriation or nationalisation

The Russian Government has enacted legislation to protect property against expropriation and nationalisation. Furthermore, in the event that the Group's property is expropriated or nationalised, legislation provides for fair compensation to be paid to the Group. However, there can be no certainty that such protections will be enforced. This uncertainty is due to several factors, including the lack of an independent judicial system and of sufficient mechanisms to enforce judgments, and corruption among Russian Government officials.

The concept of property rights is not well developed in the Russian Federation and there is limited experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, the Group 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 the Group's assets. The expropriation or nationalisation of any of the Group's or its subsidiaries' assets without fair compensation may have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Information that the Group has obtained from the Russian Government and other sources may be unreliable

The Group has extracted substantially all of the information contained in this Base Prospectus concerning the Russian banking market and its competitors, which may include estimates or approximations, from publicly available information, including press releases and public filings made under various securities laws. The Group has relied on the accuracy of such information without carrying out any independent verification. In addition, some of the information contained in this Base Prospectus has been extracted from official data published by Russian Government agencies and the CBR. The official data published by the Russian Government may be less complete and less reliable than similar data in the United States and Western Europe. Official statistics may also be compiled on a different basis than that used in Western countries. When

reading this Base Prospectus, prospective investors should be aware that the Russian data and statistics that the Group has included could be incomplete or inaccurate.

Risks Related to the Notes

Credit Rating

As at the date of this Base Prospectus, outstanding Eurobonds of the Russian Federation are rated "Baa1" (outlook "stable") by Moody's Investor Services Inc., "BBB+" (outlook "stable") by Standard & Poor's and "BBB" (outlook "stable") by Fitch, Inc. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. The Bank has a long-term rating of "B3" (outlook "stable") assigned by Moody's Investors Service, Inc. Any change in the credit rating of the Bank or of the Russian Federation could adversely affect the trading price for the relevant Notes. See "*Risks Related to the Russian Federation*" above. A change in the credit rating of one or more corporate Russian borrowers could also adversely affect the trading price for the relevant Notes.

Limited Recourse Obligations of the Issuer

The Issuer has an obligation under the Terms and Conditions of the Notes and each Trust Deed to pay such amounts of principal and interest, and additional amounts (if any) as are due in respect of the relevant Notes. However, the Issuer's obligation to pay is equal to the amount of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer from the Bank pursuant to the relevant Loan Agreement less any amount in respect of Reserved Rights. Consequently, if the Bank fails to meet its payment obligations under such Loan Agreement in full, this will result in the Noteholders receiving less than the scheduled amount of principal and/or interest and/or other amounts (if any) payable on the relevant Notes.

There is no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the relevant Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Bank. Although application has been made to the Irish Stock Exchange for the Notes issued under the Programme to be admitted to the official list and trading on its regulated market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the relevant Notes.

The Notes may be redeemed prior to maturity

In the event that the Bank would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Russian Federation or any political subdivision thereof or any authority therein or thereof having power to tax, the Bank may redeem all outstanding Notes in accordance with the Conditions.

The Notes will be represented by the Global Note except in certain limited circumstances described in the Global Note. The Global Note will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Note, investors will not be entitled to receive Definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Note. While the Notes are represented by the Global Note, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg. The Bank will discharge its payment obligations under the Notes by making payments to the common

depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note.

Holders of beneficial interests in the Global Note will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Note will not have a direct right under the Global Note to take enforcement action against the Bank in the event of a default under the Notes but will have to rely upon their rights under the Bank's covenant to pay under the relevant Loan Agreement.

The risk of prepayment of the Senior Loan is assumed in part by the Noteholders

Under the terms of the Senior Facility Agreement, the Bank may, subject to certain conditions, prepay the Senior Loan if it is required to increase its payments for tax reasons regardless of whether the increased payment obligations result from any change in the 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 corresponding Notes. The Bank may also prepay the Senior Loan if it is required to indemnify the Issuer (as Lender) in respect of certain increased costs to the Issuer (as set out in the Senior Facility Agreement). In the event that it becomes unlawful for the Issuer to allow the Senior Loan to remain outstanding under the Senior Facility Agreement, to allow the corresponding Notes to remain outstanding, to maintain or give effect to any of its obligations under the Senior Facility Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Senior Loan, the Issuer may require the Bank to repay the Senior Loan in full. In case of any such prepayment, all outstanding corresponding Notes would be redeemable at par with accrued interest and/or additional amounts payable (if any).

Until the Subordinated Loan ceases to qualify as Additional Capital (as defined in the Subordinated Facility Agreement), the Issuer shall have no right to accelerate payments under the Subordinated Facility Agreement in the case of a default in payments of principal, interest or other amounts due under the Subordinated Facility Agreement or for breaches of representations or covenants.

Any Notes issued to finance Subordinated Loans may be redeemed prior to their scheduled maturity due to uncertainties surrounding Russian Regulatory Capital Regulations

With respect to regulatory capital for banks and subordinated loans in particular, the concept of subordinated debt is relatively new in Russia, and the rules governing subordinated debt may be subject to further review, clarification and development. In particular, the regulatory capital regulations of the Central Bank of Russia (the "**CBR**") are currently rudimentary as compared with regulatory capital legislation enacted in other jurisdictions, which could lead to uncertainty and a lack of clarity in the interpretation and application of such regulations.

Under the Regulation No. 215-P "On the Methodology of Calculation of Net Worth (Capital) of Credit Organisations" of 10 February 2003 ("**Regulation 215-P**"), the Bank will be required to submit a draft of any Subordinated Loan Agreement to the CBR for review. To obtain an approval from the CBR, the Bank is required, among other things, to submit to the CBR a copy of each executed Subordinated Facility Agreement. An approval does not have the effect of law, and as such it may, at any time, be revised, revoked and/or disapproved. As at the date of this Base Prospectus, the Subordinated Facility Agreement (as set out in the section entitled "The Subordinated Facility Agreement" elsewhere in this Base Prospectus) has been reviewed and approved by the CBR.

There is a risk either that the interpretation of such capital treatment could change or that the regulatory capital rules could subsequently be amended or clarified. As a result, the Bank could lose the regulatory capital treatment granted to a Subordinated Facility Agreement and, therefore, exercise the right (described below) to prepay the relevant Subordinated Loan, which would result in the early repayment of the corresponding Notes issued to finance such Subordinated Loan.

Clause 5.2 of each Subordinated Facility Agreement provides that except as otherwise provided in the applicable Subordinated Loan Supplement, the Bank shall be entitled to prepay the relevant Subordinated Loan in whole but not in part, plus accrued and unpaid interest at par if, as a result of any amendment to, clarification of or change in (including a change in interpretation or application of) the Additional Capital Regulation (as defined in the Subordinated Facility Agreement) or other applicable requirements of the CBR such Subordinated Loan would cease to qualify as Additional Capital (as defined in the Subordinated Facility Agreement). If a Subordinated Loan is prepaid pursuant to this provision, the corresponding Notes will become due and repayable at the appropriate proportion of their principal amount plus accrued and unpaid interest on such proportion of the principal amount.

Prepayment of any Subordinated Loan may require the CBR'S consent

Certain of the provisions of each Subordinated Facility Agreement providing for the repayment of the relevant Subordinated Loan are subject to the consent of CBR. There can be no guarantee that the CBR will render such consent even if the relevant Subordinated Loan would otherwise be subject to prepayment pursuant to such provisions and, consequently, that the Bank will be able to prepay at the due time.

Russian withholding tax

In general, interest or other income payments on borrowed funds made by a Russian entity to a non-resident are subject to Russian withholding tax at a rate of 20 per cent. for legal entities and 30 per cent. for individuals, unless they are reduced or eliminated pursuant to the terms of an applicable tax treaty. If payments under the relevant Loan Agreement are subject to any withholding, the Bank is obliged to increase the amounts payable as may be necessary to ensure that the Noteholders receive a net amount that will not be less than the amount they would have received in the absence of such withholding. In addition, payments by the Issuer in respect of Notes issued by it will, except in certain limited circumstances, be made without deduction or withholding for or on account of Cypriot taxes, except as required by law and if payments under the relevant Notes are subject to any withholding (subject as provided in the relevant Notes), the Issuer will pay additional amounts. If the Issuer fails or is unable to make the required payment of additional amounts, the Bank will be obliged to increase the amounts payable so as to enable the Noteholders to receive a net amount not less than the gross amount that would have been payable in the absence of the withholding.

Under the Russian Tax Code, each person must pay taxes established by law individually, whereas grossing-up provisions (whether in relation to Russian taxes which may be required to be withheld by the Bank or Cypriot taxes which may be required to be withheld by the Issuer) can be interpreted as requiring the Bank to pay the tax liabilities of the Issuer and the Noteholders. Accordingly, there is some doubt as to whether the gross-up arrangements the Bank intends to enter into under the Loan Agreements are enforceable under Russian law.

It is currently unclear whether the provisions obliging the Bank to gross-up payments under the Loan Agreements will be enforceable in Russia. If a Russian court does not rule in favour of the Noteholders, there is a risk that gross-up for withholding tax will not take place and that payments, in respect of interest, made by the Bank under the relevant Loan Agreement will be reduced by a rate of 20 per cent. for legal entities and 30 per cent. for individuals.

Impact on Noteholders if the Issuer ceases to be a Qualifying Lender

Under the terms of the Loan Agreements, if the Issuer ceases to be a lender which is resident in a jurisdiction which has a double tax treaty with Russia under which the payment of interest by Russian borrowers is generally able to be made without deduction or withholding of Russian income tax (upon completion of any necessary formalities required in relation thereto) (a "**Qualifying Lender**"), then (save in certain circumstances) the Bank will not be liable to pay additional amounts to the Issuer which exceed the sum it could have been obliged to pay if it had obtained the benefit provided by such double tax treaty (through the Issuer remaining a Qualifying Lender). If the Issuer ceases to be a Qualifying Lender in the circumstances envisaged in the relevant Loan Agreement, the amount of any payment made to the Issuer by the Bank which is subject to Russian withholding tax will be paid to the Noteholders by the Issuer and such amount will not be increased by any additional amounts payable on account of tax.

The Noteholders have no direct recourse to the Bank

Save as otherwise expressly provided in the Terms and Conditions of the Notes and in each Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the relevant Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of each Trust Deed, no Noteholder will have any entitlement to enforce any provision of the Loan Agreement or have direct recourse against the Bank except through action by the Trustee pursuant to the Security Interests (as defined in the Terms and Conditions of the Notes) granted to the Trustee in each Trust Deed. Under the Trust Deeds, the Trustee shall not be required to take proceedings to enforce payment under the Loan Agreements unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

In addition, under the Terms and Conditions of the Notes, Noteholders will be deemed to have accepted that:

- (i) neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or liability, or, save as otherwise expressly provided in the Trust Deeds or in paragraph (vi) below, obligation in respect of the performance and observance by the Bank of its obligations under the relevant Loan Agreement or the recoverability of any sum of principal, interest or additional amounts (if any) due or to become due from the Bank under such Loan Agreement;
- (ii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of the Bank;
- (iii) neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Bank under or in respect of a Loan Agreement;
- (iv) 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, the Paying Agent, the Registrar or the Transfer Agent of their respective obligations under the Paying Agency Agreement;
- (v) the financial servicing and performance of the terms of the relevant Notes depend solely and exclusively upon performance by the Bank of its obligations under the corresponding Loan Agreements and its covenants, credit and financial standing. The Bank has represented and warranted to the Issuer in the Loan Agreements that the Loan Agreements constitute legal, valid and binding obligations of the Bank; and

- (vi) the Issuer and the Trustee shall be entitled to rely on self-certification from the Bank as a means of monitoring whether the Bank is complying with its respective obligations under a Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Bank's performance in relation thereto and, subject as further provided in the relevant Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is subject of a loan administration assignment and held by way of security for the relevant 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 assigned property 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 created by the Security Interests (as defined in the Trust Deed) whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such Security; the Trustee has no responsibility whatsoever for the value of such security.

Disposals of the Notes in the Russian Federation

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 relevant 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. 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 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. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the relevant Notes.

USE OF PROCEEDS

The net proceeds from each issue will be on lent by the Issuer to the Bank for its working capital and generate corporate purposes, unless otherwise specified in the relevant Pricing Supplement or Final Terms.

DIVIDEND POLICY

The procedure for determining the dividends that the Bank may distribute to its shareholders is set forth in the Joint Stock Companies Law and the Bank's charter. According to its charter, the Bank may distribute dividends based on its three-month, six-month, nine-month and/or annual results prepared in accordance with RAS. See *"Description of Share Capital and Certain Requirements of Russian Legislation—Dividends and Dividend Rights"*

The Bank decided not to pay dividends to its shareholders for the years ended 31 December 2009, 31 December 2008 and 31 December 2007.

The Bank does not have a formal policy for the payment of dividends. The amount of dividends to be declared in any fiscal year and paid is decided at the Bank's General Shareholders' Meeting on the recommendation of the Bank's Board of Directors based on the Bank's net profit for the relevant period determined in accordance with RAS on a stand-alone basis.

The ability of the Bank to pay dividends is restricted by:

- (a) the terms of a shareholders' agreement (the **"Shareholders' Agreement"**) that was entered into on 1 November 2006 between: (i) the Bank; (ii) LLC "Alivikt" and LLC "Rodina" as the Bank's original shareholders; and (iii) the Institutional Investors (defined below); and
- (b) certain of the Bank's third-party borrowing arrangements.

CAPITALISATION OF THE GROUP

The following table sets forth the Group's capitalisation and indebtedness as at 31 December 2009. For further information regarding the Group's financial condition see "*Selected Statistical and Other Information*" and the Group's Financial Statements included elsewhere in this Base Prospectus.

	As at 31 December 2009
	RUB (thousands)
Long-term debt⁽¹⁾	
Senior long-term debt	17,526,797
Subordinated long-term debt	1,707,854
Total long-term debt	<u>19,234,651</u>
Equity⁽²⁾	
Share capital	4,417,399
Share premium	1,237,031
Revaluation surplus for property and equipment	739,015
Revaluation reserve for available-for-sale securities	(6,966)
Additional paid-in capital	611,241
Retained earnings (accumulated losses)	1,736,721
Total equity attributable to equity holders of the Bank	<u>8,734,441</u>
Minority interest	28,279
Total equity	<u>8,762,720</u>
Total capitalisation	<u>27,997,371</u>

(1) Includes long-term financing net of accrued interest (with remaining contractual maturities of over one year) incurred in the ordinary course of the Group's banking business.

(2) Comprising 438,329 ordinary shares issued and outstanding as of December 31, 2009.

SELECTED STATISTICAL AND OTHER INFORMATION

The following information should be read in conjunction with the Group's Financial Statements included elsewhere in this Base Prospectus.

Average Balance Sheet and Interest Rate Data

The table below presents the average balances (based on opening and closing balances) of the Group's interest-earning assets and interest-bearing liabilities together with the related interest income and expense amounts, resulting in the presentation of the average yields and rates for the years ended 31 December 2009, 2008 and 2007.

	2009			2008			2007		
	Average Balance RUR'000	Income / Expense RUR'000	Average Interest Rate %	Average Balance RUR'000	Income / Expense RUR'000	Average Interest Rate %	Average Balance RUR'000	Income / Expense RUR'000	Average Interest Rate %
Assets									
Interest earning									
Loans to customers	49,440,173	12,898,946	26.1	43,121,413	10,566,758	24.5	30,740,178	6,711,796	21.8
Amounts receivable under reverse repurchase agreements	3,757,066	374,641	10.0	1,674,201	199,898	11.9	706,608	131,245	18.6
Financial instruments at fair value through profit or loss	4,153,603	313,415	7.5	1,938,882	83,132	4.3	2,445,708	133,938	5.5
Placements with banks and other financial institutions	8,360,503	155,517	1.9	5,780,458	198,711	3.4	3,400,200	147,540	4.3
Available-for-sale securities	822,222	85,534	10.4	637,987	42,176	6.6	20,211	0	0.0
Total interest earning assets	66,533,566	13,828,053	20.8	53,152,941	11,090,675	20.9	37,314,904	7,124,519	19.1
Non-interest earning assets									
Cash and cash equivalents	12,157,248			11,091,334			7,228,438		
Provisions for loan and other impairment	(6,469,275)			(3,002,943)			(1,473,248)		
Property, equipment and intangible assets	4,912,021			4,715,637			3,300,887		
Other assets	3,850,285			1,624,454			707,224		
Total average assets	81,193,154			67,581,423			47,064,293		
Liabilities and Equity									
Customer accounts	47,623,129	4,323,412	9.1	35,478,220	2,949,652	8.3	24,998,838	1,578,449	6.3

Other borrowed funds	8,928,147	1,181,391	13.2	5,950,368	216,247	3.6	2,403,333	199,537	8.3
Debt securities issued	5,820,196	560,349	9.6	9,741,041	972,052	10.0	9,301,979	916,676	9.9
Deposits and balances from banks and other financial institutions	5,394,809	381,233	7.1	5,216,778	313,006	6.0	1,576,611	296,837	18.8
Subordinated debts	2,163,665	210,947	9.7	1,808,848	161,936	9.0	954,122	126,689	13.3
Amounts payable under repurchase agreements	1,274,325	167,987	13.2	873,202	77,642	8.9	202,186	39,948	19.8
Total interest bearing liabilities	71,204,270	6,825,319	9.6	59,068,455	4,690,535	7.9	39,437,068	3,158,136	8.0
Other liabilities	1,680,632			1,174,752			903,382		
Total equity	8,098,943			7,338,216			6,723,844		
Total average liabilities and equity	81,193,154			67,581,423			47,064,293		
Net interest spread			11.2			12.9			11.1
Net interest income			7,002,734			6,400,140			3,966,383
Net interest margin			10.5			12.0			10.6

Sector Analysis

The following table sets forth the structure of the Group's loans to customers by economic sector, as at 31 December 2009, 2008 and 2007.

Sector	As at 31 December					
	2009		2008		2007	
	RUR'000	(% of total)	RUR'000	(% of total)	RUR'000	(% of total)
Individuals	25,673,921	50.2	25,477,971	53.3	19,467,749	50.6
Trade	10,136,401	19.8	7,899,205	16.5	10,187,891	26.5
Manufacturing	3,625,345	7.1	3,594,029	7.5	1,870,473	4.9
Construction	2,830,667	5.5	2,078,368	4.4	2,512,162	6.5
Leasing	3,896,952	7.6	2,121,168	4.4	1,101,642	2.9
Agriculture	133,025	0.3	195,731	0.4	472,559	1.2
Heavy industry	64,831	0.1	38,606	0.1	117,663	0.3
State authorities	-	-	9,912	0.0	-	-
Transport and communication	-	-	-	-	717,158	1.9
Other	4,769,344	9.3	6,334,869	13.3	2,045,670	5.3

As at 31 December

	2009		2008		2007	
Total gross loans to customers	51,130,486	100.00	47,749,859	100.0	38,492,967	100.0
Impairment allowance	(8,608,302)	16.8	(4,238,545)	8.7	(1,765,374)	4.6
Total net loans to customers	42,522,184	-	44,601,994	-	36,727,593	-

Collateral

The following table provides the analysis of corporate and retail loan portfolios by types of collateral as at 31 December 2009, 2008 and 2007.

	2009 % of loan Portfolio	2008 % of loan Portfolio	2007 % of loan Portfolio
Real estate	12.73	12.10	10.04
Guarantees	10.41	10.89	5.71
Motor vehicles	5.29	6.01	15.15
Other collateral	4.98	5.43	15.88
Traded securities	1.80	0.61	2.46
No collateral	64.79	64.96	50.76
Total	100.00	100.00	100.00

OPERATING AND FINANCIAL REVIEW

Investors should read the following discussion and analysis of the Group's financial condition and results of operations as at 31 December 2009, 31 December 2008 and 31 December 2007 in conjunction with the Group's Financial Statements as set out in this Base Prospectus. Investors should read the entire Group's Financial Statements, and not just rely on the information contained in this section.

This discussion includes forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements". Actual results could differ materially from those anticipated in such forward-looking statements as a result of a variety of factors, including the risks discussed in "Risk Factors" elsewhere in this Base Prospectus.

Overview

Principal activities

The Group provides a wide range of banking services including corporate, SME and retail lending and consumer finance, deposit, payment and account services, trade and project financing, factoring, guarantees and letters of credit and other ancillary services to corporate, SME and retail clients.

The Group's consolidated profit for the year ended 31 December 2009 decreased by 16.0 per cent. to RUB 145.4 million from RUB 173.1 million for the year ended 31 December 2008 which was itself a decrease of 68.1 per cent. from RUB 542.5 million for the year ended 31 December 2007 for the reasons described below.

Factors Affecting the Group's Results of Operations and Financial Condition

The Russian Federation's economic condition

As at 31 December 2009, over 90 per cent. of the Group's assets are located in, or have businesses related to, the Russian Federation. As a result, the Group is substantially affected by Russian economic conditions.

Until 2008, the Russian Federation had experienced several consecutive years of increasing domestic demand and market prices for key export commodities, particularly oil and gas and metals, which led to sustained economic growth and an increase in foreign currency reserves. The global economic crisis had a significant adverse effect on the Russian economy, beginning in the third quarter of 2008. As of December 2009 as compared to December 2008, industrial production had decreased by 10.8 per cent., exports had decreased by 35.5 per cent., and the number of officially registered unemployed individuals increased by 31.7 per cent. The stability of the Rouble has also been affected by the global economic crisis.

Since the global economic crisis hit the Russian Federation, the Russian Ministry of Finance and the CBR have announced and implemented a wide range of measures aimed at providing liquidity and promoting stability in the Russian economy as a whole and, in particular, in the Russian banking sector. These measures, include the temporarily suspension of stock and currency trading in the Russian Federation and the reduction of mandatory reserves for banks and credit institutions to support the liquidity and solvency of Russian banks and to increase the availability of credit to businesses, in order to restore investor confidence and support the medium-term economic growth of the Russian economy. For a description of these measures, see "Overview of the Banking Sector and Banking Regulation in the Russian Federation—Measures to support the liquidity of the Russian banking system." In the second half of 2008, the Russian Government took steps to purchase shares on the equity market and allocated funds to refinance foreign loans of large Russian enterprises and banks maturing in 2009.

While in April 2009, the Russian Minister of Finance warned of the possible second wave of the financial and economic crisis in the Russian Federation that could significantly affect Russian banks, in April 2010 Sergei Ignatiev, Chairman of the CBR pointed to a degree of stabilisation in the Russian banking sector, supported by the availability of liquidity and the slow-down in the growth of non-performing loans. As at April 2010, the percentage of overdue loans of 5.1 per cent. is lower than the CBR predictions of 7.0 per cent. at the end of 2009. During 2009, the CBR gradually increased mandatory reserve requirements for banks and credit institutions reflecting the improving stability in the Russian banking sector as a whole.

Impact of international financial markets

The recent negative conditions in the international financial markets have increased pressures on economies worldwide. The global economic crisis has led to, among other things, the contraction of the international and domestic capital markets, lower liquidity levels across the Russian banking sector and significant volatility in the domestic and foreign equity markets. The uncertainties in the global economy have also led to bank failures and bank rescues in the United States of America, Western Europe, the Russian Federation and other countries. See "*Risk Factors—Risks Related to the Group's Business and Industry—Turmoil in global credit markets has already adversely affected, and may continue to adversely affect, the Russian economy, the Russian banking industry in general and the Group in particular.*"

While the majority of the Group's assets and customers are in the Russian Federation, the Group is also impacted by the international financial markets. The global economic crisis resulted in significantly higher lending rates and had an impact on the Group's funding costs and its mix of funding. In addition, the decrease in liquidity both in the Russian Federation and globally has had a negative impact on the Group's ability to borrow funds from the capital markets at competitive or reasonable rates. The Group has repaid, purchased and cancelled a substantial proportion of its loan participation notes and substituted this funding source with an increased proportion of customer (particularly retail) deposits. Global market conditions and increased trading volatility have also had an impact on the Group's securities portfolio. See "*Fluctuations in the value of financial assets*" below. Certain borrowers and debtors of the Group have also been affected by the global economic crisis, which has in turn impacted their ability to meet their financial obligations to the Group. To the extent that information is available, the Group's management has adequately reflected revised estimates of expected future cash flows in their impairment assessments.

Interest rate environment and funding

Fluctuations in interest rates affect the Group's operations. For the years ended 31 December 2009, 2008 and 2007 (the "**periods under review**"), movements in short- and long-term interest rates have affected both the Group's interest income and interest expense, as well as the Group's level of gains and losses on its securities portfolio. For the periods under review, the Group generated a substantial majority of its interest income from loans to customers. The Group's interest income from loans to customers was 93.3 per cent. of the Group's total interest income for the year ended 31 December 2009 compared to 95.3 per cent. and 94.2 per cent. for the years ended 31 December 2008 and 31 December 2007, respectively. For the periods under review, the Group incurred the substantial majority of its interest expense from customer accounts. The Group's interest expense from customer accounts was 63.3 per cent. of the Group's total interest expense for the year ended 31 December 2009, compared to 62.9 and 50.0 per cent. for the years ended 31 December 2008 and 31 December 2007, respectively.

The average annual interest rate on loans to customers increased from 21.8 per cent. in 2007 to 24.5 per cent. in 2008, and increased to 26.1 per cent. in the year ended 31 December 2009, with the change reflecting the larger proportion of retail loans in its loan portfolio, which generally have higher interest rates than corporate loans, together with the higher interest rates charged to customers on the whole during this period. During the same period, average interest rates on

average balances on all interest earning assets increased from 19.1 per cent. in 2007 to 20.9 per cent. in 2008 and decreased to 20.8 per cent. in 2009.

The average interest rate paid by the Group on customer accounts, which constituted the principal source of interest expense for the Group, increased from 6.3 per cent. in 2007 to 8.3 per cent. in 2008, and rose to 9.1 per cent. in 2009. This change resulted primarily from the fact that the Group deliberately increased interest rates on customer accounts in line with market trends and also reflects the higher proportion of deposits from retail customers in the Group's portfolio, as these deposits generally have higher interest rates than corporate deposits. The average interest rates on all interest bearing liabilities of the Group decreased from 8.0 per cent. in 2007, to 7.9 per cent. in 2008, and increased to 9.6 per cent. in 2009.

Interest rates can be affected by factors such as rates set by the CBR, inflation, competition among banks and general macroeconomic conditions. The Group's Net Interest Spread decreased to 11.2 per cent. for the year ended 31 December 2009 from 12.9 per cent. for the year ended 31 December 2008. This decline reflects the increase in the Group's corporate deposits as a source of funding during this time and the relatively slower growth in its loan portfolio as a result of its conservative lending policy in the context of the global economic crisis. Rather than lending on terms that did not meet its risk profile, the Group applied its liquidity to lower-yielding assets, such as financial instruments at fair value through profit or loss, which is reflected in the decline in its Net Interest Spread during this time. The Group's Net Interest Spread in for the year ended 31 December 2007 was 11.1 per cent.

Provisions for impairment

Provision for impairment represents provisions made for loans to customers, including legal entities and individuals, placements with banks and other financial institutions, available-for-sale securities, property and equipment and intangible assets, and financial guarantees and other loans.

In accordance with Federal Law No. 395-I "On Banks and Banking Activity" dated 2 December 1990, as amended, and CBR Instruction 110-I "On Mandatory Requirements for Banks" dated 16 January 2004, the Bank is required to publish certain RAS accounting reports quarterly, including allowances for impaired loans, which do not contain all of the information contained in the Group's Financial Statements, and are not prepared in accordance with IFRS. The Group's management reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated. All impairment losses are recognised in the consolidated statement of income and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. For a detailed discussion of the Group's policy of recording of the Group's impairment losses, see Note 3 (Significant accounting policies) to the Group's Financial Statements. See also "*Critical Accounting Policies*."

The Group's provision for impairment of loans increased to RUB 8,608.3 million or 16.8 per cent. of the Group's gross loan portfolio as at 31 December 2009, compared with RUB 4,238.5 million, or 8.9 per cent. of the Group's gross loan portfolio, as at 31 December 2008 and RUB 1,765.4 million, or 4.6 per cent. of the Group's gross loan portfolio as at 31 December 2007. The proportion of the Group's gross loan portfolio that was over 90 days overdue as at 31 December 2009 was 18.9 per cent., compared to 8.2 per cent. and 4.3 per cent. as at 31 December 2008 and 2007, respectively, with loans to individuals and SMEs in its portfolio constituting the highest proportion of the overdue loans. The relatively high level of provision for impairment results in part from the Group's approach to writing off loans. Unlike many of its competitors, the Group does not write off loans after they have been overdue for 360 days at which point, many banks

sell their loans to collection agencies at a deep discount. Rather than writing off loans after 360 days, the Group pursues all possible channels to recover overdue loans. This policy means that in aggregate the Group has larger levels of provision for impairment compared to some of its competitors, but the Group believes that its approach is justified on the basis that it will recover a greater proportion of outstanding indebtedness in the long run. Provisions for loans overdue for more than 360 days amounted to RUB 4,760.2 million or 55.3 per cent. of the total provision for impairment of loans.

The Group's charge for provision for impairment for the year ended 31 December 2009 increased by 54.7 per cent. to RUB 5,195.8 million from RUB 3,359.3 million for the year ended 31 December 2008. This increase represents a continuation of a conservative provisioning policy which results from the riskier lending environment during the global economic crisis and also reflects the higher proportion of the Group's overdue loans, which in part reflects the Group's policy of not writing off overdue loans after 360 days (as is the practice of some of its competitors). Instead of writing off loans after 360 days, the Group continues its collection procedures, which it believes in the long run will allow it to recover a greater amount of value than it would otherwise recover by selling the loans to collection agencies at a deep discount and writing them off. The Group's provision for impairment for the year ended 31 December 2008 increased by 330.2 per cent. to RUB 3,359.3 million from provision for impairment of RUB 780.9 million for the year ended 31 December 2007. This increase resulted partly from an increase by 24.0 per cent. of the gross loan portfolio of the Group, but primarily from an increase in provisioning to reflect the riskier lending environment and the greater level of overdue loans in the Group's portfolio. For further information and the levels of provision for impairment for business segments of the Group, see Note 17 (*Loans to customers*) of the Group's Financial Statements.

Fluctuations in the value of financial instruments

As at 31 December 2009, the Group had RUB 7,095.8 million, or 8.5 per cent. of its assets, invested in financial instruments at fair value through profit or loss and available-for-sale securities, as compared to RUB 2,855.8 million or 3.7 per cent., and RUB 2,281.4 million or 4.0 per cent. as at 31 December 2008 and 31 December 2007, respectively. The value of the Group's financial instruments has fluctuated in the past and will fluctuate in future and may have a direct impact on the Group's results of operations and the structure of its balance sheet. During the global economic crisis the Group adopted a more conservative securities trading policy by reducing the proportion of equity securities in its proprietary trading portfolio and focusing on sovereign, semi-sovereign and blue chip bonds. The Group uses its proprietary trading portfolio to manage its liquidity and the proportionate increase in the share of these assets in the Group's overall portfolio as at 31 December 2009 reflects the Group's increased liquidity.

Recent Developments

From 1 January 2010 to the date of this Base Prospectus, several developments have affected the Group's business and operations discussed below.

Changes in the international capital markets

The period from 31 December 2009 has shown an increase in liquidity in the international capital markets, including increases in the issuance of international debt capital market instruments. The change in the international capital markets environment may help Russian debtors (including Russian banks such as the Group) borrow at more attractive interest rates and with instruments that are longer term than the debt instruments (and deposits) currently available. The favourable changes in the international financial markets boosted investor interest in debt instruments of the issuers of the emerging markets, including Russia.

Agreement for an option to purchase a share in development companies

On 6 May 2010 the Group signed an agreement providing for an option to purchase a 100 per cent. share in certain development companies held by "Probusiness Development" ("**Probusiness Development**") (see "*Other Associated Companies*"). The purpose of the acquisition is to enable the Group to realise the commercial development of the underlying construction projects. The consideration for the acquisition was RUB 230.8 million. As a result of the acquisition Probusiness Development and its subsidiaries would be consolidated within the Group as at the date of this Base Prospectus, the Group does not plan to exercise the option in the near future.

Results for the six month period ended 1 July 2010 and the balance sheet as at 1 July 2010

The following discussion and summary results are based on unconsolidated RAS accounting reports for the Bank for the six month period ended 1 July 2010 and the balance sheet as at 1 July 2010. In accordance with the Banking Law, the Bank is required to publish certain RAS accounting reports quarterly, including a balance sheet, income statement and information on its assets, capital reserves and allowances for impaired loans. These reports have not been audited or reviewed by the Bank's external auditors. In addition, these reports are not prepared in accordance with IFRS. Accordingly, the trends reflected below should not be viewed as indicative of the performance or condition of the Bank or Group as reflected in future financial statements produced by the Bank or Group under IFRS. See "*Risk Factors—Risks related to the Group's Business and Industry—The Group's accounting systems may not be as sophisticated as those of companies organised in jurisdictions with a longer history of compliance with international accounting standards and there is less publically available information about the Group than there would be for comparable companies in certain other jurisdictions which may make it more difficult to understand the risks associated with the Group*".

In relation to the Bank's assets, as at 1 July 2010, the amount of net loans had increased compared to the amount of net loans as at 31 December 2009. The Bank's accounts with credit institutions decreased slightly as at 1 July 2010 compared to 31 December 2009. As at 1 July 2010, the Bank's fixed assets decreased as compared to 31 December 2009.

In relation to the Bank's liabilities, as at 1 July 2010, the amount of funds due to other banks had increased compared to the amount of funds due to other banks as at 31 December 2009. Customer accounts and accounts of private individuals increased as at 1 July 2010, compared to 31 December 2009. As at 1 July 2010, shareholders funds decreased slightly, compared to 31 December 2009.

The Bank's profit before tax decreased as at 1 July 2010, compared to 31 December 2009.

Combined Results of Operations for the Years Ended 31 December 2009, 2008 and 2007

The following table sets forth the principal components of the Group's net profit for the periods indicated.

	For the year ended 31 December				
	2009		2008		2007
	RUB'000	Change %	RUB'000	Change %	RUB'000
Interest income	13,828,053	24.7	11,090,675	55.7	7,124,519
Interest expense	(6,825,319)	45.5	(4,690,535)	48.5	(3,158,136)
Net interest income	7,002,734	9.4	6,400,140	61.4	3,966,383

Fee and commission income	1,770,827	62.5	1,090,020	24.8	873,396
Fee and commission expense	(317,615)	65.1	(192,347)	4.8	(183,463)
Net fee and commission income	1,453,212	61.9	897,673	30.1	689,933
Net (loss) / gain on financial instruments at fair value through profit or loss	808,357	N/A	(259,987)	N/A	136,448
Net foreign exchange (loss) / income	1,094,858	N/A	(350,589)	N/A	334,718
Net gain on available-for-sale securities	44,208	(64.0)	122,680	1,140.2	9,892
Other operating income	706,097	202.6	233,344	123.3	104,488
Gain on acquisition of subsidiaries	173,296	(87.5)	1,388,827	-	-
Operating income	11,282,762	33.8	8,432,088	60.9	5,241,862
Impairment losses	(5,195,823)	54.7	(3,359,312)	330.2	(780,882)
Revaluation of investment property	(39,750)	-	-	-	-
General administrative expenses	(5,721,110)	16.5	(4,910,169)	29.7	(3,786,179)
Profit before taxes	326,079	100.5	162,607	75.9	674,801
Income tax (expense)/ benefit	(180,713)	N/A	10,536	N/A	(132,301)
Profit (loss)	145,366	(16.0)	173,143	(68.1)	542,500
Attributable to:					
Equity holders of the Bank	141,936	(19.3)	175,882	(67.4)	539,818
Minority interest	3,430	N/A	(2,739)	N/A	2,682

Net interest income

The amount of net interest income before provisions is affected by a number of factors. It is primarily determined by the volume of, and balances between, interest-earning assets and interest earning liabilities, as well as the difference between interest rates earned on interest earning assets and interest rates paid on interest bearing liabilities. Interest income is made up of income from loans to customers, financial instruments at fair value through profit or loss, amounts receivable under reverse repurchase agreements, available-for-sale securities, and placements with banks and other financial institutions. Interest income is derived primarily from loans to customers, which constituted 93.3 per cent. of interest income for the year ended 31 December 2009. Interest expense is made up of expense from customer accounts, other borrowed funds, debt securities issued, deposits and balances from banks and other financial institutions, subordinated debts and payables under repurchase agreements. Interest expense is derived primarily from customer accounts and other borrowed funds, which constituted 80.6 per cent. of interest expense for the year ended 31 December 2009.

The Group's net interest income before provisions for the year ended 31 December 2009 increased by 9.4 per cent. to RUB 7,002.7 million from RUB 6,400.1 million for the year ended 31 December 2008 and the Group's Net Interest Margin decreased from 12.0 per cent. for the year

ended 31 December 2008 to 10.5 per cent. for the year ended 31 December 2009. The increase in the Group's net interest income reflects the 14.7 per cent. growth in the Group's gross average loan portfolio as at 31 December 2009 compared to 31 December 2008. The decline in the Group's Net Interest Margin reflects the increase in the Group's corporate deposits as a source of funding during this time and the relatively slower growth in its loan portfolio as a result of its conservative lending policy in the context of the climate. Rather than lending in circumstances that do not meet its risk profile, the Group has applied its liquidity to lower-yielding assets, which the Group considers to present an acceptable level of risk, such as financial instruments at fair value through profit or loss. Net interest income before provisions for the year ended 31 December 2008 increased by 61.4 per cent. to RUB 6,400.1 million from RUB 3,966.4 million for the year ended 31 December 2007 and the Group's Net Interest Margin increased from 10.6 per cent. to 12.0 per cent. This increase resulted primarily from an overall increase in the amount of loans to customers and offset a 48.5 per cent. increase in interest expense for the year ended 31 December 2008. See "—Interest expense" below.

The following table sets out the Group's interest income and interest expense for the periods indicated:

	For the year ended 31 December				
	2009		2008		2007
	RUB'000	Change %	RUB'000	Change %	RUB'000
Interest income	13,828,053	24.7	11,090,675	55.7	7,124,519
Interest expense	(6,825,319)	45.5	(4,690,535)	48.5	(3,158,136)
Net interest income	7,002,734	9.4	6,400,140	61.4	3,966,383

Interest income

The Group generates interest income from loans to customers, amounts receivable under reverse repurchase agreements, financial instruments at fair value through profit or loss and placements with banks and other financial institutions and available-for-sale-securities securities.

The Group's interest income for the year ended 31 December 2009 increased by 24.7 per cent. to RUB 13,828.1 million from RUB 11,090.7 million for the year ended 31 December 2008. This increase resulted primarily from increased average interest rates on customer loans.

The Group's interest income for the year ended 31 December 2008 increased by 55.7 per cent. to RUB 11,090.7 million from RUB 7,124.5 million for the year ended 31 December 2007. This increase resulted primarily from a 57.4 per cent. increase in interest income from loans to customers. The average interest rate in respect of loans to customers in the year ended 31 December 2007 was 21.8 per cent. compared to 24.5 per cent.

For a more detailed description of the factors affecting the Group's interest income, see "*—Interest income from loans to customers*", "*—Interest income from financial assets at fair value through profit or loss*" and "*—Interest income from placements with banks and other financial institutions*" below.

The following table sets forth the principal components of the Group's interest income for the periods indicated:

	For the year ended 31 December				
	2009		2008		2007
	RUB'000	Change %	RUB'000	Change %	RUB'000
Loans to customers	12,898,946	22.1	10,566,758	57.4	6,711,796
Amounts receivable under reverse repurchase agreements	374,641	87.4	199,898	52.3	131,245
Financial instruments at fair value through profit or loss	313,415	277.0	83,132	(37.9)	133,938
Placements with banks and other financial institutions	155,517	(21.7)	198,711	34.7	147,540
Available-for-sale securities	85,534	102.8	42,176	-	-
Total interest income	13,828,053	24.7	11,090,675	55.7	7,124,519

Interest income from loans to customers

The Group's corporate customer base represents various sectors of the Russian economy, including trade and commerce, building and construction, manufacturing, energy companies, agriculture and heavy industry. The Group offers a wide range of credit products to corporate clients, including loans, credit lines, overdrafts and bank guarantees.

Loan terms vary depending on each particular client's needs and risk limits. All corporate loans are evaluated and extended based on credit risk evaluation procedures and are approved by a risk manager and an account manager within agreed limits that are set on the basis of such manager's experience and track record. From the second half of 2007, largely due to the global economic crisis, the Group modified its approach to risk assessment and began to apply a more conservative approach to evaluating the quality of the borrower's financial position, including, for example, by introducing additional requirements with respect to the value and quality of collateral. See "*Lending Policies and Procedures—Collateral*".

The Group's interest income from loans to customers for the year ended 31 December 2009 increased by 22.1 per cent. to RUB 12,898.9 million from RUB 10,566.8 million for the year ended 31 December 2008. This increase resulted in part from the Group's acquisition of Gazenergobank and Bank24.ru (and their respective loan portfolios) at the end of 2008, which is reflected in the 14.7 per cent. increase in average balances of loans to customers during the year ended 31 December 2009 compared to the year ended 31 December 2008 and an average interest rate of 26.1 per cent. for the year ended 31 December 2009, compared to 24.5 per cent. for the year ended 31 December 2008. The Group's interest income from loans to customers for the year ended 31 December 2008 increased by 57.4 per cent. to RUB 10,566.8 million from RUB 6,711.8 million for the year ended 31 December 2007. This increase resulted from a 40.3 per cent. increase in average balances of loans to customers during the year ended 31 December 2008 compared to the year ended 31 December 2007 and an average interest rate of 24.5 per cent. for the year ended 31 December 2008, compared to 21.8 per cent. for the year ended 31 December 2007.

Interest income from amounts receivable under reverse repurchase agreements

The Group's interest income from amounts receivable under reverse repurchase agreements for the year ended 31 December 2009 increased by 87.4 per cent. to RUB 374.6 million from

RUB 199.9 million for the year ended 31 December 2008. This increase resulted from a 124.4 per cent. increase in average amounts receivable under reverse repurchase agreements during the year ended 31 December 2009, compared to the year ended 31 December 2008. This increase reflects the Group entering into a larger number of these contracts as a way of applying its excess liquidity. The Group's interest income from amounts receivable under reverse repurchase agreements for the year ended 31 December 2008 increased by 52.3 per cent. to RUB 199.9 million from RUB 131.2 million for the year ended 31 December 2007. This increase resulted from a 137.0 per cent. increase in average amount receivable under reverse repurchase agreements during the year ended 31 December 2008, compared to the year ended 31 December 2007 for the same reason as mentioned above.

Interest income from financial instruments at fair value through profit or loss

The Group's interest income from financial assets at fair value through profit or loss comprises interest income from corporate bonds, Russian Federation bonds and corporate Eurobonds.

The Group's interest income from financial instruments at fair value through profit or loss for the year ended 31 December 2009 increased by 277.0 per cent. to RUB 313.4 million from RUB 83.1 million for the year ended 31 December 2008. The Group's interest income from financial instruments at fair value through profit or loss for the year ended 31 December 2008 decreased to RUB 83.1 million compared to RUB 133.9 million for the year ended 31 December 2007. The increase in the year ended 31 December 2009 resulted from the Group applying its excess liquidity into these instruments as is seen by the 114.2 per cent. increase in the average balance of financial instruments at fair value through profit or loss for the year ended 31 December 2009, compared to the year ended 31 December 2008. The decrease in the year ended 31 December 2008 resulted from a 20.7 per cent. decrease in the average balance of financial instruments at fair value through profit or loss for the year ended 31 December 2008, compared to such average balances in the year ended 31 December 2007 and an average interest rate of 4.3 per cent. during the year ended 31 December 2008, compared to 5.5 per cent. in the year ended 31 December 2007. Part of the decrease in average balances in the year ended 31 December 2008 resulted from a reclassification of some of the Group's instruments at fair value through profit or loss as available-for-sale securities.

Interest income from placements with banks and other financial institutions

The Group's interest income from placements with banks and other financial institutions for the year ended 31 December 2009 decreased by 21.7 per cent. to RUB 155.5 million from RUB 198.7 million for the year ended 31 December 2008. Although average balances of placements with banks and financial institutions during the year ended 31 December 2009 increased by 44.6 per cent., compared to the year ended 31 December 2008, the decrease in interest income from this line item reflects the average interest rate of 1.9 per cent. on such balances in the year ended 31 December 2009, compared to 3.4 per cent. the year ended 31 December 2008. The changes in average interest rates reflects the generally lower interest rates offered in the interbank market during 2009 due to the market experiencing excessive liquidity.

The Group's interest income from placements with banks and other financial institutions for the year ended 31 December 2008 increased by 34.7 per cent. to RUB 198.7 million from income from placements with banks and other financial institutions of RUB 147.5 million for the year ended 31 December 2007. This increase resulted from a 70.0 per cent. increase in average balances from banks and other financial institutions, which offset a decrease in the average interest rates offered on these balances from 4.3 per cent. in the year ended 31 December 2007 to 3.4 per cent. in the year ended 31 December 2008. The reason for the increase in the amount of balances and the decrease in interest rates is the same as in the year ended 31 December 2009.

Interest income from available-for-sale securities

The Group's interest income from available-for-sale securities for the year ended 31 December 2009 increased by 102.8 per cent. to RUB 85.5 million from RUB 42.2 million for the year ended 31 December 2008. This increase resulted from a 28.9 per cent. increase in average balances of available-for-sale securities during the year ended 31 December 2009, compared to the year ended 31 December 2008, which again reflects the Group's strategy of applying its excess liquidity into these instruments, rather than lending to customers that do not satisfy the Group's risk criteria. The Group's interest income from amounts from available-for-sale securities for the year ended 31 December 2008 increased to RUB 42.2 million from a zero balance for the year ended 31 December 2007 as there was no such line item at that time.

Interest expense

The Group's interest expense consists of interest expense from customer accounts, other borrowed funds, debt securities issued, deposits and balances from banks and other financial institutions, subordinated debts and payables under repurchase agreements.

Since the global economic crisis hit the Russian Federation in the second half of 2008, the Group has relied on customer accounts to provide an increased proportion of its funding base, as the amount of funding from international capital markets has declined (particularly as the Group has bought back and cancelled approximately 40 per cent. of its existing debt securities). The Group has experienced continued significant growth of customer deposits, and this reflects the Group's success in attracting deposits together with a change in the behaviour of Russian customers who are saving more than they did before the global economic crisis hit. This also reflects the Group's acquisition of Gazenergobank, Bank24.ru and ICB and their respective customer deposits.

The Group's interest expense for the year ended 31 December 2009 increased by 45.5 per cent. to RUB 6,825.3 million from RUB 4,690.5 million for the year ended 31 December 2008. The increase in interest expense in 2009 was due in part to the Group's acquisition of Gazenergobank and Bank24.ru (and their customers) at the end of 2008, which is reflected in the 34.2 per cent. increase in the average balance of customer accounts and the rise in interest rates paid on customer deposits in the banking sector as a whole during 2009, together with the expense that the Group incurred in relation to the customer deposits of Gazenergobank and Bank24.ru, which it acquired at the end of 2008. The Group's interest expense for the year ended 31 December 2008 increased by 48.5 per cent. to RUB 4,690.5 million from interest expense of RUB 3,158.1 million for the year ended 31 December 2007. The increase in interest expense in 2008 resulted primarily a 41.9 per cent. increase in the volume of customer accounts together with a higher rate of interest being paid on such accounts due to the increasing proportion of retail customer deposits in the Group's funding base (71.1 per cent. of total customer deposits as at 31 December 2008 compared to 54.4 per cent. as at 31 December 2007).

The following table sets out the principal components of the Group's interest expense for the periods indicated:

	For the year ended 31 December				
	2009		2008		2007
	RUB'000	Change %	RUB' 000	Change %	RUB'000
Customer accounts	4,323,412	46.6	2,949,652	86.9	1,578,449
Other borrowed funds	1,181,391	446.3	216,247	8.4	199,537
Debt securities issued	560,349	(42.4)	972,052	6.0	916,676
Deposits and balances from banks and financial institutions	381,233	21.8	313,006	5.4	296,837

Subordinated debts	210,947	30.3	161,936	27.8	126,689
Payables under repurchase agreements	167,987	116.4	77,642	94.4	39,948
Total interest expense	6,825,319	45.5	4,690,535	48.5	3,158,136

Interest expense related to customer accounts

The Group's interest expense related to customer accounts for the year ended 31 December 2009 increased by 46.6 per cent. to RUB 4,323.4 million from RUB 2,949.7 million for the year ended 31 December 2008. The increase resulted from a 34.2 per cent. increase in the average balance of customer accounts during the year ended 31 December 2009, compared to the year ended 31 December 2008 and an average interest rate of 9.1 per cent. in 2009, compared to 8.3 per cent. in 2008. This in turn reflects the rise in interest rates paid on customer deposits in the banking sector as a whole during the 2009, together with the expense that the Group incurred in relation to the customer deposits that it acquired through its acquisition of Gazenergobank and Bank24.ru at the end of 2008. The Group's interest expense related to customer accounts for the year ended 31 December 2008 increased by 86.9 per cent. to RUB 2,949.7 million from RUB 1,578.4 million for the year ended 31 December 2007. This increase resulted from a 41.9 per cent. increase in the average balance of customer accounts during the year ended 31 December 2008, compared to the year ended 31 December 2007 together with the increase in average interest rates from 6.3 per cent. in the year ended 31 December 2007 to 8.3 per cent. in the year ended 31 December 2008. The increase in the average interest rates reflects the higher rate of interest being paid on such accounts due to the increasing proportion of retail customer deposits in the Group's funding base and increased competition (71.1 per cent. of total customer deposits as at 31 December 2008 compared to 54.4 per cent. as at 31 December 2007).

Interest expense related to other borrowed funds

The Group's interest expense related to other borrowed funds increased by 446.3 per cent. to RUB 1,181.4 million in the year ended 31 December 2009 from RUB 216.2 million for the year ended 31 December 2008. This increase resulted from a 50.0 per cent. increase in the average balances of other borrowed funds during the year ended 31 December 2009, compared to the year ended 31 December 2008. The increase in the average balances of other borrowed funds during this period is attributable to loans amounting to approximately RUB 7.5 billion provided by the DIA that were used to support the Group's financial rehabilitation of Gazenergobank and Bank24.ru. These borrowed funds made their overall impact in this line item in the year ended 31 December 2009, rather than in the year ended 31 December 2008 as they were borrowed in December 2008. The Group's interest expense related to other borrowed funds increased by 8.4 per cent. to RUB 216.2 million in the year ended 31 December 2008 from RUB 199.5 million in the year ended 31 December 2007. This increase results from a 147.6 per cent. increase in average balances of other borrowed funds during the year ended 31 December 2008, compared to the year ended 31 December 2007.

Interest expense related to debt securities issued

The Group's interest expense related to debt securities issued for the year ended 31 December 2009 decreased by 42.4 per cent. to RUB 560.3 million from RUB 972.1 million for the year ended 31 December 2008. This decrease resulted from a 40.3 per cent. decrease in the average balances of debt securities issued during the year ended 31 December 2009, compared to the year ended 31 December 2008. This resulted primarily from the Group purchasing and cancelling approximately 51.7 per cent. of its loan participation notes to take advantage of the fact that such debt securities were trading at a price below their issue price and redeeming debt securities pursuant to the exercise of a noteholder put option in August 2008 and on their maturity.

The Group's interest expense related to debt securities issued for the year ended 31 December 2008 increased by 6.0 per cent. to RUB 972.1 million from RUB 916.7 million for the year ended 31 December 2007. This increase resulted from a 4.7 per cent. increase in the average balances of debt securities issued during the year ended 31 December 2008, compared to the year ended 31 December 2007.

Interest expense related to deposits and balances from banks and other financial institutions

The Group's interest expense related to deposits and balances from banks and other financial institutions for the year ended 31 December 2009 increased by 21.8 per cent. to RUB 381.2 million from RUB 313.0 million for the year ended 31 December 2008. This increase resulted from a 3.4 per cent. increase in the average balance of deposits and balances from banks and other financial institutions in the year ended 31 December 2009, compared to the year ended 31 December 2008. The average interest rates during the year ended 31 December 2009 were 7.1 per cent., compared to 6.0 per cent. for the year ended 31 December 2008, which reflects the higher risk perception in the interbank market at this time.

The Group's interest expense related to deposits and balances from banks and other financial institutions for the year ended 31 December 2008 increased by 5.4 per cent. to RUB 313.0 million from interest expense related to deposits and balances from banks and other financial institutions of RUB 296.8 million for the year ended 31 December 2007. This increase resulted from a 230.1 per cent. increase in the average balance of deposits and balances from banks and other financial institutions in the year ended 31 December 2008, compared to the year ended 31 December 2007.

Interest expense related to subordinated debts

The Group's interest expense related to subordinated debts increased by 30.3 per cent. to RUB 210.9 million for the year ended 31 December 2009 from RUB 161.9 million for the year ended 31 December 2008. This increase resulted from an 19.6 per cent. increase in average balances related to subordinated debts in the year ended 31 December 2009, compared to the year ended 31 December 2008 and an average interest rate on such amounts in the year ended 31 December 2009 of 9.7 per cent. compared to 9.0 per cent. in the year ended 31 December 2008.

The Group's interest expense related to subordinated debts increased by 27.8 per cent. to RUB 161.9 million for the year ended 31 December 2008 compared to RUB 126.7 million for the year ended 31 December 2007. This increase resulted from an 89.6 per cent. increase in the average balance of subordinated debt during this period.

Interest expense related to payables under repurchase agreements

The Group's interest expense related to payables under repurchase agreements increased by 116.24 per cent. to RUB 168.0 million for the year ended 31 December 2009 compared to RUB 77.6 million for the year ended 31 December 2008. This increase reflects a 45.9 per cent. increase in the average balance of payables under repurchase agreements in the year ended 31 December 2009, compared to the year ended 31 December 2008. This increase reflects the greater number of repurchase agreements entered into by the Group as a way of applying its excess liquidity. The Group's interest expense related to payables under repurchase agreements increased by 94.4. per cent. to RUB 77.6 million for the year ended 31 December 2008 from RUB 39.9 million for the year ended 31 December 2007. This increase resulted from an increase of 331.9 per cent. in the average balances of payables under repurchase agreements in the year ended 31 December 2008, compared to the year ended 31 December 2007. This increase reflects the increased number of repurchase agreements entered into by the Group as a way of applying its excess liquidity.

Non-interest income

The following table sets out certain information regarding the Group's non-interest income for the periods under review:

	For the year ended 31 December				
	2009		2008		2007
	RUB'000	Change %	RUB'000	Change %	RUB'000
Net foreign exchange income/(loss)	1,094,858	N/A	(350,589)	N/A	334,718
Net gain/(loss) on financial instruments at fair value through profit or loss	808,357	N/A	(259,987)	N/A	136,448
Other operating income	706,097	202.6	233,344	123.3	104,488
Gain on acquisition of subsidiaries	173,296	(87.5)	1,388,827	-	-
Net gain on available-for-sale securities	44,208	(64.0)	122,680	1,140.2	9,892
Fee and commission income	1,770,827	62.5	1,090,020	24.8	873,396
Fee and commission expense	(317,615)	65.1	(192,347)	4.8	(183,463)
Total non-interest income	4,280,028	110.6	2,031,948	59.3	1,275,479

The Group's non-interest income for the year ended 31 December 2009 increased by 110.6 per cent. to RUB 4,280.0 million from RUB 2,031.8 million for the year ended 31 December 2008. This increase resulted from a gain of 410.9 per cent. on the Group's financial instruments at fair value through profit or loss, which resulted from the Group applying some of its excess liquidity to purchase such instruments and an increase in the Group's foreign exchange income largely due to the Group's successful experience on its own account with spot and derivative transactions at this time of increased volatility of the Rouble, an increase of other income of 202.6 per cent. (which is primarily accounted for by an increase of 206.1 per cent. in income from the repurchase of the Group's debt securities which in turn is explained by the Group repurchasing and cancelling such debt securities) and, an increase in fee and commission income of 62.5 per cent. Gazenergobank, Bank24.ru and ICB contributed 20.7 per cent. to the Group's non-interest income. The Group's non-interest income for the year ended 31 December 2008 increased by 59.3 per cent. to RUB 2,031.9 million from RUB 1,275.5 million for the year ended 31 December 2007. The increase in non-interest income in 2008 resulted primarily from a gain arising on the Group's acquisition of Gazenergobank (and its interest income) of RUB 1,069.4 million.

Net foreign exchange income/(loss)

The Group's net foreign exchange income for the year ended 31 December 2009 showed a profit of RUB 1,094.9 million as compared to a net loss of RUB 350.6 million for the year ended 31 December 2008. This increase resulted primarily from the Group's gains on spot transactions and derivatives on its own account and that of its customers. The Group's net foreign exchange loss for the year ended 31 December 2008 was RUB 350.6 million compared to a gain in the year ended 31 December 2007 of RUB 334.7 million. This loss resulted from a revaluation of financial instruments at fair value through profit or loss and liabilities of RUB (727.2 million).

The Group's portfolio of currencies is made up of a variety of currencies. As a result, the appreciation or depreciation of currencies against the Rouble will have an impact on the Group's net foreign exchange income/(loss).

Net gain/(loss) on financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss reflected in the consolidated balance sheet include equity and debt securities and derivative financial instruments.

The Group's net gain/(loss) on financial instruments at fair value through profit or loss for the year ended 31 December 2009 was RUB 808.4 million compared to RUB 260.0 million for the year ended 31 December 2008. This increase resulted primarily from the Group applying some of its excess liquidity to purchase such instruments at a discount.

The Group had a loss of RUB 260.0 million for the year ended 31 December 2008 compared to a gain of RUB 136.4 million for the year ended 31 December 2007. This decrease resulted primarily from the influence of the global economic crisis on the price of such instruments.

Other operating income

The Group's other operating income for the year ended 31 December 2009 increased by 202.6 per cent. to RUB 706.1 million from RUB 233.3 million for the year ended 31 December 2008. This increase is largely accounted for by an increase of 206.1 per cent. in the Group's income from the purchase, cancellation and redemption of 51.8 per cent. of its outstanding loan participation notes in the year ended 31 December 2008. The Group's other operating income for the year ended 31 December 2008 increased by 123.3 per cent. to RUB 233.3 million from RUB 104.5 million for the year ended 31 December 2007. This increase resulted primarily from an increase of 61.1 per cent. in income from the repurchase of its own debt securities from RUB 66.8 million for the year ended 31 December 2007 to RUB 171.6 million for the year ended 31 December 2008, which was driven by the Group taking advantage of fluctuations in securities prices as a result of the volatility in the markets linked to the global economic crisis.

Gain on acquisition of subsidiaries

The Group's gain on acquisition of subsidiaries for the year ended 31 December 2009 decreased by 87.5 per cent. to RUB 173.3 million from RUB 1,388.8 million for the year ended 31 December 2008. The 2009 gain reflects the Group's gain on its acquisition of ICB. The Group's gain on acquisition of subsidiaries for the year ended 31 December 2008 was RUB 1,388.8 million compared to zero for the year ended 31 December 2007. The gain for the year ended 31 December 2008 reflects the Group's acquisition of Gazenergobank and Bank24.ru.

Net gain on available-for-sale securities

The Group's net gain on available-for-sale securities for the year ended 31 December 2009 decreased by 64.0 per cent. to RUB 44.2 million from RUB 122.7 million for the year ended 31 December 2008. This decrease resulted primarily from a decrease of 69.4 per cent. of available-for-sale securities in the same year as a result of the sale of several large portfolio items, including shares in JSC "GAZPROM" and the corporate bonds of Russian Agricultural Bank. The Group's net gain on available-for-sale securities for the year ended 31 December 2008 of RUB 122.7 million, being an increase of 1,140.2 per cent. from the year ended 31 December 2007 resulted primarily from an increase of 7,486.6 per cent. available-for-sale securities in the same year.

Fee and commission income

Fee and commission income is the income from the Group's operations relating to settlement and cash transactions, operations with plastic cards, transactions with securities, guarantees issued, cash collections and fiduciary activities. The following tables set out fees and commission income of the Group for the periods under the review:

For the year ended 31 December

	2009		2008		2007
	RUB'000	Change %	RUB'000	Change %	RUB'000
Fee and commission income					
Cash operations fees	647,752	167.6	242,072	46.9	164,777
Settlement fees....	564,193	67.8	336,213	35.7	247,717
Guarantee issuance fees	174,683	69.2	103,269	9.5	94,329
Plastic card fees	172,563	13.4	152,179	23.6	123,164
Bank-customer service fees	73,374	1,010.9	6,605	(35.0)	10,162
Foreign exchange fees	64,470	39.6	46,189	58.0	29,225
Documentary operations fees	46,173	(65.3)	133,088	27.0	104,802
Other	17,280	64.5	10,507	(50.6)	21,268
Securities fees	10,339	(82.7)	59,898	17.6	50,952
Total fee and commission income	1,770,827	62.5	1,090,020	24.8	873,396

The Group's fee and commission income for the year ended 31 December 2009 increased by 62.5 per cent. to RUB 1,770.8 million from RUB 1,090.0 million for the year ended 31 December 2008. The increase reflects the Group's focus on generating a greater proportion of its overall income from fee and commission income. In particular, it reflects an increase of 167.6 per cent. in cash operations fees, an increase of 1,010.9 per cent. in bank-customer service fees and an increase of 67.8 per cent. in settlement fees. The Group's fee and commission income for the year ended 31 December 2008 increased by 24.8 per cent. to RUB 1,090.0 million from RUB 873.4 million for the year ended 31 December 2007. The 2008 increase resulted primarily from increases in fee and commission income from settlement and cash operations fees, which resulted from growth in the number of the Group's clients and an increase in the number of transactions with those clients.

Fee and commission expense

Fee and commission expense consists of expense arising from the Group's operations relating to cashe operations, settlement, guarantee issuance, plastic cards, bank-customer services, foreign exchange, documentary operations and securities fees. The following tables set out fees and commission expense and expenses of the Group for the periods under the review:

For the year ended 31 December

	2009		2008		2007
	RUB'000	Change %	RUB'000	Change %	RUB'000
Fee and commission expense					
Commission on short term borrowings	95,291	1,084.3	8,046	–	–
Documentary operations	70,409	(14.8)	82,649	28.3	64,400
Plastic card fees	58,608	28.2	45,728	86.8	24,486
Settlement fees	34,246	102.3	16,930	143.4	6,955

Cash operations fees	25,747	72.5	14,922	8.3	13,776
Foreign exchange fees	13,296	108.3	6,384	0.7	6,338
Securities fees	9,424	106.8	4,557	242.1	1,332
Fees for guarantees received	6,225	(39.4)	10,271	807.3	1,132
Other	4,369	52.8	2,860	(95.6)	65,044
Total fee and commission expense	317,615	65.1	192,347	4.8	183,463

The Group's fee and commission expense for the year ended 31 December 2009 increased by 65.1 per cent. to RUB 317.6 million from RUB 192.3 million for the year ended 31 December 2008. The increase in fee and commission expense during 2009 resulted primarily from an increase in the amount of short term loans arranged for the Group by European banks with the support of export credit agencies together with the organic and acquisition-driven growth of the Group, which led to a larger number of transactions for which the Group was required to pay fees and commissions. The Group's fee and commission expense for the year ended 31 December 2008 increased by 4.8 per cent. to RUB 192.3 million from RUB 183.5 million for the year ended 31 December 2007. The increase in 2008 resulted from an increase in the number of clients and the volume of operations for the Group, an increase in fee and commission income discussed above, and from a gradual increase in the volume of plastic card operations performed by the Group's customers and settlement fees.

General administrative expenses

General administrative expenses include salary and bonuses, occupancy, depreciation and amortisation of property, equipment and intangible assets, payroll related taxes advertising expenses, taxes other than income, telecommunication services, property and equipment maintenance, IT, vehicle maintenance and information services, along with the other items mentioned in the table below.

The Group's general administrative expenses for the year ended 31 December 2009 increased by 16.5 per cent. to RUB 5,721.1 million from RUB 4,910.2 million for the year ended 31 December 2008. This increase primarily reflects the continued growth of the Group's network (which was driven in part by the acquisitions of Gazenergobank and Bank24.ru) and the expense of the additional staff and buildings that came with the Group's acquisitions. The increase also reflects the fact that the Group did not implement any overall staff cuts during the global economic crisis.

The Group's general administrative expenses for the year ended 31 December 2008 increased by 29.7 per cent. to RUB 4,910.2 million from RUB 3,786.2 million for the year ended 31 December 2007. This increase resulted from an increase in the number of branches, which increased costs relating to rent, maintenance of the premises, as well as staff, including remuneration of employees. The increase in general administrative expenses in 2008 resulted from an overall increase in most items comprising general administrative expenses resulting partly from an increase in the number of employees and a larger branch network. The increase also reflects the fact that the Group did not implement any overall staff cuts during the global economic crisis.

The following table sets out the major components of the Group's general administrative expenses for the periods under review:

	For the year ended 31 December				
	2009		2008		2007
	RUB'000	Change %	RUB'000	Change %	RUB'000
Salary and bonuses	2,529,878	23.8	2,043,705	7.7	1,896,850
Occupancy	483,867	11.8	432,867	40.7	307,622
Depreciation and amortisation of property, equipment and intangible assets	465,607	61.5	288,323	55.6	185,275
Payroll related taxes	434,174	18.5	366,119	39.4	262,615
Advertising expenses	279,520	(20.5)	351,762	95.9	179,559
Taxes other than income	236,261	4.0	227,200	85.1	122,754
Telecommunication services	224,330	11.3	201,516	20.7	166,946
Property and equipment maintenance	169,441	5.5	160,620	42.4	112,770
IT, vehicle maintenance and information services	159,391	9.2	145,923	114.2	68,112
Deposit insurance system payments	130,091	8.5	119,882	72.4	69,539
Materials and office supplies	97,410	5.4	92,390	37.5	67,174
Business trip expenses	96,018	(26.1)	129,894	22.7	105,862
Security	75,624	76.5	42,844	90.8	22,460
Software acquisition and support.	65,556	32.9	49,314	107.8	23,737
Professional services.	47,459	(19.2)	58,771	(28.0)	81,633
Loss on disposal of premises	36,703	82.2	20,142	378.0	4,214
Insurance	29,930	(21.6)	38,163	212.8	12,199
Entertainment	12,594	(48.4)	24,421	19.0	20,526
Fines paid	5,245	(1.3)	5,312	280.0	1,398
Other	142,011	27.9	111,001	48.1	74,934
Total general administrative expenses	5,721,110	16.5	4,910,169	29.7	3,786,179

Income tax (expense)/benefit

The Group's income tax expense for the year ended 31 December 2009 increased by 1,815.2 per cent. to RUB 180.7 million from an income tax benefit of RUB 10.5 million for the year ended 31 December 2008. This increase resulted primarily from the Group's conservative interpretation of tax legislation on provisions in respect of accrued interest income.

The Group's income tax benefit of RUB 10.5 million for the year ended 31 December 2008 compares to an income tax expense of RUB 132.3 million for the year ended 31 December 2007. The tax benefit for the year ended 31 December 2008 resulted from a deferred credit of RUB 151.4 million, which in turn resulted from the Group's conservative interpretation of tax legislation.

Profit

The Group's profit for the year ended 31 December 2009 decreased by 16.0 per cent. to RUB 145.4 million from profit of RUB 173.1 million for the year ended 31 December 2008. This decrease resulted from factors mentioned above and in particular, the large amount of Group's provision for impairment. See "*Factors Affecting the Group's Results of Operations and Financial Condition—Provisions for Impairment.*"

The Group's total comprehensive income attributable to minority interest for the year ended 31 December 2009 was RUB 3.4 million compared to a loss for the year ended 31 December 2008 of RUB 2.7 million. The Group's total comprehensive income attributable to the equity holders of the Bank for the year ended 31 December 2009 decreased by 19.2 per cent. to RUB 141.9 million from RUB 175.8 million for the year ended 31 December 2008. This change resulted largely from the increase in the Group's provision for impairment.

The Group's profit for the year ended 31 December 2008 decreased by 68.1 per cent. to RUB 173.1 million from profit of RUB 542.5 million for the year ended 31 December 2007. This decrease was primarily due to the factors indicated above, particularly a significant increase in provision for impairment, which offset the increase in interest income.

The Group's total comprehensive income attributable to the equity holders of the Bank for the year ended 31 December 2008 decreased by 67.4 per cent. to RUB 175.8 million from RUB 539.8 million for the year ended 31 December 2007. This change also resulted from the increase in the Group's provision for impairment. The Group's total comprehensive income attributable to minority interest for the year ended 31 December 2008 showed a loss of RUB 2.7 million compared to RUB 2.7 billion for the year ended 31 December 2007.

Assets

The following table sets out the Group's total assets for the periods under review:

	As at 31 December				
	2009		2008		2007
	RUB'000	Change %	RUB'000	Change %	RUB'000
Assets					
Cash	4,589,153	18.4	3,874,716	45.0	2,672,275
Due from the Central Bank of the Russian Federation	5,799,081	(38.4)	9,408,842	75.7	5,355,562
Mandatory cash balances with the Central Bank of the Russian Federation	532,377	382.5	110,326	(85.5)	760,946
Placements with banks and other financial institutions	8,543,817	5.7	8,085,486	132.8	3,473,463
Financial instruments at fair value through profit or loss					
- Held by the Group	6,710,822	367.4	1,435,657	(21.7)	1,832,745
- Pledged under sale and repurchase agreements	-	-	160,726	(64.2)	448,636
Amounts receivable under reverse repurchase agreements	4,932,825	91.1	2,581,307	236.5	767,095
Loans to customers	42,522,184	(2.3)	43,511,314	18.5	36,727,593

Goodwill	252,676	–	252,676	–	252,676
Available-for-sale securities	385,070	(69.4)	1,259,374	7,486.6	16,600
Property, equipment and intangible assets	4,748,498	(6.4)	5,075,543	16.5	4,355,731
Investment property	788,780	-	-	-	-
Advances issued to property development companies	2,976,888	172.9	1,090,680	-	-
Current income tax asset	88,030	(47.6)	168,116	2,119.9	7,573
Deferred tax asset.	339,341	744.6	40,180	–	–
Other assets	643,612	(39.3)	1,059,590	180.7	377,417
Total assets	83,853,154	7.3	78,114,533	36.9	57,048,312

The Group's total assets as at 31 December 2009 increased by 7.3 per cent. to RUB 83,853.2 million from RUB 78,114.5 million as at 31 December 2008. This increase was primarily due to the Group's acquisition of ICB together with the Group's organic growth. It was also due to the increase of 367.4 per cent. in financial instruments at fair value through profit or loss held by the Group and the increase of 91.1 per cent. in amounts receivable under reverse repurchase agreements, which reflect the Group applying its excess liquidity into these instruments.

The Group's total assets as at 31 December 2008 increased by 36.9 per cent. to RUB 78,114.5 million from RUB 57,048.3 million as at 31 December 2007. The increase in total assets in 2008 was primarily due the Group's acquisition of Gazenergobank and Bank24.ru together with the Group's organic growth.

Cash

The Group's cash as at 31 December 2009 increased by 18.4 per cent. to RUB 4,589.2 million from RUB 3,874.7 million as at 31 December 2008. The Group's cash as at 31 December 2008 increased by 45.0 per cent. to RUB 3,874.7 million from RUB 2,672.3 million as at 31 December 2007. The increase in cash in 2009 and 2008 resulted primarily from an increase in cash in hand held on the Group's correspondent accounts with Russian and foreign banks. The cash reflects the growth in the Group's deposit base and its more conservative lending policy, which meant that the Group chose to place cash with Russian and foreign banks, rather than lending it to its customer base.

Due from the Central Bank of the Russian Federation

Due from the Central Bank of the Russian Federation decreased by 38.4 per cent. to RUB 5,799.1 million as at 31 December 2009 from RUB 9,408.8 million as at 31 December 2008. This decrease reflects the Group applying its excess liquidity away from the CBR to other instruments that could provide a better return than the CBR in view of the low rates of interest paid by the CBR. Due from the Central Bank of the Russian Federation increased by 75.7 per cent. to RUB 9,408.8 million as at 31 December 2008 from RUB 5,355.6 million as at 31 December 2007. This increase resulted from the Group's decision to place its excess liquidity with the CBR given the uncertainty at the time in respect of risk profile of other instruments into which such liquidity could be invested.

Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory cash balances with the Central Bank of the Russian Federation increased by 382.5 per cent. to RUB 532.4 million as at 31 December 2009 from RUB 110.3 million as at 31 December 2008. This increase resulted from the CBR's decision to raise reserve requirements to

take excess cash out of the banking system. Mandatory cash balances with the Central Bank of the Russian Federation decreased by 85.5 per cent. to RUB 110.3 million from RUB 760.9 million as at 31 December 2007. This decrease resulted from the CBR's decision to lower reserve requirements in response to the global economic crisis in order to create more liquidity in the banking market.

Placements with banks and other financial institutions

The Group's placements with banks and other financial institutions as at 31 December 2009 increased by 5.7 per cent. to RUB 8,543.8 million from RUB 8,085.5 million as at 31 December 2008. The Group's placements with banks and other financial institutions as at 31 December 2008 increased by 132.8 per cent. to RUB 8,085.5 million from due from other banks of RUB 3,473.5 million as at 31 December 2007. The increases in placements with banks and other financial institutions in 2009 and, in particular, 2008 reflect the Group's liquidity which is itself the result of its strategy to maintain a high level of liquidity in the context of the global economic crisis.

Financial instruments at fair value through profit or loss

The Group's financial instruments at fair value through profit or loss as at 31 December 2009 increased by 320.4 per cent. to RUB 6,710.8 million from RUB 1,596.4 million as at 31 December 2008. This increase resulted primarily from the 367.0 per cent. increase of financial instruments at fair value through profit or loss held by the Group as a result of it placing its excess liquidity in such instruments and the increase in the value of such instruments during the period. The Group's financial instruments at fair value through profit or loss as at 31 December 2008 decreased by 30.0 per cent. to RUB 1,596.4 million from RUB 2,281.4 million as at 31 December 2007. The decrease resulted primarily from the Group disposing of its holdings in Russian and international debt securities and OJSC MMC Norilsk Nickel equity securities. The Group has used its trading securities portfolio primarily to manage its liquidity. In addition, the Group pledges these assets as security for debt, particularly under direct repurchase agreements. The majority of the Group's portfolio of trading securities comprises freely tradable sovereign, sub-sovereign and corporate bonds, which represent a hedge against potential liquidity risks. See "*Risk Management—Liquidity Risk*."

Amounts receivable under reverse repurchase agreements

Amounts receivable under reverse repurchase agreements increased by 91.1 per cent. to RUB 4,932.8 million as at 31 December 2009 from RUB 2,581.3 million as at 31 December 2008. This increase reflects the increased liquidity of the Group, part of which the Group applied to reverse repurchase agreements. Amounts receivable under reverse repurchase agreements increased by 236.5 per cent. to RUB 2,581.3 million as at 31 December 2008 from RUB 767.1 million as at 31 December 2007. This increase also reflects the increased liquidity of the Group during the global economic crisis, part of which the Group applied to reverse repurchase agreements.

Loans to customers

Although the Group's net loans to customers as at 31 December 2009 decreased by 2.3 per cent. to RUB 42,522.2 million from RUB 43,511.3 million as at 31 December 2008, the Group's gross loans to customers as at 31 December 2009 increased by 7.1 per cent. to RUB 51,130.5 million from RUB 47,749.9 million as at 31 December 2008. This small increase in the Group's gross loan portfolio reflects the Group's conservative lending policy at this time, which meant that the Group did not actively seek to expand its loan portfolio. The Group's net loans to customers as at 31 December 2008 increased by 18.5 per cent. to RUB 43,511.3 million from loans to customers of RUB 36,727.6 million as at 31 December 2007 (the Group's gross loan portfolio increased during this period by 24.0 per cent.). The increase in 2008 resulted primarily from an overall increase in the Group's loan portfolio, average loan balances and amounts of loans outstanding.

The composition of the Group's loan portfolio has remained relatively stable. Loans to corporate clients represented 49.8 per cent., 46.6 per cent and 49.4 per cent. of the Group's gross loan portfolio as at 31 December 2009, 2008 and 2007, respectively and loans to retail customers (including consumer loans) represented 50.2 per cent., 53.4 per cent. and 50.6 per cent. of the Group's gross loan portfolio as at 31 December 2009, 2008 and 2007 respectively.

Goodwill

Goodwill as at 31 December 2009 remained at RUB 252.7 million showing no change from 31 December 2008 and 31 December 2007, respectively.

Available-for-sale securities

The Group's available-for-sale securities as at 31 December 2009 decreased by 69.4 per cent. to RUB 385.1 million from RUB 1,259.4 million as at 31 December 2008. These securities primarily represent corporate bonds in Commercial Bank "Solidarnost" ("**Solidarnost**") and Limited Liability Company "Minplita Finance" ("**Minplita Finance**") that the Group holds because it purchased bonds in "Minplita-Finance" when it acted as co-arranger of its bond issue and because it chose to invest some of its excess liquidity in "Solidarnost's" bonds. The Group's available-for-sale securities as at 31 December 2008 increased by 7,486.6 per cent. to RUB 1,259.4 million from available-for-sale securities of RUB 16.6 million as at 31 December 2007. This increase resulted primarily from a strategic decision to purchase available-for-sale securities.

Property, equipment and intangible assets

Property, equipment and intangible assets decreased by 6.4 per cent. to RUB 4,748.5 million as at 31 December 2009 from RUB 5,057.5 million as at 31 December 2008. This decrease was primarily due to a downward revaluation of land and buildings of RUB 339.2 million as at 31 December 2009 which reflects the overall decline in the Russian Federation in the value of real estate as a result of the global economic crisis. Property, equipment and intangible assets increased by 16.5 per cent. to RUB 5,075.5 million as at 31 December 2008 from RUB 4,355.7 million as at 31 December 2007. This increase was primarily due to RUB 1,039.0 million of property, equipment and intangible assets acquired with Gazenergobank and Bank24.ru.

Investment property

Investment property amounted to RUB 788.8 million as at 31 December 2009 compared to zero as at 31 December 2008 and 31 December 2007, respectively. This change is primarily due to the reclassification of earlier investments made by the Group, which are now available for sale.

Advances issued to property development companies

Advances issued to property development companies increased by 172.9 per cent. to RUB 2,976.9 million as at 31 December 2009 from RUB 1,090.7 million as at 31 December 2008 and zero balance as at 31 December 2007, respectively. The change as at 31 December 2009 reflects the Group's advance of RUB 2,976.9 million to a property development company (see Note 21 (*Advances issued to property development companies*) to the Group's Financial Statements for).

Current income tax asset

The Group's current income tax asset decreased by 47.6 per cent. to RUB 88.0 million as at 31 December 2009 from RUB 168.1 million as at 31 December 2008. This decrease results reflects corrections for tax advances paid in the year ended 31 December 2009. The Group's current income tax assets increased by 2,119.9 per cent. to RUB 168.1 million as at 31 December 2008 from RUB 7.6 million as at 31 December 2007 to reflect corrections for tax advances paid in the year ended 31 December 2008.

Deferred tax asset

The Group's deferred tax asset as at 31 December 2009 increased by 744.6 per cent. to RUB 339.3 million from RUB 40.2 million as at 31 December 2008 due to additional loan loss reserves made by the Group. There was no deferred tax asset as at 31 December 2007 because the Group has deferred liabilities.

Other assets

The Group's other assets decreased by 39.3 per cent. to RUB 643.6 million as at 31 December 2009 from RUB 1,059.6 million as at 31 December 2008. This decrease reflects an 85.2 per cent. decrease in property received under pledge agreements from RUB 237.0 million as at 31 December 2008 to RUB 35.0 million as at 31 December 2009 and a decrease from RUB 250.3 million to RUB zero of settlements on transactions with securities. The Group's other assets increased by 180.7 per cent. to RUB 1,059.6 million as at 31 December 2008 from RUB 377.4 million as at 31 December 2007. This change primarily reflects a 71.6 per cent. increase in prepayments from RUB 260.9 million as at 31 December 2007 to RUB 447.6 million as at 31 December 2008, a 707.9 per cent. increase in property received under pledge agreements from RUB 29.3 million as at 31 December 2008 to RUB 237.0 million as at 31 December 2008 and RUB 250.3 million from settlements on transactions with securities compared to a RUB zero balance as at 31 December 2007.

Liabilities

The following table sets out the Group's liabilities for the periods under review:

	As at 31 December				
	2009		2008		2007
	RUB'000	Change %	RUB'000	Change %	RUB'000
Financial instruments at fair value through profit or loss	1,856,304	918.5	182,253	(59.4)	448,774
Deposits and balances from banks and other financial institutions	2,303,289	(72.9)	8,486,328	335.8	1,947,227
Amounts payable under repurchase agreements	1,158,749	(16.6)	1,389,901	289.9	356,502
Current accounts and deposits from customers	53,412,255	27.7	41,834,003	43.7	29,112,436
Debt securities issued	5,015,742	(24.3)	6,624,649	(48.5)	12,857,432
Other borrowed funds	9,094,071	3.8	8,762,223	179.2	3,138,513
Subordinated debts	1,707,854	(34.8)	2,619,475	162.4	998,220
Other liabilities	542,170	(30.5)	780,536	49.5	522,177
Total liabilities	75,090,434	6.2	70,679,368	41.9	49,807,045

The Group's total liabilities as at 31 December 2009 increased by 6.2 per cent. to RUB 75,090.4 million from RUB 70,679.4 million as at 31 December 2008. This increase resulted primarily from an increase of 27.7 per cent. in current accounts and deposits from customers, which reflects the increased importance that the Group attaches to this source of funding, its success in attracting deposits from customers and customers saving more than they did prior to the global economic crisis. As at 31 December 2009, Gazenergobank, Bank24.ru and ICB were key drivers behind such increase contributing 22.0 per cent. of the Group's overall growth in liabilities.

The Group's total liabilities as at 31 December 2008 increased by 41.9 per cent. to RUB 70,679.4 million from RUB 49,807.0 million as at 31 December 2007. This increase resulted primarily from a 335.8 per cent. increase in deposits and balances from banks and other financial institutions, a 43.7 per cent. increase in current accounts and deposits from customers and a 179.2 per cent. increase in other borrowed funds. The 335.8 per cent. increase in deposits and balances from banks and other financial institutions reflects loans in the amount of RUB 2.5 billion and RUB 5 billion, respectively to support the Group's financial rehabilitation of Gazenergbank and Bank24.ru and the liabilities that these acquired banks brought with them.

For a more detailed description of the factors affecting the Group's liabilities, see "*Deposits and Balances from Banks and Other Financial Institutions*" and "*Customer Accounts*" and "*Other Borrowed Funds*" below.

Financial instruments at fair value through profit or loss

The Group's financial instruments at fair value through profit or loss increased by 918.5 per cent. to RUB 1,856.3 million as at 31 December 2009 from RUB 182.3 million as at 31 December 2008. This increase is primarily a result of liabilities of RUB 1,768.0 million relating to the purchase of assets pledged under reverse repurchase agreements and sold by the Group. The Groups' financial instruments at fair value through profit or loss decreased by 59.4 per cent. from RUB 448.8 million as at 31 December 2008 to RUB 182.3 million as at 31 December 2007. This decrease represents a 100 per cent. reduction in the Group's liabilities for purchase of assets pledged under reverse repurchase agreements sold by the Group and liabilities under foreign currency contracts of RUB 182.3 million.

Deposits and balances from banks and other financial institutions

The Group engages in short-term interbank borrowings, mainly as part of its correspondent banking business and to regulate its liquidity, and medium-term borrowings. As at 31 December 2009, deposits and balances from banks and other financial institutions decreased by 72.9 per cent. to RUB 2,303.3 million from RUB 8,486.3 million as at 31 December 2008. This decrease reflects the Group's repayment of funds that it had borrowed from the CBR during auctions as the Group became more liquid. Deposits and balances from banks and other financial institutions increased by 335.8 per cent. to RUB 8,486.3 million from RUB 1,947.2 million as at 31 December 2008. This increase in 2008 reflects the loans that the Group obtained from the CBR through programmes aimed at supporting liquidity in the Russian banking sector.

Amounts payable under repurchase agreements

Amounts payable under repurchase agreements decreased by 16.6 per cent. to RUB 1,158.7 million as at 31 December 2009 from RUB 1,389.9 million as at 31 December 2008. Amounts payable under repurchase agreements as at 31 December 2008 increased by 289.9 per cent. to RUB 1,389.9 million from RUB 356.5 million as at 31 December 2007. The changes in 2009 and 2008 reflect the Group's use of repurchase agreements as a way of managing its liquidity.

Current accounts and deposits from customers

The Group's current accounts and deposits from customers as at 31 December 2009 increased by 27.7 per cent. to RUB 53,412.3 million from RUB 41,834.0 million as at 31 December 2008. The increase primarily reflects an increase of 29.1 per cent. of current accounts and demand deposits of corporate clients, an increase of 47.7 and 29.3 per cent. of current accounts and demand deposits and term deposits, respectively, of individuals. This in turn reflects the Group's success in attracting funding from this segment and the customers it acquired with ICB. The Group's customer accounts as at 31 December 2008 increased by 43.7 per cent. to RUB 41,834.0 million from RUB 29,122.4 million as at 31 December 2007. The increase primarily reflects an increase in retail deposits, especially term deposits and more broadly reflect the Group's strategy to operate on a self-funding basis and also the customers it acquired through

Gazenergobank and Bank24.ru. See "*Business—Strategy—Internal capital generation and increasing funding base.*"

The following table sets out the composition of the Group's client customer accounts for the periods under review:

	As at 31 December				
	2009		2008		2007
	RUB'000	Change %	RUB'000	Change %	RUB'000
Corporate clients					
– Current accounts and demand deposits	10,868,712	29.1	8,417,206	(1.2)	8,517,225
– Term deposits	3,683,616	0.2	3,676,109	(22.9)	4,769,653
Individuals					
– Current accounts and demand deposits	3,332,480	47.7	2,255,759	42.8	1,580,033
– Term deposits	35,527,447	29.3	27,484,929	92.8	14,255,525
Total customer accounts	53,412,225	27.7	41,834,003	43.6	29,122,436

Debt securities issued

The Group's debt securities issued as at 31 December 2009 decreased by 24.3 per cent. to RUB 5,015.7 million from RUB 6,624.6 million as at 31 December 2008. This reflects a 51.8 per cent. reduction in the Group's loan participation notes which the Group purchased and cancelled to take advantage of the fact that such notes were trading at a price below par value. This overall reduction has been offset to a degree by a 104.5 per cent. increase in the amount of discount bearing promissory notes issued by the Group. The Group's debt securities issued as at 31 December 2008 decreased by 48.5 per cent. to RUB 6,624.6 million from RUB 12,857.4 million as at 31 December 2007. This decrease was primarily driven by the Group redeeming its loan participation notes on maturity.

Other borrowed funds

The Group's other borrowed funds increased by 3.8 per cent. to RUB 9,094.1 million as at 31 December 2009 from RUB 8,762.2 million as at 31 December 2008. This slight increase primarily reflects increased borrowing from Bayerische Hypo Vereinsbank AG in the amount of RUB 1,057.4 million. The Group's other borrowed funds increased by 179.2 per cent. to RUB 8,762.2 million as at 31 December 2008 from RUB 3,138.5 million as at 31 December 2007. This increase was primarily driven by loans amounting to RUB 5,572.1 million from the DIA to fund the Group's financial rehabilitation of Gazenergobank and Bank24.ru.

Subordinated debts

The Group's subordinated debts decreased by 34.8 per cent. to RUB 1,707.9 million in the year ended 31 December 2009 from RUB 2,619.5 million as at 31 December 2008. The decrease reflects the Group's repayment of certain subordinated debts and in particular, its repayment of the RUB 624.9 million subordinated loan from East Capital Financials Fund AB and in return the purchase by East Capital Financials Fund AB of ordinary shares of the Bank in the amount of RUB 624.9 million. The Group's subordinated debts increased by 162.4 per cent. to RUB 2,619.5 million as at 31 December 2008 from RUB 998.2 million as at 31 December 2007.

Other liabilities

The Group's other liabilities decreased by 30.5 per cent. to RUB 542.2 million as at 31 December 2009 from RUB 780.5 million as at 31 December 2008. The decrease primarily resulted from an 86.2 per cent. decrease in property received under pledge agreements and a 99.9 per cent. decrease in amounts payable under transactions with securities. The Group's other liabilities increased by 49.5 per cent. to RUB 780.5 million as at 31 December 2008 from RUB 522.2 million as at 31 December 2007. The increase primarily resulted from RUB 202.8 million in respect of property received under pledge agreements, RUB 150.0 million in respect of amounts payable under transactions with securities and RUB 47.1 million in respect of deferred fees for customer accounts maintenance.

Liquidity and Capital Resources

Liquidity

The Group manages its short-term liquidity needs or surpluses through short-term interbank borrowing and lending and the sale and purchase of securities. Medium and long term liquidity is managed by matching the currency and maturity of the Group's assets and liabilities. For additional information on the Group's liquidity management, see "*Risk Management— Liquidity Risk*".

Funding

The Group requires funds to make loans to customers and to invest in securities and operates on a self-funding basis in line with its strategy (see "*Business—Strategy—Internal capital generation and increasing funding base*"). The Group's primary source of funds is and has been its corporate and retail deposit base, which consists primarily of retail term deposits. The Group has a large and diverse funding base, servicing over 2,700 corporate customers and approximately 900,000 retail customers, as at 31 December 2009. Highly liquid assets (comprising cash, placements with banks and other financial institutions, financial instruments at fair value through profit or loss, and available-for-sale securities) represented 24.1 per cent. of the Group's balance sheet assets as at 31 December 2009, compared to 19.0 per cent. and 14.8 per cent. as at 31 December 2008 and 2007 respectively.

The Group also funds its operations through medium-term loans from international banks, the placement of loan participation notes in the international capital markets and equity placements.

Contractual obligations

The following table summarises the maturity analysis of the Group's financial liabilities as at 31 December 2009:

	Less than 1 month	1 to 3 months	3 to 6 months	From 6 months to 1 year	1-3 years	More than 3 years	Without a maturity date	Over-due	Total
Financial instruments at fair value through profit or loss	1,806,477	39,000	10,827	-	-	-	-	-	1,856,304
Deposits and balances from banks and other financial institutions	1,029,693	421,552	4	90,244	761,796	-	-	-	2,303,289
Amounts payable under repurchase agreements	1,158,749	-	-	-	-	-	-	-	1,158,749
Current accounts and deposits from customers	17,931,510	7,672,600	5,447,173	13,267,179	8,570,998	522,795	-	-	53,412,255
Debt securities issued	438,541	1,111,606	565,284	2,841,768	58,543	-	-	-	5,015,742
Other borrowed funds	-	83,686	632,519	779,161	3,035,265	4,563,440	-	-	9,094,071
Subordinated debts	-	-	-	-	669,319	1,038,535	-	-	1,707,854
Other liabilities	25,956	130,408	10,800	361,046	13,960	-	-	-	542,170
Total contractual obligations	22,390,926	9,458,852	6,666,607	17,339,348	13,109,881	6,124,770	-	-	75,090,434

The following table summarises loan participation notes issued by the Group as at 31 December 2009 and 31 December 2008:

Description	Date of issue	Maturity date	Principal amount as at 31 December 2009 (RUB'000)	Principal amount as at 31 December 2008 (RUB'000)	Interest rate %
Loan participation notes	09.07.2007	08.07.2010	1,658,750	2,728,000	9.67
Loan participation notes	18.08.2008	17.08.2010	707,349	2,204,568	12.40

Off-balance sheet arrangements

The primary purpose of the Group's off-balance sheet arrangements is to ensure that funds are available to a customer as required. For example, guarantees that represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties carry the same credit risk as loans. Import letters of credit, which are

written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by cash deposits or collateral pledged to the Group and therefore carry less risk than direct borrowing. As at 31 December 2009, the Group had no significant off-balance sheet arrangements other than undrawn credit lines, guarantees and import letters of credit. The Group had total credit-related commitments for the year ended 31 December 2009 of RUB 11,025.0 million compared with RUB 7,414.2 million and RUB 9,552.6 million for the years ended 31 December 2008 and 2007, respectively. As at 31 December 2009, the total amount of guarantees and similar commitments issued by the Group was RUB 7,190.5 million, compared to RUB 2,649.2 million and RUB 2,964.7 million as at 31 December 2008 and 31 December 2007. The total amount of undrawn credit lines as at 31 December 2009 was RUB 2,776.0 million compared to RUB 2,079.1 million and RUB 3,338.0 million as at 31 December 2008 and 2007, respectively.

The Group believe that its off-balance sheet obligations will not have a material impact on its financial condition if the Group is required to satisfy such obligations in full. The Group records its off-balance sheet guarantees and commitments to extend credit that represent contingent obligations on its balance sheet at the time of performance in accordance with the applicable accounting standards.

The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. Provisions for guarantee-related commitments are included within other liabilities in the balance sheet and amount to RUB 41.9 million as at 31 December 2009, RUB 16.6 million as at 31 December 2008 and RUB 18.0 million as at 31 December 2007.

Cash flows

The following table sets out selected cash flow data from the Group's combined cash flow statements for the years ended 31 December 2009, 2008 and 2007, respectively.

For the year ended 31 December

	2009		2008 (audited)		2007
	RUB'000	%	RUB'000	%	RUB'000
Net cash inflows from operating activities	4,032,909	(44.4)	7,254,409	48.8	4,143,445
Net cash outflows from investing activities	(3,451,850)	0.8	(3,423,655)	(250.2)	(1,553,193)
Net cash (outflows)/inflows from financing activities	(1,589,503)	-	1,591,784	(82.7)	9,242,208
Cash and cash equivalents at end of the year of period	14,228,293	(5.3)	15,026,106	68.0	8,944,800

Net cash inflows from operating activities

The Group's net cash flows from operating activities for the year ended 31 December 2009 decreased to RUB 4,032.9 million from RUB 7,254.4 million for the year ended 31 December 2008. This change resulted primarily from an increase in the Group's provision for impairment during the same period.

The Group's net cash flows from operating activities for the year ended 31 December 2008 increased to RUB 7,254.4 million from net cash flows from operating activities of negative RUB 4,143.4 million or the year ended 31 December 2007. This change resulted from negative cash flow from loans to customers during this period.

Net cash outflows from investing activities

The Group's net cash flows from investing activities for the year ended 31 December 2009 increased by 0.8 per cent. to negative RUB 3,451.9 million from net cash flows from investing activities of negative RUB 3,423.7 million for the year ended 31 December 2008. This change resulted from advances issued to property development companies (see "Note 21 (Advances issued to property development companies) to the Group's Financial Statements"). The Group's net cash flows from investing activities for the year ended 31 December 2008 changed to negative RUB 3,423.7 million to negative RUB 1,553.2 million for the year ended 31 December 2007. This change resulted from the Group's acquisition of subsidiaries, namely GEB and Bank24.ru.

Net cash (outflows)/inflows from financing activities

The Group's net cash (outflows)/inflows from financing activities for the year ended 31 December 2009 changed to RUB 1,583.5 million from RUB 1,591.8 million for the year ended 31 December 2008. This change primarily resulted from the increase in other borrowed funds.

The Group's net cash flows from financing activities for the year ended 31 December 2008 decreased by 5.3 per cent. to RUB 1,591.8 million from RUB 9,242.2 million for the year ended 31 December 2007. This change resulted from the Bank's repayment of debt securities during this period.

Capital Adequacy

The CBR requires banks to maintain regulatory capital of at least 10.0 per cent. of risk weighted assets, computed on the basis of RAS. The minimum Tier 1 capital adequacy ratio of 4.0 per cent. and total capital adequacy ratio of 8.0 per cent. was established pursuant to the Basel Accord. The Bank is also required to maintain a capital adequacy ratio of 12.0 per cent. pursuant to certain of its loan agreements with the EBRD.

As at 31 December 2009 the total Tier 1 capital and total capital (both expressed as a percentage risk-weighted assets) of the Group calculated in accordance with the Basel Accord requirements were 9.4 per cent. and 12.4 per cent. compared with 9.4 per cent. and 13.5 per cent. and 11.0 per cent. and 14.5 per cent. as at 31 December 2008 and 2007, respectively.

Additionally, the Group had a total capital adequacy ratio calculated in accordance with the methods of the CBR of 12.82 per cent. as at 31 December 2009, compared to 13.49 per cent. as at 31 December 2008. As at 31 December 2008, the Group's capital adequacy ratio calculated in accordance with the CBR's methodology was 13.49 per cent., compared with 14.25 per cent. as at 31 December 2007.

The following table sets out the Group's capitalisation as at 31 December 2009, 2008 and 2007 in accordance with IFRS and the Basel Accord, a paper entitled "International Convergence of Capital Measurement and Capital Standards", dated July 1988 and prepared by the Basel Committee on Banking Regulation and Supervision, as amended.

	As at 31 December		
	2009	2008	2007
	RUB'000		
Tier 1 Capital			
Share capital	4,417,399	4,126,071	4,046,638
Share premium	1,237,031	1,375,351	1,079,781
Retained earnings	1,736,721	1,123,258	885,790
Minority interest	28,279	19,228	12,977
Goodwill	(252,676)	(252,676)	(252,676)
Total Tier 1 Capital	7,166,754	6,391,232	5,772,510
Tier 2 Capital			
Revaluation reserve for property and equipment	739,015	816,731	1,145,460
Revaluation reserve for available-for-sale securities	(6,966)	(96,095)	-
Additional paid-in capital	611,241	70,621	70,621
Subordinated debts	897,685	2,031,200	620,306
Total tier 2 Capital	2,240,975	2,822,457	1,836,387
Total capital	9,407,729	9,213,689	7,608,897
Risk Weighted Assets			
Total risk weighted assets	76,081,180	68,307,146	52,416,340
Capital Adequacy Ratios			
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	12.37%	13.49%	14.52%

Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)

9.42%

9.36%

11.01%

In April 2009, the Bank breached its capital adequacy ratio calculated in accordance with the CBR's methodology due to the early repayment of a RUB 624,898,560 subordinated loan from East Capital Financial Fund AB for the purposes of the further payment of these funds for an additional share issuance of ordinary shares of the Bank. The ratio which is required to be kept at the level of at least 10 per cent., decreased on several dates in April 2009 to 8.0 - 9.6 per cent. The early repayment of the loan was agreed in advance with the CBR, and no sanctions for the breach were imposed on the Group.

Segment operations

The Group uses information on business segments as its primary format for reporting segment information. The Group's main business segments are corporate, SME, retail, cash and consumer finance and financial markets (see "*Business— Banking Services and Activities—Overview*").

Transactions between business segments are based on commercial terms. In the ordinary course of business the Group's financial resources are reallocated between business segments. As a result, inter-segment allocations are reflected within assets/liabilities of a business segment and the cost of reallocated financial resources is included in the business segment income/expenses.

The following table sets forth the segment breakdown of the Group's assets and liabilities as at 31 December 2009, 2008 and 2007:

	As at 31 December		
	2009	2008	2007
		RUB'000	
ASSETS			
Retail business division	10,533,287	12,348,427	11,392,461
Corporate business division	16,824,841	17,412,874	15,780,006
Express loan division	3,961,177	3,414,008	4,368,841
Small and medium size business division	4,674,261	6,010,732	5,186,285
Bank24.ru	2,719,406	-	-
NSB	274,365	-	-
Unallocated assets	44,865,817	38,928,492	20,320,719
Total assets	83,853,154	78,114,533	57,048,312
LIABILITIES			
Retail business division	31,050,906	23,592,304	14,777,296
Corporate business division	15,031,131	10,347,205	10,459,675
Express loan division	1,311,588	57,384	51,151
Small and medium size business division	5,831,264	2,391,363	4,995,152
Bank24.ru	6,158,328	-	-

NSB	-	-	-
Unallocated liabilities	15,707,217-	34,291,112	19,523,771
Total liabilities	75,090,434	70,679,368	49,807,045

The following tables set forth certain of the Group's financial information by reporting segment for the years ended 31 December 2009, 2008 and 2007:

Corporate banking segment

	For the year ended 31 December		
	2009	2008	2007
	RUB'000		
Interest income	4,001,029	3,567,503	2,063,889
Interest expense	(1,231,026)	(831,561)	(475,067)
Net revenue from other segments	(1,618,069)	(456,529)	(661,167)
Net interest income before provision for impairment	1,151,934	2,279,413	927,655
Provision for impairment and loss from disposal of loans	(1,658,403)	(137,298)	(138,074)
Net interest income/(loss) after provision for impairment	(506,469)	2,142,115	789,581
Non-interest income	794,101	599,133	534,409
Negative revaluation of buildings	-	-	-
General administrative expenses	(592,689)	(650,910)	(424,307)
Segment result	(305,057)	2,090,338	899,683

Retail business segment

	For the year ended 31 December		
	2009	2008	2007
	RUB'000		
Interest income	4,044,051	3,625,821	2,204,933
Interest expense	(3,124,618)	(2,126,374)	(1,082,707)
Net revenue from other segments	2,636,155	(440,022)	102,026
Net interest income before provision for impairment	3,555,588	1,059,425	1,224,252
Provision for impairment and loss from disposal of loans	(2,128,592)	(1,310,418)	(323,561)
Net interest income/(loss) after provision for impairment	1,396,996	(250,993)	900,691
Non-interest income	879,594	483,304	317,987
Negative revaluation of buildings	-	-	-

General administrative expenses	(1,627,621)	(1,491,524)	(884,736)
Segment result	648,969	(1,259,213)	333,942

Express loan business segment

	For the year ended 31 December		
	2009	2008	2007
	RUB'000		
Interest income	2,185,705	1,596,204	1,050,108
Interest expense	(79,918)	(210)	(44)
Net revenue from other segments	(801,618)	530,686	(420,792)
Net interest income before provision for impairment	1,304,169	2,126,680	629,272
Provision for impairment and loss from disposal of loans	(228,193)	(607,972)	(127,724)
Net interest income/(loss) after provision for impairment	1,075,976	1,518,708	501,548
Non-interest income	39,298	(1,303)	174
Negative revaluation of buildings	-	-	-
General administrative expenses	(885,568)	(866,732)	(750,355)
Segment result	229,706	650,673	(248,633)

Small and medium size business segment

	For the year ended 31 December		
	2009	2008	2007
	RUB'000		
Interest income	1,657,876	1,599,891	904,215
Interest expense	(124,591)	(175,850)	(92,725)
Net revenue from other segments	(259,318)	(601,984)	(211,796)
Net interest income before provision for impairment	1,273,967	822,057	599,694
Provision for impairment and loss from disposal of loans	(1,027,402)	(850,183)	(180,026)
Net interest income/(loss) after provision for impairment	246,565	(28,126)	419,668
Non-interest income	559,612	350,840	321,727
Negative revaluation of buildings	-	-	-
General administrative expenses	(917,883)	(696,260)	(576,634)
Segment result	(111,706)	(373,564)	164,761

Bank24.ru business segment

	For the year ended 31 December		
	2009	2008	2007
	RUB'000		
Interest income	782,578	-	-
Interest expense	(589,904)	-	-
Net revenue from other segments	(122,000)	-	-
Net interest income before provision for impairment	70,674	-	-
Provision for impairment and loss from disposal of loans	121,821	-	-
Net interest income/(loss) after provision for impairment	192,495	-	-
Non-interest income	626,682	-	-
Negative revaluation of buildings	-	-	-
General administrative expenses	(699,000)	-	-
Segment result	120,177	-	-

NSB

	For the year ended 31 December		
	2009	2008	2007
	RUB'000		
Interest income	31,263	-	-
Interest expense	-	-	-
Net revenue from other segments	(24,266)	-	-
Net interest income before provision for impairment	6,997	-	-
Provision for impairment and loss from disposal of loans	(3,037)	-	-
Net interest income/(loss) after provision for impairment	3,960	-	-
Non-interest income	17,282	-	-
Negative revaluation of buildings	-	-	-
General administrative expenses	(67,390)	-	-
Segment result	(46,148)	-	-

Unallocated

	For the year ended 31 December		
	2009	2008	2007
	RUB'000		
Interest income	1,125,551	701,256	901,374
Interest expense	(1,675,262)	(1,556,540)	(1,507,593)
Net revenue from other segments	189,116	1,597,849	1,191,729
Net interest income before provision for impairment	(360,595)	742,565	585,510
Provision for impairment and loss from disposal of loans	-	(143,161)	-
Net interest income/(loss) after provision for impairment	(360,595)	599,404	585,510
Non-interest income	1,363,459	599,974	89,685
Negative revaluation of buildings	(242,017)	(310,281)	-
Revaluation of investment property	(39,750)	-	-
General administrative expenses	(930,959)	(1,204,743)	(1,150,147)
Segment result	(209,862)	(315,646)	(474,952)

The Group's transactions not included in the above business segments are disclosed separately.

Critical accounting policies

The accounting policies of the Group are integral to understanding its results of operations and financial condition. The Group's critical accounting policies are described in Note 3 to the Group's Financial Statements.

The preparation of the Group's Financial Statements requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting period. On an ongoing basis, the Group's management evaluates its estimates and judgments, including those related to the reported amount of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the preparation of the Group's Financial Statements and the reported amount of revenues and expenses during the reporting period.

The Bank has identified the following accounting policies that it believes are most critical to an understanding of the consolidated results of operations and consolidated financial condition of the Group. These critical accounting policies require management's subjective and complex judgment about matters that are inherently uncertain. The Bank bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results will differ from estimates under different assumptions and conditions and such differences may be material.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- (a) acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- (b) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- (c) derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or
- (d) upon initial recognition, designated by the Group as at fair value through profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- (a) the assets or liabilities are managed and evaluated on a fair value basis;
- (b) the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- (c) the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that:

- (a) the Group intends to sell immediately or in the near term;

- (b) the Group upon initial recognition designates as at fair value through profit or loss;
- (c) the Group upon initial recognition designates as available-for-sale; or
- (d) the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- (a) the Group upon initial recognition designates as at fair value through profit or loss;
- (b) the Group designates as available-for-sale; or
- (c) meet the definition of loans and receivables.

Available-for-sale securities are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Management determines the appropriate classification of financial instruments at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial asset that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- (a) loans and receivables which are measured at amortised cost using the effective interest method;
- (b) held-to-maturity investments which are measured at amortised cost using the effective interest method; and
- (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for

derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties and own credit risk.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- (a) a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss; or
- (b) a gain or loss on an available-for-sale asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale asset is recognised as earned in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortization process.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within placements with banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Derivative financial instruments

The Group uses derivative financial instruments to manage currency risk and liquidity risk for the purposes of trading. Derivative financial instruments include forward and future contracts on operations with foreign exchange and securities.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Although the Group trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

DESCRIPTION OF THE GROUP

Overview

The Bank is a commercial bank headquartered in Moscow with a network of offices and subsidiary banks (collectively the Bank and its consolidated banking subsidiaries are referred to as the Group: see "*History and Structure of the Group*"). The banks that make up the Group are present in many of the Russian Federation's developed regions and operate under their own brands and the Group's umbrella brand, "Life" (see "*Banking Services and Activities—Retail Banking—The 'Life' Brand*"). Under banking licences granted by the CBR to the members of the Group, the Group renders a wide range of banking services to individuals and corporate clients. Certain members of the Group also hold licences enabling them to perform depository activities, securities management, dealer and brokerage services, precious metal transactions and to act as intermediaries for futures and options transactions.

On a consolidated basis and based on the Group's own calculations based on CBR statistics, the Group ranked 33rd by assets, 40th by equity and 25th by retail loans out of Russian banks and banking groups, as at 31 December 2009.

The Bank has short- and long-term credit ratings from Fitch as "B" and "B-", respectively, both with stable outlook. The Bank is rated BB+ with stable forecast by Rus-Rating.

The Group's business comprises four main divisions:

Corporate Banking: providing corporate lending services, including working capital loans and project finance, corporate deposit services, trade and structured finance, letters of credit and guarantees, factoring and receivables finance and leasing to corporate clients, with a particular focus on specific industries and mid-tier corporate clients with annual sales of between U.S.\$ 5 million and U.S.\$ 100 million;

SME Banking: providing payment and account services, overdrafts, various lending services and leasing and equipment finance to companies and entrepreneurs with annual sales in the range of U.S.\$ 3 million;

Retail Banking: providing a wide range of lending, deposit services, credit and debit cards to individuals, payment and account services; and

Consumer finance: providing primarily consumer loans and debit cards with an overdraft facility to individuals.

The Group's customers can access the Group's services through its expanding branch network which had 248 branches as at 31 December 2009 (See "*Branch Network*"), ATM network and telephone, mobile telephone banking and internet platforms.

For the year ended 31 December 2009, the Group's operating income had grown to RUB 11.3 billion from RUB 8.4 billion for the year ended 31 December 2008 and RUB 5.2 billion for the year ended 31 December 2007.

The Group's cost-to-income ratio was 53.6 per cent. for the year ended 31 December 2009, as compared to 58.2 per cent. and 72.2 per cent. in the years ended 31 December 2008 and 31 December 2007, respectively). For the same periods, its Net Interest Margin was 10.5 per cent., 12.0 per cent. and 10.6 per cent., respectively.

As at 31 December 2009, the Group's total assets were RUB 83.9 billion, as compared to RUB 78.1 billion as at 31 December 2008 and RUB 57.0 billion as at 31 December 2007. As at 31 December 2009, the Group's total shareholders' equity was RUB 8.8 billion, as compared to RUB 7.4 billion as at 31 December 2008 and RUB 7.2 billion as at 31 December 2007. The Group's profit for the year ended 31 December 2009 was RUB 145.4 million, as compared to RUB 173.1

million for the year ended 31 December 2008 and RUB 542.5 million for the year ended 31 December 2007.

Competitive Strengths

The Group's management believes that the Group has a number of key strengths, namely:

Innovative strategic positioning in certain Russian regions

The Group's acquisition of regional banks and maintenance of such banks' regional brands has given it a strong springboard into the regions where it operates, namely the Urals (VUZ-Bank), Southern European Russia (Express-Volga), the Kaluga region (Gazenergobank) and Novosibirsk (ICB). Such acquisitions have also brought it the benefit of local know-how and established infrastructure. Competition in the Russian regions is generally less intensive than in Moscow and offers the Group the opportunity to roll out its customised performance-driven model and Group products under the umbrella brand "Life" to an existing customer base that is loyal to the brand acquired by the Group.

The Group retains the brands of the acquired banks, while at the same time integrating their information technology systems with those of the Group and overlaying business processes, such as product development and distribution, credit risk management, liquidity management, management information systems and compliance.

The Group believes that the regional recognition of its constituent banks' brands will continue to be a strength for it as it continues its expansion and consolidation in the Russian regions. As at the date of this Base Prospectus, the Group has no immediate plans to change the names of its key subsidiaries.

Successful approach to acquisitions

The Group in its current status is the result of a series of acquisitions made since 2003. All of the banks within the Group acquired before 2009 (with the exception of Bank24.ru, which is partially integrated) have been fully integrated within the Group from an operational standpoint. Bank24.ru's IT system will be kept separate for the time being due to its different business model. ICB, acquired late in 2009, is scheduled to be fully integrated by August 2011.

At a time when the global economic crisis had negatively impacted banks in the Russian Federation, the Group saw new opportunities in the Russian banking market and acquired Gazenergobank and Bank24.ru at the end of 2008 and ICB at the end of 2009. The Group's flexible strategy and experience in acquiring and integrating banks into the Group allowed it to make acquisitions at a time when valuation levels had dropped due to immediate liquidity and refinancing issues.

The Group has been successful in securing the buy-in of key management at the newly-acquired subsidiaries to retain the best of the acquired business model (see "*Banking Services and Activities – Retail Banking – The "Life" Brand*" and "*Strategy – Leveraging the "Life" brand*"). The Group integrates its acquisitions with the help of well-established integration systems: it takes the Group approximately three to four months to integrate the key functions, such as the core IT infrastructure and accounting, and on average one year to complete the integration.

As at 31 December 2009, the Group's banking subsidiaries contributed approximately 40 per cent. of the Group's operational income.

Innovative and decentralised credit risk management systems

The Group attributes the relatively low growth in its overdue loans (at half the market average in the year ended 31 December 2009, based on the Group's analysis of CBR statistics) to its innovative and decentralised approach to risk management. The Group rejects heavily-

automated and centralised credit assessment systems and takes an approach whereby the credit decision is made at a level as close to the customer as possible by credit managers, whose remuneration is directly linked to the performance of their loan portfolio.

Decentralised customer-focused business model

The Group believes that its decentralised and customer-focused business model is a key factor in its financial performance, including its relatively low level of overdue loans.

To achieve such results, the Group places great emphasis on selecting, motivating and training its employees; a decentralised decision-making model and customer care. The Group ties employee remuneration to the performance of a manager's team and such team's performance against certain financial indicators, such as profit and loss accounts. The Group routinely delegates many decisions to the branch level as it believes that branch managers are best placed to make credit decisions due to their experience and knowledge of the local customers, districts, and employers where they operate. Further, the Group believes that having branch managers who understand their customers and are able to make decisions in respect of those customers, results in a high level of customer service on a real time basis and offers a customised, rather than a "one size fits all" approach.

Another key differentiating factor for the Group is its sophisticated approach to both strategic planning and strategic implementation, through strategy maps, which contain key performance indicator targets. The Group is constantly refining its strategy through a system of monthly meetings (attended by more than 70 key managers of the Group) at which strategic targets, trends and key performance indicators are reviewed against actual results. Business units at all levels within the Group are encouraged to compete against each other (within the Group's strategy) in terms of key performance indicators. The monthly meetings are also aimed at ensuring that new trends, experience and success stories are shared widely. These measures are aimed at accurately and efficiently channelling the Group's resources and allowing the Group to react quickly to a changing business environment.

Flexible approach to adapt to new market conditions

The Group sees its flexibility as a key competitive strength. Such strategy proved its efficiency during the global economic crisis when the Group adapted quickly to new market conditions and made several successful acquisitions, changed its funding strategy towards a deposit-based model and bought back a portion of its outstanding loan participation notes at a deep discount to par value. These steps allowed the Group to significantly reduce its foreign-currency denominated debt in 2008 and 2009 and to replace it with customer deposits. Although foreign debt has never represented a substantial portion of the Group's debt, the Group has successfully grown other sources of funding in the absence of foreign debt. An example of this is the Group's increasing customer deposits at a time of diminished availability of international capital markets funding from 59.2 per cent. of total liabilities as at 31 December 2008 to 71.1 per cent. of total liabilities as at 31 December 2009. The Group has recently lowered its interest rates on such deposits to temper the growth of this source of funding to avoid having excess liquidity.

As at the date of this Base Prospectus, the Group runs its business on a self-funding basis.

Strong reputation and high business standards

Since it was established, the Group has pursued a policy of transparency in all its financial operations. The Group's management believes that this strategy has established a positive image for the Group in the Russian financial markets. The transparent structure of the Group's business operations and financial activities as well as its high business standards are key factors that have enabled the Group successfully to establish good relationships with a number of international financial institutions, namely the EBRD and Black Sea Trade and Development Bank (See "*The Bank*"). Previously, the Group cooperated with the IFC. The Group's ability to raise finance from

these international financial institutions and participate in their programmes has allowed it to further leverage its development both in general and particularly in relation to such areas of activity as SME lending and trade finance.

Strategy

The Group's primary strategic objective is to achieve profitable growth for its business and to outperform the majority of its domestic competitors in terms of operating income growth (before provisions), which is the main internal benchmark the Group uses to measure its level of success. The Group intends to achieve this by expanding the size of its business (primarily through organic growth, but at the same time, its flexible approach means that it remains open to making new acquisitions if attractive opportunities arise), maximising the efficiency of its operations, and developing the strength and presence of its "Life", "Poydem!" and other brands. The Group considers organic growth as the key for further business expansion, however, it may make opportunistic acquisitions if the right opportunity arises. The Group's strategy is underpinned by the following key initiatives:

Developing a differentiated customer service model and scalable business

One of the Group's priorities is to develop a differentiated and scalable business by offering highly customised tailored solutions, personalised approach to customers and well-qualified staff selected using the Group's own technologies. The Group uses its branch network to great advantage as a platform for its products, in tandem with its call centre, which initiates approximately 80 per cent. of the Group's retail credit sales as at the date of this Base Prospectus. The scalable approach is seen through the delegation of powers to local credit officers who are authorised to take credit decisions at branch level and whose performance is measured against the performance of the customers for whom they are responsible. A key element in the Group's model is the Group's human resources policy, which focuses on hiring entrepreneurial high achievers with an aptitude for success.

Internal capital generation and increasing the Group's funding base

The Group also seeks to achieve profitability sufficient to allow it to generate enough capital to support its planned growth. Part of this strategy depends on the Group's ability to achieve higher levels of product penetration in the regions. The Group also aims to minimise its operating expenses, while still providing high-quality services through the implementation of the strategies for each of its business divisions.

One of the Group's priorities is to maintain a self-funding basis (i.e., where it can fund its lending business out of its customer deposits) and thereby reduce its reliance on funding from international markets.

The Group has decreased its reliance on debt securities from 26 per cent. of total liabilities as at 31 December 2007 to 9.4 per cent. and 6.7 per cent. respectively, as at 31 December 2008 and 2009.

The Group plans to use its network to continue to attract deposits. Having achieved a self-funding basis (in the year ended 31 December 2009 customer deposits accounted for 71.1 per cent. of the Group's liabilities) the Group has gradually reduced its rates to temper the growth of this source of funding to avoid having excess liquidity. Notwithstanding the Group's current focus on a self-funding model, it remains open to re-accessing the capital markets and other longer-term funding sources when market conditions make such a move attractive.

Strengthening the "Life" brand

"Life" was developed within the Group's retail banking division as part of the Group's programme to create a distinctive retail banking model ("experience banking", which seeks to actively engage

the customer with the Group and establish a partnership for life). "Life" brand is an umbrella brand for the entire Group and its development has enabled the Group to complement its regional franchise identity (see "*Competitive Strengths – Innovative strategic positioning in certain Russian regions*") with consistent product offering across all banks in the Group, taking advantage of the existing customer loyalty at the subsidiary banks whilst gradually familiarising customers across the Group with "Life". Going forward, the Group views the "Life" brand as the keystone of its growth strategy, and intends both to develop the role of the brand in all aspects of its clients' experience and to promote further the values associated with the brand. The Group believes that the development and effective deployment of the "Life" brand will be a strong stimulant to growth in its business and will offer increasing cost saving synergies over time.

Increasing sales and its product offering through its regional network

Since 2005, the Group has rapidly expanded its regional presence and the reach of its branch network. From a total of 41 service locations across eight regions of the Russian Federation in 2005, the Group expanded its regional network to 70 regions of the Russian Federation with 248 service locations, as at 31 December 2009.

The Group treats each branch as a profit centre and it takes each branch approximately 18 months to reach break even.

The Group plans to increase its presence (and penetration to smaller underbanked towns in areas where it already has a presence) in the Russian regions, particularly by opening new retail banking offices in the regions where it is already present (such as Tula, Smolensk and Voronezh) and new regions (such as Cheboksary, Naberezhnyie Chelny and Yoshkar-Ola). The attractiveness of each particular region is based on market research and the Group's own assessment of demand for its services (See "*Branch Network*"). Two specific examples of product offerings to be rolled out through its regional network are consumer finance and the Federal Programme of Lending to State Employees (see "*Consumer Finance—Express Loans*" and "*Business—NSB—Federal Programme of Lending to State Employees*").

Focus on key customer segments

The Group has identified key customer segments for each of its business divisions. These divisions reflect the Group's banks historical strengths, each targeting a particular customer base. Thus, in its corporate banking division, the key focus of the Group is on mid-tier Russian companies with annual sales of between U.S.\$5 million and U.S.\$100 million, as well as on a series of industry areas (such as grain, metal and oil trading, and wine and beverages importation). The Group focuses on delivering a small number of high value-added solutions, such as short-term working capital at a premium fee through managers who understand the businesses to which they are lending. In its SME banking division, the Group focuses on companies and entrepreneurs with annual sales in the range of U.S.\$3 million and in its retail banking and consumer finance divisions, on customers with above average and below average incomes. The Group believes, based on its factual experience, that these key customer segments represent parts of the market where margins and risk are most profitably balanced and the Group can increase its customer base most profitably.

The Group's individual approach is key for customer retention (See "*Competitive Strengths—Decentralised customer-focused business model*").

A dynamic and motivated team

The Group sees its employees as a key element in its continued success. The Group's focus is built on the four following cornerstones.

The first of the Group's human resources goals is employee loyalty and it has devised systems to monitor and foster loyalty. Leadership is another key element in the Group's human resources

strategy. The Group runs leadership programmes for its management based on the principles of emotional intelligence.

Decentralised management is another key element in the Group's human resources strategy: with the goal of allowing decisions to be made at the most appropriate level and similarly for authority to be delegated downwards to the most appropriate level.

The final cornerstone of the Group's human resources strategy is the use of assessment centres on a mass scale as part of its recruitment process. The Group believes that this approach brings it employees with the best aptitude for their specific roles.

History and Structure of the Group

Established in the early 1990s, the Bank's business was based on servicing corporate customers in the chemical, petrochemical and car manufacturing industries, and particularly companies to which the founding shareholders of the Bank had provided consulting services. As at the date of this Base Prospectus, the Group is a commercial banking group consisting of seven banks (including the Bank) and offering a wide range of services, with its headquarters in Moscow and, together with the other banks in the Group, having presence across European Russia, Siberia and the Russian Far East.

The Bank

Registered on 7 July 1993 as joint stock company of closed type and reorganised in 1995 in a limited liability company, in 1997, to strengthen and expand its capital base, the Bank became an open joint-stock company, incorporated under the laws of the Russian Federation. The Bank is regulated and supervised by the CBR. The Bank's registered office is 3 Pudovkina Street, Moscow 119285, Russian Federation. The Bank's head office is located at 18/2 Petrovka Street, Moscow 127051, Russian Federation. The Bank was registered with the Unified State Register of Legal Entities at the Ministry of Taxes and Levies of the Russian Federation under the registration number 1027700508978 on 9 December 2002.

On 28 April 2003, the Bank was given Banking Licence No. 2412 of the CBR, which replaced the licence that it was granted in 1993 when it commenced operations. The Bank also holds licences from the FSFM for depository activities, securities management operations, dealer and brokerage services, acting as an intermediary in futures and options contracts, non-governmental pension funds asset management, licence from the CBR to attract deposits of precious metals and alloys and placement of the same.

The Bank has been a member and user of SWIFT since 1996, and is a member of the Moscow Interbank Currency Exchange, the Association of Russian Banks, the Moscow Stock Exchange, the International Retail Banking Council, the American Chamber of Commerce in Moscow, the Bidders Support Association and the Russian-American Development Council. It is also a member of MasterCard and Europay International S.A. and an associate member of VISA International.

The Bank offers corporate, SME, retail, banking and consumer finance services.

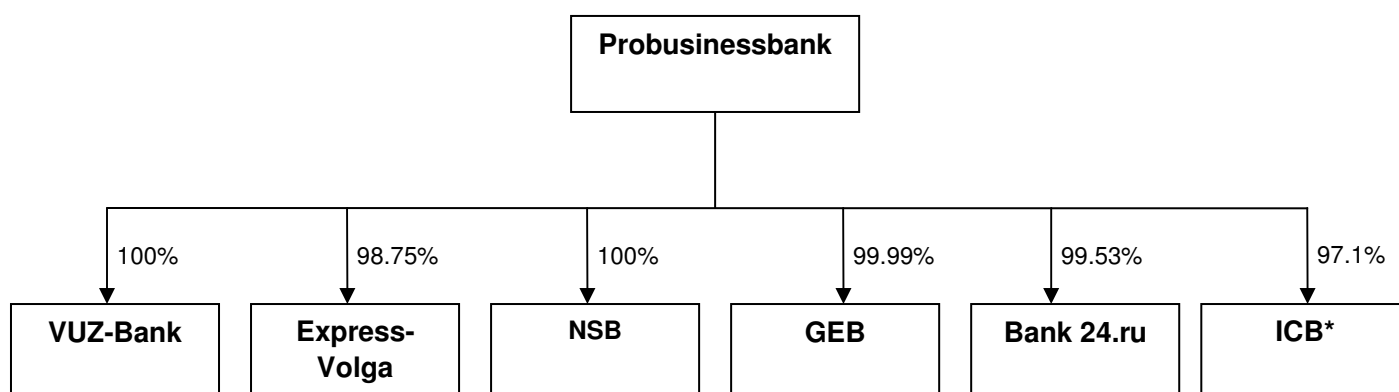
The Bank is an official dealer on the RTS and the Moscow Stock Exchange and an authorised participant in the Russian Federation Small Business Programme, the trade programmes of EBRD, which provide for cooperation in pre-export financing of Russian companies and lending to SMEs, and the Black Sea Trade and Development Bank and the SME support programme of Overseas Private Investment Corporation.

As at 31 December 2009, the Bank had 134 offices.

The Bank has been a member of the Deposit Insurance System since 23 December 2004. As at 31 December 2009, it had 3,094 employees.

The Group

The Bank is the parent company of the Group, which also includes VUZ-Bank, Express-Volga, NSB, Gazenergobank, Bank24.ru and ICB, each of which is consolidated into the Group's audited consolidated financial statements. The Group operates under the general umbrella of the "Life" brand (see "– *Banking Services and Activities – Retail Banking – The "Life" Brand*"). As at 31 December 2009, the Bank owned a 100 per cent. interest in both VUZ-Bank and NSB, a 98.75 per cent. interest in Express-Volga, 99.99 per cent. in Gazenergobank, 99.53 per cent. in Bank24.ru and indirectly 97.1 per cent. in ICB. As at 31 December 2009, the Group had the following principal corporate structure:



* The Bank's ownership in ICB is indirect and as of the date of this Base Prospectus, is as follows: NSB - 19.99 per cent.; Mrs. A. Filipovich - 19.5 per cent.; Mrs. I. Ryabova - 14.59 per cent.; Mrs. N. Stolpovskikh - 14.34 per cent.; Mrs. M. Bugakova - 14.34 per cent.; Mrs. A. Stolchneva - 14.34 per cent. and minority shareholders - 2.89 per cent. See "Overview of the Group's Member Banks and Associated Companies".

Although each bank within the Group maintains its existence as independent legal entity and has a regionally-recognisable brand, the long term strategy of the Group is for each bank in the Group to operate and deliver their respective product ranges under the umbrella of the "Life" brand (see "– *Strategy – Leveraging the "Life" brand*"). The Group anticipates that the banks in the Group will continue to use their present names for the foreseeable future.

For a detailed description of the Group's member banks see "Overview of the Group's Member Banks and Associated Companies".

As at 31 December 2009, the Group had 6,272 employees.

Market Position and Competition

The banking sector in the Russian Federation is highly fragmented and very competitive. As at 1 September 2010, according to the CBR, there were 1,158 banks and non-banking credit organisations operating in the Russian Federation, 910 of which could take deposits from private individuals. The Russian banking sector is highly concentrated in Moscow and the Moscow region where approximately 51.7 per cent. of Russian banks were located as of 1 September 2010. As at 1 September 2010, the five largest banks accounted for 47.8 per cent. of the total banking assets in the Russian Federation in terms of value, and the 20 largest banks accounted for 68.2 per cent. thereof, according to the CBR. For a description of the Russian banking sector, see "Overview of the Banking Sector and Banking Regulation in the Russian Federation".

On a consolidated basis and based on the Group's own calculations based on CBR statistics, the Group ranked 33rd by assets, 40th by equity and 25th by retail loans out of Russian banks and banking groups, as at 31 December 2009. Also on the basis of the Group's calculations based on CBR statistics, Express-Volga ranks second after Sberbank in terms of the amount of customer retail deposits, placed with bank in the Saratov region. On the same basis, Gazenergobank is the largest private bank in the Kaluga region. Bank24.ru ranks seventh in Ekaterinburg in terms of net assets and ICB is the 7th largest bank in Novosibirsk in terms of net assets. For further information, see "*Overview of the Group's Member Banks and Associated Companies*".

The Group faces competition from banks in each of the business areas and regions of the Russian Federation in which it operates. In the corporate banking sector, the Group considers its main competitors to include Promsvyazbank, Bank "Soyuz" and Credit Bank of Moscow, MDM-Bank, Absolut Bank and Raiffeisenbank in respect of certain of its niche units, VTB 24 and various regional banks in respect of the operations of VUZ-Bank and Express-Volga and TransCreditBank in respect of the operations of Express-Volga. In respect of the SME market, the Group believes its main competitors to include certain SME-focussed banks such as VTB 24, Bank Soyuz, Credit Bank of Moscow, IMPEXBANK and LOCKO-Bank, and also certain banks specialising exclusively on SME business, such as NBD Bank and Bank Intesa. The Group believes its main competitors in retail banking to include Raiffeisenbank, VTB 24, Bank of Moscow, Citibank, Alfa-Bank, GE Money Bank, CETELEM Bank, BNP Paribas, Home Credit Bank, Russian Standard Bank and Rusfinansbank. The Group believes its main competitors in consumer finance to include Home Credit Bank, GE Money Bank, Russian Standard Bank, Citibank, OTP Bank, Orient Express Bank, Sovcombank and RenCredit.

The Group believes that over the next few years the banking environment in the Russian Federation will continue to be characterised by increased competition, decreasing profit margins and the tightening of banking supervision, which will result in further consolidation of the banking sector. The Group also expects to see an increase in the range of banking products and services provided by major foreign credit institutions. The Group believes that the removal of most of the restrictions related to provision of banking services by foreign credit institutions to Russian residents will increase further competition amongst banks operating in the Russian Federation. For a description of the Group's competitive advantages, see "*Competitive Strengths*".

Banking Services and Activities

Overview

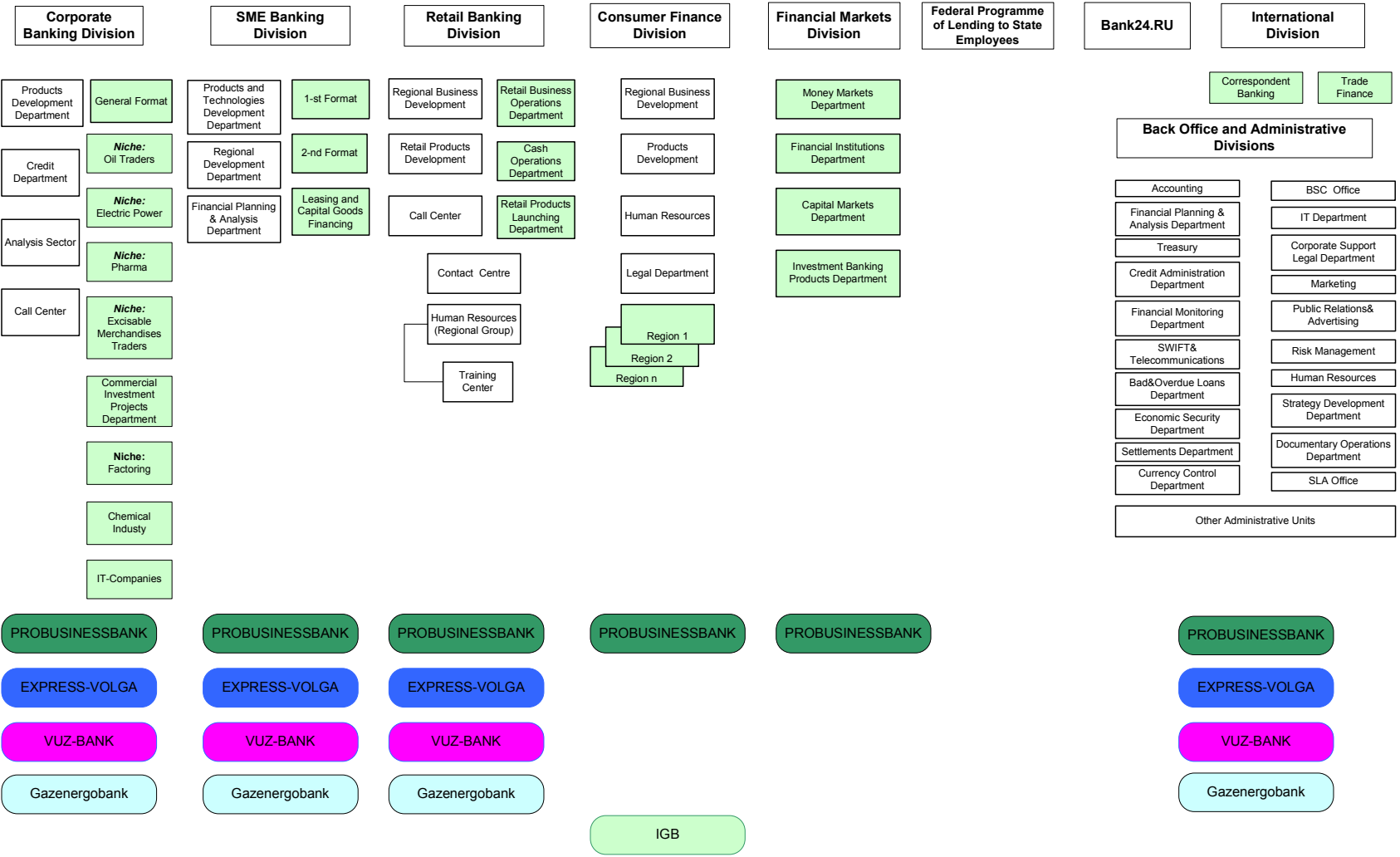
The Group offers a wide range of banking services including corporate, SME and consumer retail banking, payment and account services, trade and project financing, factoring, guarantees and letters of credit and other ancillary services to corporate, SME and retail customers. For segment information on the Group see "*Operating and Financial Review—Segment Operations*".

The chart on the following page shows the organisational structure of the Group's core business divisions as at 1 April 2010.

For more information on the contribution of each of the Group's business segments to Group's financial results, see "*Operating and Financial Review—Segment Operations*".

DIVISIONAL ORGANISATIONAL CHART of LIFE GROUP

Business Divisions



Corporate Banking

Corporate banking has historically been the core business of the Group, particularly for the Bank and VUZ-Bank, and as at the date of this Base Prospectus it contributes a significant part of the Group's overall income (RUB 1.9 billion for the year ended 31 December 2009, RUB 1.8 billion and RUB 1.5 billion, respectively, for the years ended 31 December 2008 and 31 December 2007). The corporate banking division's contribution to the Group's total income was 17.3 per cent., 21.8 per cent. and 28.0 per cent. for the years ended 31 December 2009, 31 December 2008 and 31 December 2007, respectively. The Group's strategic focus within its corporate banking operations is on mid-tier corporate clients, and in particular on mid-tier Russian clients with annual sales of between U.S.\$ 5 million and U.S.\$ 100 million. The Group specialises in the following industry sectors: oil trading, energy, pharmaceuticals, alcoholic beverages and factoring. The Group offers the following key products to its corporate customers:

- (i) lending products, including working capital loans;
- (ii) factoring and receivables finance;
- (iii) letters of credit and guarantees, particularly for trade and structured finance and tenders; and
- (iv) accounts and deposits. The Group also provides cash management services to its corporate clients and it has developed various new project offerings aimed at increasing levels of commission income. In the corporate segment, the Group's key goal is to increase profitability per corporate customer. As at 31 December 2009, the Group had over 2,700 corporate clients. Corporate banking services are offered by all Group member banks (other than NSB and ICB) in 31 Russian cities. As at 31 December 2009, there were 236 employees in the Group's corporate banking division.

In the year ended 31 December 2009, corporate banking was the key source of growth for the Group. Despite the fact that the Group has tightened its lending policies and procedures and has cut credit lines to certain customers on the basis of revised risk assessments, its corporate loan portfolio grew by 8.0 per cent. in 2009 compared to the average market growth in this sector of 4.0 per cent. To a large extent this growth resulted from demand for the Group's sector specific solutions and its engaged approach to customer service with minimum formalities and efficient decision-making.

In recent years the Group has both increased the range of services it offers in these segments and has focused on retaining and providing a wide range of services to corporate clients through a "client ownership" strategy. This has involved, in particular, developing units within its corporate banking division with bankers experienced in its key industry sectors (such as pharmaceuticals, energy and oil distributors). The Group has increased the proportion of innovative higher value added solutions that it offers, such as lending based on warehouse receipts, and loan, deposit and commission products geared towards the comprehensive servicing of its clients' needs.

Working Capital Loans

Short-term and medium-term working capital loans are the core corporate loan products provided by the Group. This is reflected in the Group's gross corporate loan portfolio, of which over half was composed of loans with a maturity of up to 180 days, and over 90.0 per cent. was Rouble denominated as at 31 December 2009.

The Group also offers a variety of longer-term loan products (up to five years), which are used to finance the renewal and extension of fixed assets and to support the related working capital requirements of clients.

The Group secures its corporate loans by taking pledges over stock, equipment, real estate and other types of collateral. The Group decides on the collateral required by reference to the assessed value of the loan, requiring as a minimum, collateral valued at 120.0 per cent. of the loan principal. See "*Lending Policies and Procedures*" for a discussion of the Group's credit approval processes.

Guarantees and Letters of Credit

The Group launched its trade and structured finance business in 2002, and provides pre-export finance; import finance using documentary instruments; financing against warehouse receipts; structured finance; customs payments guarantees; and contract performance guarantees. The Group has credit lines from European and U.S. financial institutions that enable it to issue and post-finance letters of credit without cash collateral. The Group's trade and structured finance business is particularly focussed on certain of specific industry units, such as grain, metal and oil trading, and wine and beverages importation.

Since January 2001, the Bank has also held a special permit to act as guarantor for the State Customs Committee of the Russian Federation, which is being renewed. Under such arrangements, the Bank guarantees an importer's obligation to pay customs duties and receives a fee in return. Such guarantees are primarily issued by the Bank in relation to imports of food products.

Deposits, Cash Management and Treasury Services

Unlike retail deposits, corporate term deposits cannot be withdrawn at any time, and therefore represent a useful source of longer term funding for the Group. As at 31 December 2009, approximately 15 per cent. of the Group's customer accounts were deposits from its corporate clients (of which more than 70 per cent. were term deposits), compared to 12 per cent. as at 31 December 2008 (of which 43 per cent. were term deposits) and 21 per cent. (of which 48 per cent. were term deposits) as at 31 December 2007. Corporate deposits also represent a cheaper source of funding (as compared to retail deposits) for the Group.

The Group also provides a range of cash and settlement services and foreign exchange operations for its clients.

Factoring

The Group's factoring business, which is run solely through the Bank and Factoring Company "Life", has shown steady growth since 2006. The Group offers factoring services on a recourse and non-recourse basis. Factoring is generally made in Roubles for a term of up to 90 days in the amounts of up to RUB 20 million, but most of the Group's factoring services is composed of loans of up to RUB 5 million with focus on SME customers, such as small trade companies and retail businesses (to diversify the Group's factoring portfolio). Despite the increasing competition in this segment, the Group's management believes that factoring remains a niche offering from financial institutions within the Russian Federation. This segment generates income for the Group through administration fees and commissions, which are respectively on average 17 per cent. and five per cent. per annum of the aggregate loan amount.

As at the date of this Base Prospectus, Factoring Company "Life" is the only factoring company in the Russian Federation, which specialises in express factoring for SMEs and it is the only factoring company in the Russian Federation to have received debt financing of RUB 700 million from the Government-owned OJSC Russian Development Bank.

SME Banking

While corporate banking was historically the Group's core business, the Group decided to split its corporate business into two divisions, and create a separate division focussed on SMEs in the

Russian market. This decision was driven by the Group's awareness of the particular banking requirements of SMEs, and the higher margins and greater portfolio diversification afforded by this segment of the market. The key products offered by the Group in its SME banking division are micro loans, mini loans, credit lines, leasing and equipment financing, overdrafts, guarantees, letters of credit, factoring and cash settlement services. The Group's SME banking division's contribution to the Group's total income in the year ended 31 December 2009 was RUB 1.8 billion, compared to RUB 1.3 billion and RUB 0.9 billion for the years ended 31 December 2008 and 31 December 2007, respectively, which represented 16.3 per cent., 16.0 per cent. and 17.6 per cent. of the Group's total income for the periods mentioned.

The Group's SME banking division has two primary units: "Format 1" and "Format 2". The Format 1 unit focuses on individual entrepreneurs and small companies with annual sales of up to RUB 60 million, primarily small retailers and wholesalers, to which the Group seeks to provide standardised micro loans (see below) and affordable general banking services. The Format 2 unit focuses on SMEs with annual sales of up to RUB 150 million, to which the Group seeks to provide a more customised service. The Format 2 client base also includes retailers and wholesalers and some production and service companies. The SME division also has as separate business units dealing with leasing and equipment financing.

The Group's SME banking division operates through the Bank, VUZ-Bank, Express-Volga and Gazenergobank, and as at 31 December 2009 offered SME services through 86 of the Group's offices, in 70 regions of the Russian Federation. As at 31 December 2009, the Group serviced more than 40,000 customers and employed 488 people (including 237 business managers). The Group employs a special team at its call centre (see "*Retail Banking*" below) to provide 24 hour support seven days a week to its SME customers. By December 2009, this team was processing over 25,000 calls a month. As at the date of this Base Prospectus it processes approximately 1,500 loan applications per month. The Group intends to increase its geographical coverage for SMEs going forward.

As at 31 December 2009, approximately 50.0 per cent. of the Group's SME customers were new and used the Group's clearing and payment services, rather than its lending services, the income in this sector, largely being derived from fees charged, rather than interest income. The other 50.0 per cent. were existing SME customers of the Group.

Micro Loans

Micro loans are unsecured loans provided for working capital purposes and can be issued within 24 hours of receipt of a loan application. Micro loans usually range from approximately RUB 30,000 to RUB 1,000,000 with a tenor of between three and 60 months. The relatively high interest rates payable on micro loans (on average 17-29 per cent. per annum as at the date of this Base Prospectus, together with a 2.0 per cent. flat fee on the principal) reflect the higher credit risk represented by such unsecured loans. However, the Group believes that its risk-assessment technologies help to minimise the number of bad loans.

Mini Loans

Mini loans are secured loans of between RUB 300,000 and RUB 3,000,000 provided for the purposes of increasing working capital and/or the purchase of equipment, with tenors of between three and 60 months. Mini-loans can be issued within 48-72 hours of receipt of an application for the loan. Interest rates on this product are around 16-28 per cent. per annum on average, together with a flat fee of 2.0 per cent. of the principal as at the date of this Base Prospectus.

Credit Lines

The Group offers credit lines to SME clients in amounts up to RUB 25,000,000 (the average amount of the credit line is RUB 4,000,000), for terms of up to 90-360 days, the approval process takes three to five days, and average interest rates payable on SME credit lines, as at the date of

this Base Prospectus, are between 18.0 and 25.0 per cent. per annum. The Group accepts various types of collateral for the credit lines (including pledge of assets).

Leasing and Equipment Finance

The Group launched a SME-targeted leasing product in January 2007 in amounts between RUB 200,000 and RUB 4,000,000 for up to five years to help its clients with their equipment and infrastructure needs. The Group also has a small unit which specialises in the financing of imported agricultural equipment, particularly John Deere and Claas products.

Loans in this segment are typically secured by stock, equipment, transport vehicles, premises and the personal property of the borrower's owners and/or an indemnity from the borrower's owners.

Retail Banking

The Group believes that the retail banking sector remains one of the key drivers in the Russian banking market, and the Group continues to prioritise the development of this segment.

The Group offers various tariff plans for different customer segments, offers customised and standard retail and consumer loans, deposits and credit card products (EuroCard/MasterCard and VISA).

The Group began to focus on developing its retail banking business in 2003, having previously offered a number of free-standing retail banking products without a dedicated retail-specific sales force and management team. In 2003 and 2004, the Group invested heavily in human resources, information technology and branding for its retail banking division, and hired a team of international specialists in this division. The Group's retail banking division's contribution to the Group's total income was RUB 4.4 billion for the year ended 31 December 2009, compared to RUB 2.7 billion for the year ended 31 December 2008 and RUB 1.5 billion for the years ended 31 December 2008 and 31 December 2007, respectively, which represented 39.1 per cent., 32.3 per cent. and 29.5 per cent. of the Group's total income for the period's mentioned.

Since 2004, the Group continues to develop its retail banking business by expanding its geographical reach through organic growth and acquisitions. In the year ended 31 December 2009, the Group opened 20 retail banking offices, as compared to 61 in 2008.

The Group also provides retail banking services through the Bank, Express-Volga, VUZ-Bank and Gazenergobank, through internet and telephone channels and through its 128 retail banking offices in 50 Russian regions. As at 31 December 2009, the Group's retail banking business employed 1,978 employees and had approximately 550,000 customers.

One of the Group's primary strategic aims in its retail banking business is to provide a multi-channel approach to retail banking (through branches, telephone and online channels), tailoring the way it delivers services to the needs and lifestyles of its retail clients.

As at 1 March 2010, the Group's telephone banking centre (based in Saratov) employed 175 operators (60 of whom process incoming calls and 100 of whom engage in direct marketing, promotions and credit assessment), with 100 operators working simultaneously at any one time during business hours. In the years ended 31 December 2009 and 31 December 2008, the call centre processed approximately 1.5 million and 3 million customer calls, respectively. The call centre operates on a Cisco software platform, which allows a wide range of banking transactions to be performed, including payments, credit card remittances and financial consultations.

Approximately 80 per cent. of the Group's retail credit sales are now initiated by telephone, with the call centre operator completing the initial application over the phone.

Cash Loans

Cash loans are the core business of the Group's retail business. Cash loans are loans between RUB 5,000 and RUB 1,000,000 for any purpose. Either a surety or security is required for any cash loan over RUB 150,000.

The Group's net cash loan portfolio expanded from RUB 11.39 million for the year ended 31 December 2007 to RUB 12.07 million for the year ended 31 December 2008, but decreased in the year ended 31 December 2009 by 6.0 per cent. to RUB 10.53 million. The decrease in the year ended 31 December 2009 was the result of the Group's more conservative retailing lending policy in response to the global economic crisis. As of 31 December 2009 the Group's cash loan portfolio represented approximately 56.0 per cent. of the Group's gross retail loan portfolio.

Applications for cash loans are normally processed via the Group's call centre.

See "*Lending Policies and Procedures*" for a further discussion of the Group's credit approval processes.

Deposits

The Group offers a range of current and term deposit accounts, with varying interest rates and tenors. Retail deposits held with the Group have grown rapidly since 2003. The Group's retail deposit base has become an important source of funding, especially given its recent growth and the absence of other sources of funding. Retail deposits accounted for 51.5 per cent. of the Group's liabilities as at 31 December 2009, compared to 42.0 per cent. as at 31 December 2008 and 31.0 per cent. as at 31 December 2007.

From the second half of 2009, the Group lowered the interest rates on its retail deposits to limit the growth of this funding source until such time as demand for new borrowings increases to avoid having excess liquidity and related unjustified expense. The current Group's general strategy regarding deposits is to set interest rates 2 per cent. points higher than those of Sberbank, which represents the market average.

Debit and Credit Cards

The Group offers its customers a wide variety of debit and credit cards (VISA, MasterCard) of different types, such as platinum (since 2010), gold, standard, electron, virtual and gift debit cards. Generally, the Group charges a fee from its customers for issuing and servicing cards, other than credit cards that are provided with a loan or to borrowers with positive credit history, which the Group offers free of charge.

As at 31 December 2009, the Group had over 287,000 active cards in circulation, and credit cards represented approximately 6.7 per cent. of the Group's gross retail loan portfolio compared to 4.3 per cent. as at 31 December 2008 and 2.7 per cent. as at 31 December 2007.

Mortgage Lending and Car Loans

Previously, the Group used to offer a range of mortgage and car loan products. However, in 2008, the Group decided to exit these markets, which it believes are not sufficiently profitable, and as at the date of this Base Prospectus is not seeking to make any new loans in these areas.

Consumer Finance - Express Loans

The Group's express loan division is represented in 43 cities of 19 regions of the Russian Federation from Derbent to Vladivostok and it services approximately 310,000 customers out of approximately 1.5 million customers of the Group. The division operates mostly in the Russian Federation's regions and has no operations in Moscow and the Moscow region. Offices of the express loan division are smaller than those of its retail branches and of a different format. They

are located separately from the other offices of the Group. As at the date of this Base Prospectus, the express loan division provides between 13,000 and 14,000 loans per month, the majority of which are loans to new customers. All express loans are unsecured. The consumer finance division's contribution to the Group's total income was RUB 1.3 billion for the year ended 31 December 2009, compared to RUB 1.2 billion and RUB 0.6 billion for the years ended 31 December 2008 and 31 December 2007, respectively, which represented 11.9 per cent., 14.0 per cent. and 12.0 per cent. of the Group's total income for the periods mentioned.

The express loan division targets middle and lower-income customers, with its key product being unsecured cash loans with an interest rate of 51.0 per cent. per annum (the effective rate being approximately 65.0 per cent.). The maximum size of an express loan is RUB 300,000 and its average term is 16 months, as at the date of this Base Prospectus.

As is the case for the Group's other segments, the Group does not use an automated scoring system and relies heavily on the decision of the loan manager. The manager takes the decision to provide a loan using his own judgment as to the likelihood of the prospective borrower defaulting on its repayment of the loan. The decision is made in front of the applicant on the basis of an interview, during which the loan manager completes the certain security checks, including checking the applicant's credit history. This, along with the focus on a customer that does not typically borrow from banks, differentiates express loans from cash loans, which are normally processed via the Group's call centre in the retail business division.

In 2009, the Group launched a new unsecured product "pay day loan" with an effective rate of approximately 180 per cent. Pay day loans are provided in the amount of up to RUB 10,000 (the average - RUB 4,800) for the term of up to 30 days (the average - 20 days). The Group charges a commission for issuing such loans in the amount of 15 per cent. of the amount of the loan upon its maturity, irrespective of the tenor of the loan.

In 2009, the Group also launched a new product "visit loan" ("vyezdnoy kredit"). The Group's provides managers go to the applicant's home to conduct an interview, and loans in the amount of up to RUB 500,000 for the term of 12 to 60 months with an effective interest rate of 36 per cent. per annum are provided as quickly as on the next day following the interview. No collateral is required for this type of loan.

The level of overdue and non-performing loans grew to 28.3 per cent. of the total Express Loan portfolio of RUB5,312.4 million, for the year ended 31 December 2009 compared to 12.2 per cent. of a portfolio of RUB 4,427.1 million for the year ended 31 December 2008 and 2.4 per cent. of a portfolio of RUB 4,556.8 million for the year ended 31 December 2007.

Project "Poydem!" ("Let's Go")

The Group plans to develop its consumer finance business under the separate brand of "Poydem!" ("Let's Go"). The Group plans to transfer its consumer finance operations (loans, deposits, personnel and branch network) to its newly-acquired subsidiary, ICB, which is going to be renamed and used as a platform for the further development of the Group's consumer finance business.

NSB - Federal Programme of Lending to State Employees

In 2008, the Group launched Federal Programme of Lending to State Employees. The Federal Programme of Lending to State Employees which is branded through NSB provides for lending to employees of state institutions and to employed pensioners. Repayment is effected by direct debit from the payroll of such employees, which provides the Group with a high degree of certainty as to how such person's salary is applied.

Based on market analysis, the Group believes that the Federal Programme of Lending to State Employees will allow it to exploit a vacant market niche, since ordinary state employees do not fall within the target customers of major Russian banks.

As at the date of this Base Prospectus, according to Rosstat, there are approximately 1.5 million state employees and approximately 7.0 million employed and non-employed pensioners in the Russian Federation, which represent a large targeted customer segment for the Group with no developed direct competition as at the date of this Base Prospectus.

The process of providing loans under the Federal Programme of Lending to State Employees includes the following key stages: agreeing cooperation with the management of public sector organisations and training financial staff at such organisations; processing the loan application through the call centre of NSB, which is designed to perform all necessary functions for the Federal Programme of Lending to State Employees and to provide loans within between one hour to twenty four hours after the receipt of the application and check of the information provided; signing the loan agreement with the customer; and providing the loan and ensuring the repayment through automatic direct debits from the customer's salary. This business model does not need a branch network for the distribution and servicing of its loans and NSB uses a network of agents to sell its products.

The loans have interest rates of between 29.0 and 48.0 per cent. per annum, depending on whether payment insurance is taken or not, in amounts generally between RUB 10,000 and RUB 350,000. The Group also offers loans to the management of state enterprise in the amount of up to RUB 750,000. No collateral is required.

As at the date of this Base Prospectus, since February 2008 the Group had disbursed more than 5,000 loans under the Federal Programme of Lending to State Employees. The Group had 3,907 customers under this programme as at 31 December 2009, and it plans to increase its customer base significantly in the next two years.

Financial Markets

The Group's operations on the financial markets include operations on the money market and foreign exchange markets, fixed income investments, trading and custody transactions. The Group's Financial Markets division executes the orders of the Group's Financial Risk Monitoring Unit (the "**FRMU**"), which allows the Group to manage its liquidity.

The majority of these operations are conducted on the Group's own account, with the FRMU providing for the Group's liquidity requirements on the basis of orders it receives from the FRMU. In developing the range of services it provides to its corporate customers, the Group also provides foreign exchange and hedging services for its customers.

The Group's Financial Markets Division also maintains a small held-for-sale securities portfolio. The Group has traditionally primarily traded sovereign and semi-sovereign bonds, the bonds of state-owned enterprises and Russian and international blue chip companies (such as JSC "GAZPROM" and VTB Bank (open joint-stock company) ("**VTB**")). The Group's portfolio is therefore comprised mainly of debt securities, and the Group limits the amount of equity exposure it has.

As at 31 December 2009, the Group's Financial Markets Division employed 50 people.

Branch Network

As at 31 December 2009, the Group had a network comprising 248 service points throughout the Russian Federation, including branches, representative offices, lending and cash offices and selling points. This compares to the network of 224 and 139 service points operated by the Group as at 31 December 2008 and 31 December 2007, respectively. As at 31 December 2009, the

Group's network extended across both European and Asiatic Russia, including outlets in Arkhangelsk, Belgorod, Cherepovets, Chita, Derbent, Irkutsk, Ivanovo, Kaluga, Khanty-Mansiysk, Kostroma, Kurgan, Kursk, Lipetsk, Moscow, Nizhny Novgorod, Orel, Orenburg, Perm, Rostov-on-Don, Ryazan, Saratov, Smolensk, St. Petersburg, Surgut, Syktyvkar, Taganrog, Tula, Tver, Tyumen, Vladimir, Vologda, Voronezh and Yaroslavl. The Group had, as at 31 December 2009, 291 ATMs across the Russian Federation. During 2009, the Group has continued to grow the coverage of its branch network entering four new regions (Pskov, Arkhangelsk, Velikiy Novgorod and Petrozavodsk). In expanding its branch network, the Group initially targeted for towns with populations of approximately 300,000, gradually expanding its target, and as of the date of Base Prospectus, it targets towns with a population of between 50,000 and 1,000,000. This strategy is driven by two factors: first, the Group's target of becoming one of the top three banks in any town it enters within two to three years (a target that is not feasible in the more saturated and competitive banking environments of the largest Russian towns); and the second is lower market penetration costs, including rental expenses and salary costs, in such towns. In addition, the Group believes that it is easier to assess risks in small towns where customers, management and employees of the Group's member banks often know each other, and the risk of fraud may therefore be reduced.

Drivers for the Group's expansion of its branch network include the cross-selling opportunities between its business lines that are afforded by the branch environment and also the fact that clients in many regions of the Russian Federation still prefer to come into an actual branch for example, to make a payment on a loan.

Employees

As at 31 December 2009, the Group had 6,272 employees, compared with 6,180 as at 31 December 2008 and 4,948 as at 31 December 2007.

Salaries and bonuses paid by the Group increased from RUB 2.6 billion for the year ended 31 December 2008 to approximately RUB 3 billion for the year ended 31 December 2009. This increase primarily reflected the recent acquisitions of the Group, which increased the overall amounts of salaries and bonuses paid within the Group, although in 2009, the Group decreased salaries and bonuses of its employees due to the global economic crisis.

The Group's management believes that the wages paid to the Group's employees compare favourably with average wages for equivalent roles in the Russian financial services market. Employees receive a fixed wage, determined by the professional merits of an individual employee and the region in which they are employed, and a bonus. The criteria according to which any such bonus is determined vary in the different departments of the Group, but are in general linked to the employee's performance in relation to pre-determined key performance indicators. The variable part of compensation for over 80 leading managers of the Group, including the President of the Group and members of the Bank's Management Board, are determined according to individual bonus plans which are linked to the Group's overall success in relation to its strategic plans. Any promotion of employees is also closely linked to their performance. The Group concludes so-called "franchise agreements" with local managers, which are similar to standard employment contracts and provide for bonuses linked to a certain percentage of profit of the relevant office of the Group.

The Group has various specially-designed employee training and recruitment programmes, particularly in relation to credit assessment procedures. The Group uses psychological profiling as part of its recruitment process. It also conducts open days, work shadowing and provides for probation periods as part of its recruitment process.

The Group's human resources department and the individual business divisions also organise internal and external training seminars on topical issues. Each employee of the Group signs documents on non-disclosure of insider information and commercial secrecy.

There are no trade unions or associations representing the interests of the Group's employees, nor does the Group have relations with any such organisations. There have not been any collective employee actions or strikes within the Group over the last three years.

The Group does not have its own pension fund but pays into its employees' pension funds in line with current legislation.

Information Technology

Information technology is an integral part of the Group's operations. In addition to the Group's call centre (see "*– Banking Services and Activities – Retail Banking*"), the Group has invested in internet banking technology, through which its customers can make payments, deposits and transfers, and apply for loans. The Group's capital expenditures for IT for the year ended 31 December 2009 were approximately RUB 380 million, compared to RUB 390 million and RUB 310 million for the years ended 31 December 2008 and 2007, respectively, and the Group's budget envisages capital expenditures for IT of approximately RUB 400 million for the year 2010.

The Group's main data centre and information technology service capacities are located in Moscow. The Group has moved its software development operations and the management of its "Front" system (see below) from Moscow to Saratov to minimise expenditure, and plans to transfer further information technology functions to Saratov in the future.

There are three main components of the Group's information technology system. The first is the Group's internal front-end and back-end system, through which the Group manages its assets and liabilities, risk management systems and customer information. This system, called "Front", was developed in house by the Bank. The second component is the Group's core banking interface, which was designed by the R-Style Softlab group ("**R-Style**"). The Group maintains its general ledger on this R-Style system, and processes its transactions and accounts through it. The system provides flexible cash-flow management for a multi-branch bank and allows for on-line processing of basic documents entered into by all entities within the Group and secure data storage. The system also provides an online analytical processing interface system that allows for the effective analysis of banking activity within the Group and the generation of consolidated reports for the Group's management. The Group plans to upgrade to the next generation of this system "Oracle" during 2010. The third component, called "Open Way" handles the Group's plastic card transactions and ATM system. These systems enable the Group to manage its risk management and treasury functions in real time.

Other systems used by the Group include Lotus Notes, which the Group uses for internal communications, and a "Sybase" database, which the Group uses for external emails, its managerial accounts function, including its profitability analysis.

The Group currently maintains one data centre and as at the date of this Base Prospectus, it does not plan to open a second data centre. This centre has two separate divisions that provide for the back up of the Group's "Front" and "Open Way" systems on daily basis.

In 2009, the Group implemented a new system of internet banking for corporate and SME customers with on-line reservation of infrastructure, based the Oracle application system.

The Group extended the functionality of its core system in 2009. To increase reliability of the data centre, the Group also implemented programmes for industrial data centres provided by CISCO Systems, Inc and it plans to develop these further in 2010. In 2009, the Bank implemented a new banking system RS-Bank for the accounting purposes and the Group plans to implement this system in its banking subsidiaries in 2010.

The Group also continued to improve its security systems in 2009 when it updated its information security policy.

One of the world's largest IT companies, Gartner performed an audit of the Group's information technology infrastructure in 2007. Gartner's findings from a 2007 IT audit were incorporated into a detailed three year development plan for the Group's information technology systems, which includes provision for the revision of the Group's current information technology systems, a move to trimetric architecture and new server systems and the division of the Group's information technology systems into business segments. The Group has been working with external consultants, operating under Gartner's supervision, to implement this plan. As at the date of this Base Prospectus, the Group in cooperation with Gartner has been elaborating a strategy of corporate storage (data warehouse) and Business Intelligence (a system of data analysis, forecast and accounting).

Insurance

As at 1 April 2010, the Group has policies in place with the Russian insurance company OJSC "Rosgosstrakh" ("**Rosgosstrakh**") covering property insurance, third party liability insurance, general and operational banking insurance, valuables transportation and storage insurance, responsibility insurance and title insurance. The Group also has a bankers blanket bond insurance policies with Rosgosstrakh.

Litigation

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates, the management of the Group is of the opinion that there are no, and have not been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) which may have, or have had in the twelve months before the date of this Base Prospectus, a significant adverse effect on the financial position or profitability of the Group.

MANAGEMENT

Management Bodies

The supreme management body of the Bank is the General Shareholders' Meeting. The shareholders elect the Bank's Board of Directors at the General Shareholders' Meeting. The Board of Directors is responsible for the general management of the Bank, including coordination of its overall strategy and general supervision. The Board of Directors in turn appoints members of the Management Board, which is the collective executive body of the Bank, and the Chairman of the Management Board, who oversees the Management Board. Day-to-day activities of the Bank are overseen by the Chairman of the Management Board and the Management Board itself. Certain powers are delegated by the Chairman of the Management Board to his or her deputies, members of the Management Board, department heads and various committees, including the Strategic Committee.

A brief description of each of the General Shareholders' Meeting, the Board of Directors, the Management Board and the Strategic Committee is set out below.

Although the Bank is not formally bound by a code of corporate governance, the Bank believes that it complies with generally accepted principles of corporate governance, and that corporate governance procedures within the Bank are continuously improving. The Bank believes that the involvement of the institutional investors in the operation of the Bank has contributed to this process.

General Shareholders' Meeting

The General Shareholders' Meeting is the Bank's supreme corporate governance body, which is held at least once a year. The following matters fall within the exclusive preserve of the General Shareholders' Meeting and may not be delegated to other management bodies of the Bank:

- amending the Bank's charter;
- determining the membership of the Bank's Board of Directors, electing its members and early terminating their powers;
- determining the membership of the Bank's Revision Commission, electing its members, terminating their powers; appointing the Bank's auditors;
- increasing or reducing the Bank's share capital;
- approving the Bank's annual statutory accounts and reports;
- approving the Bank's dividends; and
- certain other matters provided for by law and the Bank's charter.

President of the Group (Chairman of the Board of Directors)

The President of the Group is elected by the Board of Directors from among the members of the Board of Directors. The President of the Group is a member of the Management Board and the Chairman of the Board of Directors. The President of the Group is responsible for the development and implementation of the Group's overall strategy. The President of the Group chairs the General Shareholders' Meetings, convenes and organised the meetings and activities of the Board of Directors and arranges record keeping in relation to the meetings of the Board of Directors. The Chairman of the Management Board can not be simultaneously the President of the Group.

Board of Directors

Between General Shareholders' Meetings, the general corporate governance of the Bank is exercised by the Bank's Board of Directors. The Board of Directors is responsible for the overall management of the Bank, with the exception of those matters that are designated by law and by the Bank's charter as falling within the exclusive competence of the General Shareholders' Meeting. The Board of Directors determines the Bank's business priorities and makes decisions as to the composition of various executive bodies.

Members of the Bank's Board of Directors are elected at the annual General Shareholders' Meeting and may be re-elected an unlimited number of times.

The maximum number of members of the Board of Directors is nine and there are currently nine members, all of whom were elected by the Extraordinary General Shareholders' Meeting on 22 December 2009. Following the Private Placement, the four Institutional Investors (defined below) have the right to each nominate one member of the Board of Directors.

As at the date of this Base Prospectus, the members of the Board of Directors are:

- Mr. Sergey Leontiev - President of the Group;
- Mr. Alexander Zheleznyak - Chairman of the Management Board of the Bank;
- Mr. Edward Panteleev - Senior Vice-President;
- Mr. Eldar Bikmaev - First Vice-President;
- Mr. Andrey Litvinov - Senior Vice-President;
- Ms. Marina Chekurova - Director (LLC "RIM Services");
- Mr. Mogens Schmidt - Director (Argo Capital Management Ltd.);
- Ms. Hanna-Leena Loikkanen - Director (East Capital International AB);
- Ms. Sofia Bianchi - Director (BlueCrest Capital Management Limited).

The business addresses of the members of the Board of Directors are as follows:

- 18/2 Petrovka Street, Building 1, Moscow 127051, Russian Federation for Mr. Sergey Leontiev and Mr. Eldar Bikmaev;
- 43/3 Volgogradskiy Prospekt, Business Center Aylon Plaza, Moscow 109316, Russian Federation for Mr. Alexander Zheleznyak;
- 76, Butyrskaya Street, building 1, Moscow 127015, Russian Federation for Mr. Edward Panteleev and Mr. Andrey Litvinov;
- 40 Grosvenor Place, London SW1X 7AW, United Kingdom for Mrs. Sofia Bianchi;
- 10 Presnenskaya Naberezhnaya, Moscow 123317, Russian Federation for Mrs. Marina Cherkunova;
- 80 New Bond Street, London W1S 1SB, United Kingdom for Mr. Mogens Schmidt; and
- Romanov Dvor Business Centre, 4 Romanov Lane, 125009 Moscow, Russian Federation for Mrs. Hanna-Leena Loikkanen.

Certain biographical information about the members of the Bank's Board of Directors is set forth below.

Mr. Sergey Leontiev (President of the Group)

Mr. Leontiev has been President of the Group since 1996 and a member of the Management Board of the Bank since 1993. Between 1994 and 1996, Mr. Leontiev was President of LLC "Probusiness-Holding" and between 1992 and 1994, he was President of ZAO Probusiness. Between 1989 and 1992, Mr. Leontiev acted as General Director of the External Economic Association "Probusiness", which was transformed into ZAO Probusiness in 1992. Mr. Leontiev graduated from the Moscow State Institute of International Relations in 1988.

Mr. Alexander Zheleznyak (Chairman of the Management Board)

Mr. Zheleznyak has been Chairman of the Management Board of the Bank since 1993. Mr. Zheleznyak has been First Vice-President of the Bank since 1993 and Head of Corporate Banking since 2004. Mr. Zheleznyak graduated from the Institute for Advanced Studies in Banking and Finance of the Finance Academy under the Government of the Russian Federation in 1995. In 1988 he graduated from the Moscow State Academy of Law (the former All-Union Institute of Law).

Mr. Edward Panteleev (Senior Vice-President)

Mr. Panteleev has been Senior Vice-President of the Bank and Head of International Banking and M&A since 2002. In 2004, Mr. Panteleev took the position of Chairman of the Board of Directors of Express-Volga. Between 1995 and 2002 Mr. Panteleev ran a number of departments within the Bank, including International Cooperation, Corporate Finance, Trade and Structured Finance, Project Finance and Correspondent Banking. Between 1994 and 1995, Mr. Panteleev was Financial Director at TROSS Enterprises Ltd. Between 1993 and 1994, Mr. Panteleev was Executive Director of Eastern Star Group B.V. and, between 1988 and 1993, worked as Attaché for Economic Affairs at the Embassy of the Russian Federation in The Netherlands. Mr. Panteleev graduated from the Moscow State Institute of International Relations in 1988.

Mr. Eldar Bikmaev (First Vice-President)

First Vice-President of the Bank, Mr. Bikmaev has been the chief financial officer of the Bank since 1995 and Head of the Retail Division since 2003. Between 1994 and 1995, Mr. Bikmaev was Head of the Securities and Short-term Operations Department at JSC "APABANK". Mr. Bikmaev graduated from the Moscow State Engineering and Physics Institute, majoring in "Theoretical Nuclear Physics" in 1994 and as a candidate of economic science in "Finance and Credit".

Mr. Andrey Litvinov (Senior Vice-President)

Mr. Litvinov has been Senior Vice-President for Branding at the Bank since August 2006. Between 2005 and 2006, Mr. Litvinov was Director of Credit Cards Department at Renaissance Capital, and between 2004 and 2005 acted as Product and Business Development Director for Virgin Money. Between 2000 and 2004, Mr. Litvinov was Senior Consultant at Marakon Associates. Between 1994 and 1999, Mr. Litvinov worked for Accenture in the Russian Federation and the United Kingdom, and also worked as a Senior Adviser at Marakon Associates in the United Kingdom. Mr. Litvinov graduated from the People's Friendship University in Moscow in 1990, and received an MBA from the INSEAD Business School in 2000.

Ms. Marina Chekurova (Director)

Ms. Chekurova joined the Board of Directors in May 2007. Mrs. Chekurova is the nominee board appointee on behalf of Renaissance investment management, the financial adviser to Renaissance Finance Fund (100 per cent. owner of Rekha Holdings Limited) (see "*Principal*

Shareholders). Between 2005 and 2006, Ms. Chekurova was Chairman of Neftyanoy Bank, having previously worked as Deputy Chairperson and Acting Chairperson within the Credit Organisations Restructuring Agency ("**ARCO**"). Ms. Chekurova has degrees in economics from Kiev State University and Moscow State University. Currently Mrs. Chekurova is a member of the boards of directors of The joint-stock company "ROSEVROBANK" ("**Rosevrobank**"), "First Republic Bank" Joint Stock Company ("**First Republic Bank**") and "Chelindbank" ("**Chelindbank**") (all of which are Russian banking entities).

Mr. Mogens Schmidt (Director)

Mr. Schmidt joined the Board of Directors in December 2009. Mr. Schmidt has been a Director at Argo Capital Management Ltd. since early 2005. Mr. Schmidt currently sits on the Board of Directors of Webstep Holding AB. Between 2004 and 2005, Mr. Schmidt was a Director at BG Capital. Mr. Schmidt has a masters degree in management from the ESCP Europe business school and spent almost 20 years before joining Agro Capital Management in strategic, corporate restructuring, turnaround consulting as well as investment banking. Mr. Schmidt co-founded and co-led the European Private Equity Group at KPMG Corporate Finance.

Ms. Hanna-Leena Loikkanen (Director)

Ms. Loikkanen joined the Board of Directors in December 2009. Ms. Loikkanen is Senior Adviser at East Capital International AB. Between 2004 and 2007, Ms. Loikkanen was CEO and Country Manager for FIM Group where she was responsible for setting up and running the Group's brokerage and corporate finance departments in the Russian Federation. Prior to that Ms. Loikkanen worked for Nordea Finance for several years in various management positions in Poland, the Baltic States and Finland. Ms. Loikkanen has a masters degree in Economics and Business Administration from the Helsinki School of Economics.

Ms. Sofia Bianchi (Director)

Ms. Bianchi joined the Board of Directors in June 2009. Ms. Bianchi is Portfolio Manager at BlueCrest Capital Management Limited. Between 2002 and 2007, Ms. Bianchi worked at Standard Bank managing the Emerging Africa Infrastructure Fund and before that she held a senior position at the EBRD. From 1987 to 1992 she was a member of a global M&A advisory team, Prudential Bache Capital Kunching, where she initiated, structured and executed cross-border M&A transactions. She holds a BA in Economics from George Washington University, Washington DC and MBA from Wharton School, University of Pennsylvania.

Management Board

Day-to-day management of the Bank is carried out by the Management Board and the Chairman of the Management Board. These executive bodies are supervised by the Board of Directors and the General Shareholders' Meeting. The Management Board and its Chairman are appointed by the Board of Directors.

The Chairman of the Management Board represents the Bank and acts as its Chief Executive Officer. The Management Board is currently made up of three members elected in March 2009, two of whom are shareholders of the Bank (see "*Principal Shareholders*").

As at the date of this Base Prospectus, the members of the Management Board are:

- Mr. Sergey Leontiev - President of the Group;
- Mr. Alexander Zheleznyak - Chairman of the Management Board, Head of Corporate Banking; and
- Mr. Alexander Lomov - Vice-President, Accounting, Reporting and Internal Control.

The business address of Mr. Leontiev is 18/2 Petrovka Street, Building 1, Moscow 127051, Russian Federation. The business address of Mr. Zheleznyak is 43/3 Volgogradskiy Prospekt, Business Centre Aylon Plaza, Moscow 109316, Russian Federation. The business address of Mr. Lomov is 6A, Belomorskaya Street, Moscow, Russian Federation.

Certain biographical information about the members of the Management Board (not otherwise described above) is set forth below.

Alexander Lomov (Vice-President, Accounting, Reporting and Internal Control)

Mr. Lomov has been a Vice-President of the Bank since 2001, he has been Deputy Chairman of the Management Board since July 2001 and is responsible for accounting, reporting and internal controls at the Bank. In 1996, Mr. Lomov was appointed Head of the Bank's Accounting Department and took the position of Deputy Chief Accountant. In 1995, Mr. Lomov served as Deputy Director of Inter-Bank Settlements Department at the Bank and was a financial expert in the Financial Planning Department. In 1992, Mr. Lomov joined JSC "Russian National Bank" as a specialist in the Cash Collections Department. Mr. Lomov graduated in 1998 from the Moscow State University of Economics, Statistics and Computer Science, majoring in Statistics, with the diploma of Economist. Mr. Lomov graduated from the Novosibirsk Higher Military and Political Headquarters School in 1988 and from the Moscow Suvorovskoye Military School in 1984.

Strategic Committee

The Strategic Committee is the key operating body of the Group, which consists of the Group's management, including the Group's President, the Chairman of the Management Board and heads of various divisions. The main function of the Group's Strategic Committee is the establishment of the Group's strategy, development plans and investment budget. The Strategic Committee also establishes the Group's core policies, rules and procedures in relation to key business processes.

As at the date of this Base Prospectus, the members of the Strategic Committee are:

- Mr. Sergey Leontiev - President of the Group;
- Mr. Alexander Zheleznyak - Chairman of the Management Board, Head of Corporate Banking;
- Mr. Eldar Bikmaev - First Vice-President, Head of Retail Banking;
- Mr. Edward Panteleev - Senior Vice-President;
- Mr. Yaroslav Alexeev - Vice-President, Credit Risks of Financial Group Life;
- Mr. Alexey Pirogov - Vice-President, Head of IT Department;
- Mr. Alexander Lomov - Vice-President, Accounting, Reporting and Internal Control;
- Mr. Sergey Shilov - Vice-President, Head of HR;
- Mr. Philipp Samarets - Head of Financial Risk Monitoring Unit;
- Mr. Vladimir Lavraitis - Vice-President;
- Mr. Dmitry Dylnov - Chairman of the Management Board of Express-Volga;
- Mr. Andrey Zolotukhin - Chairman of the Management Board of VUZ-Bank; and
- Mr. Eduard Gitis - Co-Head of SME Banking.

Supervisory Bodies

Revision Commission

Internal control within the Bank is performed by the Board of Directors, the Management Board, the Revision Commission and Internal Control Department, each of which aims to provide reasonable assurance regarding the reliability of the Group's financial reporting, the safeguarding of assets, the effectiveness and efficiency of the Group's operations and compliance with applicable laws, regulations, internal policies and procedures.

The key element in the Bank's internal control system is the Revision Commission, which reports to the Board of Directors at least once a year. The Revision Commission consists of three members who are elected by the General Shareholders Meeting. The current members of the Revision Commission are Ms. Svetlana Belyaevskih, Ms. Alexandra Vylkova and Ms. Elena Zaitseva. The business address of Ms. Belyaevskih is 31b Malysheva Street, Ekaterinburg, Russian Federation. The business address of Ms. Zaitseva and Ms. Vylkova is 6A, Belomorskaya Street, Moscow, Russian Federation.

The primary function of the Revision Commission is to provide oversight on the operations of the Group's Internal Control Department and to assist the Board of Directors in overseeing internal audit processes, reviewing financial reports, monitoring quality assurance of corporate governance and maintaining effective corporate control. The Revision Commission has the authority to conduct any investigation it deems necessary or appropriate in order to fulfil its duties. The Revision Commission has unrestricted access to the Bank's independent public auditors, the internal audit department, and anyone else within the Group, and may require any officer or employee or independent auditors to attend a meeting with the Revision Commission or with any members of, or consultants or advisors to, the Revision Commission.

Conflicts of Interest

Other than as stated below, no potential conflicts of interest exist between members of the management or supervisory bodies of the Bank, their duties to the Bank and their private interests or other duties. No changes to the Bank's management structure are planned in the short to medium term. The Bank does not have any key-man insurance in place as the Bank's management does not consider that the success of the Bank's activities is dependent upon any one individual.

Mrs. Marina Chekurova is a member of the Boards of Directors of Rosevrobank, First Republic Bank and Chelindbank. Mrs. Chekurova is the nominee board appointee on behalf of Renaissance investment management (the financial adviser to Renaissance Financial Fund (100.0 per cent. owner of Rekha Holding Limited)). Ms. Sofia Bianchi is the nominee board appointee on behalf of Blue Crest Emerging Markets Master Fund Limited and Blue Crest Strategic Limited. Mr. Mogens Schmidt is the nominee board appointee of Ankus Limited, Mellitus Holdings Limited and Millenary Limited, which are 100.0 per cent. subsidiaries of funds advised by Argo Capital Management. Ms. Hanna-Leena Loikkanen is the nominee board appointee of East Capital Financials Fund (see "*Principal Shareholders*"). The interests of the appointees of Messrs Chekurova, Bianchi, Schmidt and Loikkanen may not always be aligned with those of the Bank itself or those of the Management Shareholders.

Compensation

The total compensation of the members of the Board of Directors for the twelve-month periods ended 31 December 2009, 31 December 2008 and 31 December 2007 was RUB 38.1 million, RUB 38.6 million and RUB 80.4 million, respectively.

The total compensation of the members of the Management Board for the twelve-month periods ended 31 December 2009, 31 December 2008 and 31 December 2007 was RUB 18.3 million, RUB 21.0 million and RUB 44.3 million, respectively.

The total compensation of the members of the Strategic Committee for the twelve-month periods ended 31 December 2009, 31 December 2008 and 31 December 2007 was RUB 63.7 million, RUB 78.1 million and RUB 148.8 million, respectively.

As at 31 December 2009, the Bank had extended Rouble-denominated loans to members of the senior management with a total outstanding balance RUB 74.4 million, compared to RUB 77.7 million as at 31 December 2008, and RUB 51.1 million as at 31 December 2007. The average interest rate on the Bank's Rouble-denominated loans to members of the senior management for the years ended 31 December 2009, 2008 and 2007 was approximately 15.0 per cent. and the loans were not secured by any collateral. Such loans to senior management are related party transactions for the purposes of the Group's Financial Statements, see Note 38 (Related party transactions) to the Group's Financial Statements.

The Bank does not have any stock options for directors or officers.

Corporate Governance

The Group acts in compliance with FSFM Order No. 421/r "On Recommendations for Application of Corporate Governance Code" dated 4 April 2002 to develop a corporate governance practice. The Group's Revision Commission reports annually to the General Shareholders on the Group's compliance with the FSFM order.

PRINCIPAL SHAREHOLDERS

As at 31 December 2009, the Bank's authorised, issued and fully paid share capital was RUB 3,438,329,000 comprised of 3,438,329 ordinary shares, each with a par value of RUB 1,000.

The following table lists the Bank's shareholders, as indicated in the share register, as at 31 December 2009 (and which remains the same as at the date of this Base Prospectus):

	31 December 2009
Shareholders of the first level	%
LLC "Alivikt"	52.95
East Capital Financials Fund AB	19.93
Rekha Holdings Limited	7.22
BlueCrest Strategic Limited	6.35
LLC "Rodina"	5.46
Other	8.09
Total	100.00

	31 December 2009
Ultimate shareholders of the Bank	%
S.L. Leontiev	29.79
Funds advised by East Capital Financials Fund AB	19.93
E.V. Bikmaev	11.72
A.D. Zheleznyak	11.43
Funds advised by RenFin Fund	7.22
Funds advised by BlueCrest Capital Management (UK) LLP	6.35
Funds advised by Agro Capital Management Ltd.	6.51
E.V. Panteleev	5.46
Total	100.00

Until 24 November 2006, 100 per cent. control of the Bank was in the hands of the Management Shareholders. On 24 November 2006, the Bank completed an equity private placement with the Institutional Investors (the "**Private Placement**"). The Private Placement consisted of a closed offer of the 464,764 new ordinary shares, representing 34.54 per cent. of the Bank's increased share capital. The institutional investors (the "**Institutional Investors**") were: (i) East Capital Explorer Financial Institutions Fund AB, (ii) Agrera Investments Limited (subsequently replaced by Rekha Holdings Limited), an investment fund of Renaissance Finance, (iii) three investment funds of Argo Capital Management and (iv) four BlueCrest investment funds.

As part of the Private Placement, the Shareholders' Agreement was concluded. This agreement regulates dealings between the Bank's shareholders and covers, *inter alia*, the following issues:

- the purposes and the scope of business of the Bank;
- the procedures for the Bank's shareholders voting in relation to different matters;
- the pre-emption rights of the Bank's shareholders;
- the terms and conditions for transfers and encumbrances of the Bank's shares; and
- contingencies with respect to any future listing of the Bank's shares.

The Shareholders' Agreement automatically terminates, *inter alia*, upon the admission to trading or listing of ordinary shares of the Bank or other equity securities representing rights to such shares in London and/or Moscow. For further information see "*Description of Share Capital and Certain Requirements of Russian Legislation—Rights of Shareholders*".

LENDING POLICIES AND PROCEDURES

Credit Approval Processes

Overview

In 2003, the Bank introduced a new system of credit risk management. This new system replaced a credit committee-based approval procedure with a system where lending decisions are made by the Bank's loan and risk managers (within assigned approval limits). This change was designed to accelerate the decision-making process, to elevate the level of personal responsibility of the Group's loan and risk managers and to foster stronger relationships between the Bank and its clients. The Bank gradually implemented this system in the subsidiary banks that it acquired over time, and credit risk management systems are now consistent throughout the Group.

The Group's Risk Management Department is centralised at a Group level, with the Head of Risk Management reporting directly to the President of the Group. Separate risk management teams operate in each bank in the Group, fully independent from the business divisions and report to the Group's Risk Management Department.

The Group has developed specific credit assessment and approval policies for each business area and product, including corporate banking, SME banking, retail banking and consumer finance. Common to each of these policies and procedures is a framework of maximum permitted exposures, credit management standards, sector and counterparty limits, and decision making and monitoring procedures. Each policy, however, is tailored to reflect the relevant business area and product type. These include policies for the Group's specific product offerings - for example, for guarantees provided to importers in relation to Russian excise duties, or for the pre-export financing for grain traders.

Corporate Lending

In relation to the Group's corporate clients, the Group's credit risk management system includes a credit grading system, with the limit on the credit that can be extended to any borrower evaluated on a case by case basis. Different methodologies are used depending on the lending product type. The key risks that the Group assesses relate to the basic activity of the potential borrower and to the security that is to be provided. Risks that are considered in relation to the borrower's activities include external factors (such as market risks, sectoral risks, buyer-supplier relationships, technological risks and legal restrictions) and internal factors (such as operational risks, management risks, risks relating to the legal activity of the enterprise and liquidity risks).

The Group's standard criteria for corporate borrowers include the requirement that such borrower has operated for at least one year, has no overdue liabilities payable to the federal budget of the Russian Federation or off-budget funds (meaning state pension funds), no involvement in any litigation of any material significance.

A credit memorandum evaluating the borrower on these criteria is assembled by the relevant client manager (for general loans) or a product manager (for more complex products such as trade finance or longer-term lending). The Risk Management Department will also assemble a report, while a specialist security team assesses any collateral to be provided as security.

All corporate credit decisions must be taken by two managers (working within different departments of the relevant bank of the Group), including a risk manager and either the relevant client or product manager. The highest dual lending limit is granted to the Head of Corporate Banking together with the Head of Risk Management. Loans exceeding the authority of a particular pair of managers pass up to the next level for approval. The final decision is made by loan manager and a branch manager within the framework of the Group's maximum exposure to a customer, which is 10.0 per cent. of the Group's capital as calculated in accordance with IFRS

and 15 per cent. of the Bank's capital as calculated in accordance with RAS as at the date of this Base Prospectus. Exposures within the Group's loan portfolio are monitored on a daily basis by the Group's credit manager and the Group's Risk Management Department.

A notable feature of the Group's lending procedures is that each client, product or risk manager must pass an annual examination, which also influences the level of authority that they are given.

SME Lending

The Group's SME credit approval process is generally similar to the approval procedure for corporate borrowers. However, in order to facilitate the speed with which the Group's smaller, standardised loan products can be issued, SME loan applications for micro and mini loans (see "*Description of the Group—Business Areas and Activities—SME Lending*") can be approved by one manager. In all other cases additional approval from the Group's Risk Management Department is required, with risk managers setting the applicable credit limit and defining the potential borrower's risk category.

Retail Lending and Consumer Finance

The first step in an application for one of the Group's retail loan products is the completion of a standard credit application over the internet, through the Group's call centre or in one of the Group's branches. The Group then conducts a credit limit calculation based on this information and various security checks. This includes certain steps to verify the identity of the applicant, including telephone calls to his address and checks against various databases, including blacklists and external credit agency databases. A preliminary approval or rejection notice is then communicated to the applicant, typically within one to two hours. After receiving a preliminary approval, the applicant must then visit a branch for a face-to-face interview with a retail loan manager, who (like corporate and SME loan managers) has the discretion to lend within the limitations of an overall framework. Individual discretionary lending limits of between approximately U.S.\$ 5,000 and U.S.\$ 25,000 are available to the Group's credit officers, and senior managers and the head of the retail banking division of each branch have lending limits of up to U.S.\$ 50,000. Credit officers are able to lend between RUB 150,000 and RUB 750,000. The Group used a credit scoring model in the initial application process to assist with credit assessment in the past, but as at the date of this Base Prospectus, the Group relies primarily on its loan managers' analysis of applicants' ability to repay the loan.

In relation to the Group's consumer finance operations, the lending decision is made by a single loan manager, following an interview with the applicant in one of the Group's service locations. While this loan manager makes use of certain fixed criteria, which an applicant must meet (for instance, employment and age), discretion rests with this loan manager, who seeks to ascertain whether the loan is a realistic undertaking for the borrower to take on. The Group has therefore taken considerable measures to ensure that their employment procedures are rigorous (for instance, using psychological profiling), that the training consumer finance loan managers receive is thorough and that the loan managers are properly incentivised to minimise non-performing loans in their portfolios.

CBR Guidelines

The CBR sets certain guidelines for loan approval that are designed to ensure the good financial standing of Russian banks and due protection of their creditors. In particular, the Group is required to maintain certain mandatory economic ratios represented by a set of limitations relating to the maximum amount of exposure in its loan portfolio, as well as minimum capital adequacy and liquidity levels. The Group believes that its procedures for the approval and monitoring of loans and collateral currently comply with the CBR guidelines.

As at the date of this Base Prospectus, the Group has not breached any of the CBR's mandatory economic ratios and no sanctions have been imposed.

Lending Limits

To limit its credit exposure, the Group has set limits in respect of credit risk by reference to particular borrowers and guarantors on lending operations; counterparty banks; counterparties on treasury operations; the issue of securities; documentary operations with counterparties; insurance companies; and industry sectors. The Group's total exposure to any one borrower in each bank within the Group must not exceed RUB 950 million. The Group has not established particular limits on lending/borrowing from foreign countries, on the basis that the Group is mostly a borrower from foreign countries and manages any credit exposure arising from such transactions by establishing foreign exchange limits.

Concentration limits for industry sectors vary according to the industry. According to Group's audited consolidated financial statements, as at 31 December 2009, 19.8 per cent. of the Group's gross loan portfolio consisted of loans to "Trading" entities. This sector description naturally covers a wide range of different sub-industries. The Group's exposure to each such sub-industry sector is generally below the Group's overall industry sector exposure limit of 15.0 per cent. of the Group's share capital as calculated in accordance with IFRS as at the date of this Base Prospectus. The Group was also in compliance with the CBR aggregate limit of 25.0 per cent. of the Group's share capital as calculated in accordance with RAS on related party lending and credit commitments.

Under certain of the Group's agreements with the EBRD, the Bank is prohibited from financing directly or indirectly in an aggregate amount exceeding 5.0 per cent. of its total loan portfolio companies primarily engaged in casino and gambling business, military equipment, production of tobacco products or hard liquors. The Bank is also prohibited from financing companies whose operations have a particularly detrimental effect on the environment.

Collateral

All of the Group's commercial loan products require collateral, usually representing 120.0 per cent. of the value of the loan. General loans can be secured, *inter alia*, by stock, typically valued at approximately 50.0 to 70.0 per cent. of its current market price. For project finance and leasing operations security is taken over equipment and/or real estate. Such collateral is also protected by requiring it to be insured with a leading Russian insurance company in favour of the Group. In particular specific financing areas, the Group adjusts its collateral requirements accordingly: for example, financing in respect of grain traders may require warrants as security. The Group does not typically require collateral to make available overdrafts or advance loans of less than U.S.\$5,000 to corporate customers and SMEs and for retail loans under RUB 300,000. Retail loans over this amount require either a surety or security. The Group's consumer finance loans are uncollateralised.

As at 31 December 2009, 35.3 per cent. of the Group's gross loan portfolio was collateralised. This compares to the position as at 31 December 2008 and 31 December 2007, when 38.3 per cent. and 49.2 per cent. of the Group's gross loan portfolio was uncollateralised, respectively. The decrease in the proportion of the Group's loan portfolio that was collateralised in the years ended 31 December 2008 and 2009 reflects the increase in retail and consumer finance loans made by the Group, many of which are either unsecured or secured by sureties rather than collateral.

Loan Portfolio Monitoring and Control

For corporate lending, the Group's standard loan monitoring procedures include:

- obtaining balance sheets, profit-and-loss accounts and revenue information, in particular using various RAS reporting forms;
- obtaining a letter from the borrower stating their liabilities/debts and revenue information;

- obtaining information on overdue payments to the federal budget and off-budget funds;
- project/deal monitoring;
- management accounts; and
- monitoring of the borrower's cash flow.

Monitoring is implemented by a risk manager and a credit inspector.

For non-standard corporate credit products, the Group will conduct, in addition to the above:

- monthly or quarterly monitoring of the borrower's current business activity;
- monthly or quarterly revision of the limit afforded to that borrower; and
- quarterly monitoring of collateral (through an on-site inspection).

Such monitoring is again implemented by a risk manager and credit inspector.

Management of Non-performing and Overdue Loans

In order to enable its various business divisions to focus on their core activities, the Group maintains a department focussed solely on the collection of non-performing and overdue loans - the bad and overdue loans department (the "**BOL Department**"). While the BOL Department focuses primarily on corporate loans, there are similar units with similar procedures in the Group's retail, consumer and SME divisions, which focus on recovering non-performing and overdue loans. These departments incur all expenses regarding such loans and earns revenue as a percentage of such loans which are repaid, a structure which the Group believes maximises the efficiency and motivation of this department. The Group also co-operates with third party debt collection agencies on a case-by-case basis in order to improve the quality of its loan portfolio, but believes that its own operations are generally more efficient than those provided by third party collection agencies.

The Group adopts a three-stage process to its treatment of non-performing and overdue loans for corporate and retail loans.

The first stage involves designating the loan as a "loan under monitoring". This designation is given to a loan on the basis of the individual decision of a risk manager or business manager. Indicators used to make such a decision include the loan being three or more days overdue, a downgrade in the risk category assigned to the borrower by the Group, an issue flagged by the Group's loan portfolio monitoring procedures or a decrease in the value of the security provided for the loan by more than 15 per cent. Depending on the circumstances, the Group may also take enforcement action against a "loan under monitoring", for instance by seizing property used to secure the loan.

The second stage is the classification of the loan as a "bad loan". A loan is considered a "loan under monitoring" for up to thirty days. After this period, the loan must be redesignated as either a normal loan or a "bad loan". This decision is taken jointly by the relevant business division, the Group's risk management division and the BOL Department. Once a loan is designated as a "bad loan", the Group's BOL Department assumes responsibility for the loan, documentation regarding the loan is transferred to the BOL Department and a preliminary budget relating to the action needed to enforce against the loan is agreed. At the same time, steps are taken to write off the loan from the relevant business division's balance sheet.

The third stage involves the BOL Department taking action in relation to the loan. The preferred course of action is to reach amicable agreement with debtors and voluntary performance of their obligations (so called "soft collection"). When considering the steps to be taken in relation to a

"bad loan", the BOL Department takes into account the individual circumstances of the borrower, the availability of alternative sources for redemption of the borrower's indebtedness to the Group, alternatives for re-structuring the debt, along with the reasons why the loan became problematic. It will attempt to negotiate with the debtor in respect of its problematic loan regarding possible voluntary repayment or voluntary realisation of any of the debtor's pledged or secured assets that are under the BOL Department's control. If this is not possible, the BOL Department will act to seek a court decision on the debt recovery and compulsory execution of the court decision through officers of the court (so called "hard collection"). Alternatively, the BOL Department may seek the debtor's insolvency. Any funds received are reimbursed to the relevant business division less a commission income charged by the BOL Department.

Treatment of non-performing and overdue loans became a focus and prioritised activity of the Group after the global economic crisis as part of its risk management policy.

Assessment of Provision for Impairment Losses

The Group estimates provisions for impairment losses in accordance with IAS 39 and in accordance with RAS. The Group creates reserves against possible losses on financial assets recorded at cost or amortised value if there is a likelihood that interest and principal may not be paid as provided for by the agreements. A loss reserve is the net of the balance sheet value of an asset and the current value of forecasted future cash inflows, including guaranteed amounts and security discounted using the initial effective interest rate for such financial asset. If the maturity is not fixed, the forecasted future flows are discounted using the periods during which the Group intends to sell the financial asset.

Allowances for impairment losses are calculated using the analysis of the loan portfolio and reflect the amount that is sufficient in management's opinion to cover the possible losses pertaining to the current portfolio. Allowances for impairment losses are calculated using the detailed analysis of risk exposed assets. Any changes in allowances for impairment losses are accounted for in the income statement. Loans that are reflected on the balance sheet and issued to other banks or customers are reduced by the reserve amount. The reserve amount is calculated by the management and is based on the data of previous losses, the risk analysis of specific types of assets and risks associated with the loan portfolio in general, adverse situations that may result in a borrower's failure to meet its liabilities, the appraised value of security and the current economic conditions.

RISK MANAGEMENT

Overview

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The principal risks inherent in the Group's operations are:

- Credit risk;
- Liquidity risk;
- Market risk (including interest rate and currency risks); and
- Operational risk (including systems risks and litigation risks).

To provide for an efficient and effective risk management policy, the Group determines key risk management principles aimed at protecting the Group from the risks to which it is exposed and enabling it to achieve its targets. A summary of the Group's risk management policies is set out below.

Credit Risk

Credit risk is the risk that a counterparty will be unable or unwilling to meet its payment obligations in full when due.

The majority of the Group's exposure to credit risk arises as a result of its principal business of providing credit to corporate and individual clients. Credit activities are conducted in accordance with the regulatory framework set by the CBR as well as internationally accepted criteria. See *"Lending Policies and Procedures"*. The Group's credit policy is defined by the Management Board and aims to achieve an optimal level of risk-return on its operations. Credit operations conducted by the Group include term loans, credit lines, overdraft facilities, documentary operations and other operations involving credit risk. The credit procedure is structured in line with a strict segregation of duties, based on the approved Credit Manual of the Group and daily risk management assessments are performed by the Chairman of the Management Board and the heads of the branch credit divisions.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments. The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

Off-balance sheet credit commitments represent unused portions of credit lines, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. 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 applies the same credit policy to its contingent liabilities as it does to the balance sheet financial instruments, i.e., the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical)

segments. The exposure in relation to each borrower, including banks and brokers, is further restricted by sub-limits which cover on and off-balance sheet risks. Actual exposures against limits are monitored daily.

During the global economic crisis, the Group first suspended all limits in autumn 2008, but as of January 2009, it reconsidered its relationships with various banks, hired a risk manager specialising in financial markets (earlier these functions were performed by the FRMU) who deals with risk analysis and management. The Group tightened its methodology for assessment of limits for counterparties and it performs monthly monitoring of financial condition of the counterparties on open limits.

Maximum Credit Risk Exposure

The Group's maximum credit risk exposure may vary significantly depending on the individual risks inherent in specific assets and overall market risks.

Geographical Concentration

The FRMU exercises control over the Group's responses to the risks facing the Group in the applicable legislative and regulatory arena and assesses their influence on the Group's activity. This approach allows the Group to minimize potential losses from investment climate fluctuations in the Russian Federation.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments and arises when maturities of assets and liabilities are not met. 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 Group maintains liquidity management with the objective of ensuring that funds will be available at all times to satisfy all cash flow obligations as they become due. The Group's liquidity policy is supervised by the Strategic Committee.

Substantially all of the Group's interest bearing assets and interest bearing liabilities are at fixed rates of interest.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations. The Strategic Committee sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long- and short-term loans from other banks, core corporate and retail customer deposits, along with portfolios of highly liquid assets in order to be able to withstand to unforeseen liquidity requirements.

The Group is subject to liquidity requirements set by the CBR. See "*Overview of the Banking Sector and Banking Regulation in the Russian Federation*". The Group calculates liquidity ratios on a daily basis in accordance with these CBR requirements. For the years ended 31 December 2009, 2008 and 2007, the Group was in compliance with the applicable liquidity ratios.

Key elements of the Group's liquidity risk management policy are as follows:

- protecting cash flows in U.S. dollars, Euros and RUB and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;

- maintaining the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans; and
- monitoring balance sheet liquidity ratios against regulatory requirements.

The following table shows assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2009, with the exception of financial instruments at fair value through profit or loss and available-for-sale securities, which are shown in the category "Less than 1 month or on demand" based on the fact that the Group's management believes that all these trading securities could be liquidated within one month in the normal course of business.

ASSETS	Less than 1 month RUB'000	1 to 3 months RUB'000	3 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	More than 3 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
Cash	4,589,153	-	-	-	-	-	-	-	4,589,153
Due from the Central Bank of the Russian Federation	5,799,081	-	-	-	-	-	-	-	5,799,081
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	-	-	532,377	-	532,377
Placements with banks and other financial institutions	6,283,246	2,210,571	50,000	-	-	-	-	-	8,543,817
Financial instruments at fair value through profit or loss	6,710,822	-	-	-	-	-	-	-	6,710,822
Amounts receivable under reverse repurchase agreements	4,906,111	-	-	-	26,714	-	-	-	4,932,825
Loans to customers	2,981,270	4,151,093	5,309,506	6,113,423	13,818,888	6,175,647	-	3,972,357	42,522,184
Goodwill	-	-	-	-	252,676	-	-	-	252,676
Available-for-sale securities	385,070	-	-	-	-	-	-	-	385,070
Property and equipment and intangible assets	-	-	-	-	-	-	4,748,498	-	4,748,498
Investment property	-	-	-	-	788,780	-	-	-	788,780
Advances issues to property development companies	-	-	-	-	-	2,976,888	-	-	2,976,888
Current income tax asset	-	88,030	-	-	-	-	-	-	88,030
Deferred tax asset	-	-	-	-	339,341	-	-	-	339,341

Other assets	429,516	39,063	6,009	122,367	4,092	23,023	19,542	-	643,612
Total assets	32,084,269	6,488,757	5,365,515	6,235,790	15,230,491	9,175,558	5,300,417	3,972,357	83,853,154
LIABILITIES	Less than 1 month RUB'000	1 to 3 months RUB'000	3 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	More than 3 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
Financial instruments at fair value through profit or loss	1,806,477	39,000	10,827	-	-	-	-	-	1,856,304
Deposits and balances from banks and other financial institutions	1,029,693	421,552	4	90,244	761,796	-	-	-	2,303,289
Amounts payable under repurchase agreements	1,158,749	-	-	-	-	-	-	-	1,158,749
Customer accounts	17,931,510	7,672,600	5,447,173	13,267,179	8,570,998	522,795	-	-	53,412,255
Debt securities issued	438,541	1,111,606	565,284	2,841,768	58,543	-	-	-	5,015,742
Other borrowed funds	-	83,686	632,519	779,161	3,035,265	4,563,440	-	-	9,094,071
Subordinated debts	-	-	-	-	669,319	1,038,535	-	-	1,707,854
Other liabilities	25,956	130,408	10,800	361,046	13,960	-	-	-	542,170
Total liabilities	22,390,926	9,458,852	6,666,607	17,339,398	13,109,881	6,124,770	-	-	75,090,434
Net position as at 31 December 2009	9,693,926	(2,970,095)	(1,301,092)	(11,103,608)	2,120,610	3,050,788	5,300,417	3,972,357	8,762,720
Net position a s at 31 December 2008	10,085,507	1,141,874	(3,733,893)	(3,733,893)	(5,953,089)	(1,590,743)	5,536,831	3,453,385	7,435,165

The following table shows assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2008, with the exception of financial instruments at fair value through profit or loss and available-for-sale securities, which are shown in the category "Less than one month or on demand" based on the fact that the Group's management believes that all these trading securities could be liquidated within one month in the normal course of business.

ASSETS	Less than 1 month RUB'000	1 to 3 months RUB'000	3 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	More than 3 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
Cash	3,874,716	-	-	-	-	-	-	-	3,874,716
Due from the Central Bank of the Russian Federation	9,408,842	-	-	-	-	-	-	-	9,408,842
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	-	-	110,326	-	110,326
Placements with banks and other financial institutions	5,745,227	1,560,259	500,000	-	280,000	-	-	-	8,085,486
Financial instruments at fair value through profit or loss	1,596,383	-	-	-	-	-	-	-	1,596,383
Amounts receivable under reverse repurchase agreements	2,581,307	-	-	-	-	-	-	-	2,581,307
Loans to customers	5,882,188	4,099,901	6,225,701	6,134,170	11,109,956	7,696,693	-	3,453,385	43,511,314
Goodwill	-	-	-	-	-	-	252,676	-	252,676
Available-for-sale securities	1,259,374	-	-	-	-	-	-	-	1,259,374
Property and equipment and intangible assets	-	-	-	-	-	-	5,075,543	-	5,075,543
Advances issued to property development companies	-	330,530	201,501	176,737	381,912	-	-	-	1,090,680
Current income tax asset	-	168,116	-	-	-	-	-	-	168,116
Deferred tax asset	-	40,180	-	-	-	-	-	-	40,180
Other assets	537,748	60,168	5,321	307,950	41,865	8,252	98,286	-	1,059,590
Total assets	30,885,785	5,928,624	6,731,022	6,442,120	11,431,821	7,704,945	5,536,831	3,453,385	78,114,533

LIABILITIES	Less than 1 month RUB'000	1 to 3 months RUB'000	3 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	More than 3 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
Financial instruments at fair value through profit or loss	147,935	-	34,318	-	-	-	-	-	182,253
Deposits and balances from banks and other financial institutions	5,656,105	250,062	1,575,362	167,860	276,484	560,455	-	-	8,486,328
Amounts payable under repurchase agreements	1,389,901	-	-	-	-	-	-	-	1,389,901
Customer accounts	12,926,332	4,017,703	5,530,710	9,236,137	7,978,149	2,144,972	-	-	41,834,003
Debt securities issued	499,688	286,322	679,727	237,898	4,921,014	-	-	-	6,624,649
Other borrowed funds	119,481	11,433	205,663	272,980	3,680,569	4,472,097	-	-	8,762,223
Subordinated debts	-	-	-	-	501,311	2,118,164	-	-	2,619,475
Other liabilities	60,836	221,230	209,949	261,138	27,383	-	-	-	780,536
Total liabilities	20,800,278	4,786,750	8,235,729	10,176,013	17,384,910	9,295,688	-	-	70,679,368
Net position as at 31 December 2008	10,085,507	1,141,874	(1,504,707)	(3,733,893)	(5,953,089)	(1,590,743)	5,536,831	3,453,385	7,435,165

The following table shows assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2007, with the exception of financial instruments at fair value through profit or loss and available-for-sale securities, which are shown in the category "Less than 1 month or on demand" based on the fact that the Group's management believes that all these trading securities could be liquidated within one month in the normal course of business.

ASSETS	Less than 1 month RUB'000	1 to 3 months RUB'000	3 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	More than 3 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
Cash	2,672,275	-	-	-	-	-	-	-	2,672,275
Due from the Central Bank of the Russian Federation	5,355,562	-	-	-	-	-	-	-	5,355,562
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	-	-	760,946	-	760,946
Placements with banks and other financial institutions	1,479,057	1,476,213	518,193	-	-	-	-	-	3,473,463
Financial instruments at fair value through profit or loss	2,273,619	7,510	252	-	-	-	-	-	2,281,381
Amounts receivable under reverse repurchase agreements	767,095	-	-	-	-	-	-	-	767,095
Loans to customers	4,076,013	4,894,930	4,839,856	5,126,210	9,401,216	6,746,402	-	1,642,966	36,727,593
Goodwill	-	-	-	-	-	-	252,676	-	252,676
Available-for-sale securities	16,600	-	-	-	-	-	-	-	16,600
Property and equipment and intangible assets	-	-	-	-	-	-	4,355,731	-	4,355,731
Current income tax asset	-	7,573	-	-	-	-	-	-	7,573
Other assets	149,611	58,968	75,224	57,920	-	-	35,694	-	377,417
Total assets	16,789,832	6,445,194	5,433,525	5,184,130	9,401,216	6,746,402	5,405,047	1,642,966	57,048,312

LIABILITIES	Less than 1 month RUB'000	1 to 3 months RUB'000	3 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	More than 3 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
Financial instruments at fair value through profit or loss	-	448,774	-	-	-	-	-	-	448,774
Deposits and balances from banks and other financial institutions	592,612	619,203	150,000	9,272	73,260	502,880	-	-	1,947,227
Amounts payable under repurchase agreements	356,502	-	-	-	-	-	-	-	356,502
Customer accounts	12,360,656	3,037,500	2,565,265	5,260,573	5,687,996	210,446	-	-	29,122,436
Debt securities issued	668,388	866,600	1,915,275	5,830,350	3,576,819	-	-	-	12,857,432
Other borrowed funds	205,334	137,957	245,465	1,412,464	153,309	983,984	-	-	3,138,513
Subordinated debts	57,637	188	-	-	-	940,395	-	-	998,220
Current income tax liability	-	36,628	-	-	-	-	-	-	36,628
Deferred tax liabilities	-	379,136	-	-	-	-	-	-	379,136
Other liabilities	93,426	23,131	220,496	17,735	9,115	-	158,274	-	522,177
Total liabilities	14,334,555	5,549,117	5,096,501	12,530,394	9,500,499	2,637,705	158,274	-	49,807,045
Net position as at 31 December 2007	2,455,277	896,077	377,024	(7,346,264)	(99,283)	4,108,697	5,246,773	1,642,966	7,241,267

Market Risk

Market risk is the risk that movements in market prices, including foreign exchange rates, credit spreads and equity prices, will affect the Group's income or the value of its portfolios. Market risk comprises currency risk, interest rate risk and other price risk.

The FRMU manages market risks and approves the market risks limits based on the recommendation of the Strategic Committee. The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturities, currency positions and stop-loss limits, which are maintained on a regular basis and reviewed and approved by the Management Board. The management of interest risk component part of market risk, is performed by monitoring the interest rate gap and supplemented by monitoring the sensitivity of the Group's Net Interest Margin to various standard and non-standard interest rates. The FRMU monitors the Group's financial performance and estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

Interest Rate Risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments. The Group faces interest rate risk primarily as a result of granting loans to customers and other banks at fixed interest rates in amounts and for terms that differ from the amounts and terms of deposits placed with the Group and other borrowed funds with fixed interest rates. In practice, interest rates are generally established for a short-term (usually for the next three months) on the basis of marketing analyses and are approved by the Strategic Committee.

The following are key elements of the Group's interest rate risk management policy:

- (a) an established system of strict gap limits for changes of interest rate of assets and liabilities;
- (b) permanent monitoring of the interest rate market;
- (c) monthly data collection and research analysis pertaining to interest rate movements;
- (d) a system ensuring isolation of risk from individual business-managers; and
- (e) the level of possible negative influence on budgeted income - less than 5.0 per cent. of equity.

The table below displays the Group's interest bearing assets and liabilities as at 31 December 2009, 2008 and 2007 and their corresponding average effective interest rates as at the date. There interest rates are in approximation of the yields to maturity of these assets and liabilities.

	Value RUB'000	2009 Average effective interest rate	Value RUB'000	2008 Average effective interest rate	Value RUB'000	2007 Average effective interest rate
Interest bearing assets						
<i>Placements with banks and other financial institutions</i>						
<i>Loans and deposits</i>						
- RUB	801,815	8.84%	940,278	10.27%	-	-
- USD	3,280,478	2.90%	2,923,458	3.41%	1,631,963	4.76%

	Value RUB'000	2009 Average effective interest rate	Value RUB'000	2008 Average effective interest rate	Value RUB'000	2007 Average effective interest rate
- other currencies	174,237	3.98%	-	-	-	-
Financial instruments at fair value through profit or loss						
- RUB	417,938	12.93%	161,929	9.92%	413,091	12.96%
- USD	1,686,494	8.40%	403,456	7.91%	1,276,852	3.00%
- other currencies	2,482,607	8.85%	837,807	4.68%	-	-
Amounts receivable under reverse repurchase agreements						
- RUB	4,932,825	12.81%	2,581,307	14.49%	767,095	9.62%
Loans to customers						
- RUB	36,995,116	33.80%	40,552,604	27.40%	33,703,311	26.73%
- USD	4,732,382	17.30%	3,588,122	17.97%	2,736,100	14.62%
- other currencies	794,685	20.4%	461,268	13.51%	288,182	12.24%
Available-for-sale securities						
- RUB	353,445	15.49%	693,661	12.45%	-	-
Advances issued to property development companies						
- RUB	2,976,888	14.30%	1,090,680	13.87%		
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions						
<i>Term deposits</i>						
- RUB	1,413,959	11.10%	6,569,708	12.05%	923,278	9.18%
- USD	461,202	4.42%	702,770	6.96%	519,235	8.46%
- other currencies	92,976	5.53%	180,974	7.65%	129,791	5.53%
Amounts payable under repurchase agreements						
- RUB	1,158,749	6.85%	1,389,901	12.95%	356,502	10.99%

	Value RUB'000	2009 Average effective interest rate	Value RUB'000	2008 Average effective interest rate	Value RUB'000	2007 Average effective interest rate
Customer accounts						
<i>Term deposits of legal entities</i>						
- RUB	3,073,701	13.29%	2,778,918	8.47%	2,758,871	10.49%
- USD	393,509	3.35%	761,333	7.18%	1,733,798	8.25%
- other currencies	216,406	6.70%	135,858	7.36%	276,984	7.09%
<i>Term deposits of individuals</i>						
- RUB	26,996,079	13.91%	19,648,214	12.52%	11,820,598	10.55%
- USD	3,735,064	8.44%	3,752,268	10.44%	1,130,745	9.50%
- other currencies	4,796,304	7.89%	4,084,447	10.36%	1,304,182	5.84%
Debt securities issued						
- RUB	3,665,054	12.12%	4,400,828	9.51%	5,890,825	9.09%
- USD	1,116,693	10.73%	2,215,522	12.48%	6,672,393	8.84%
- other currencies	233,995	4.86%	8,299	8.08%	294,214	7.78%
Other borrowed funds						
- RUB	5,398, 206	19.50%	5,672,052	6.50%	-	-
- USD	498,486	9.94%	760,963	6.29%	2,380,456	7.53%
- other currencies	3,197,379	3.01%	2,329,208	5.72%	758,057	4.98%
Subordinated debts						
- RUB	471,431	9.03%	1,368,126	11.86%	473,697	11.00%
- USD	1,236,423	9.94%	1,195,080	11.77%	524,523	11.22%
- EUR	-	-	56,269	8.00%	-	-

Currency Risk

The Group has assets and liabilities denominated in several foreign currencies. The main currencies to which the Group is exposed are Roubles, Euros and U.S. dollars. Currency risk arises when the actual and forecasted assets in a foreign currency are greater or less than the liabilities in that currency.

Currency risk is managed within both the regulatory framework set by the CBR and the corresponding framework established by the Group. The FRMU controls currency risk by management of the open currency position on the estimated basis of Rouble devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The FRMU performs daily

monitoring of the Group's open currency position in order to meet the requirements of the CBR. The Group's currency risk policy includes both transactions limits (applicable to transactions undertaken by the Group's Financial Markets Division) and investment limits (which restrict the open currency position of the entire Group, such that the amount of an open currency position in any one currency can never exceed ten per cent. of the Group's equity (as is prescribed by the CBR) as well as providing for limits on assets and liabilities gaps and off-balance sheet liabilities in any one currency).

Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all financial instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Securities Price Sensitivity Analysis

The table below contains an analysis of the sensitivity of the Group's profit for the year and equity to changes in equity securities prices based on positions existing as at 31 December 2009, 31 December 2008 and 31 December 2007, using a simplified scenario of 5.0 per cent. change in all securities prices.

As at 31 December 2009						
	2009		2008		2007	
	5% increase in securities prices	5% decrease in securities prices	5% increase in securities prices	5% decrease in securities prices	5% increase in securities prices	5% decrease in securities prices
	RUB'000					
Profit	184,678	(184,678)	4,635	(4,635)	17,072	(17,072)
Equity	199,126	(199,126)	27,263	(27,263)	17,733	(17,733)

Operational Risk

Operational risk arises from the potential for key systems failures, breaches in internal controls or from external events resulting in financial loss or reputation damage. Key operational risks include outsourced contracts, payment systems and information systems

Operational risk is controlled and mitigated through comprehensive, ongoing risk management practices which include formal internal control procedures, training, segregation of duties and responsibilities, delegated authorities and contingency planning. The Group's internal audit department conducts operational reviews and reports regularly to the Management Board. Division managers are responsible for controlling operating risks within their areas and for compliance with Group policies. Compliance procedures are extensively documented.

Key elements of the Group's internal control system include:

- (a) Management control: The Board of Directors regularly conducts meetings with the executive management of the Group at which it considers reports on recommendations for improvements in internal controls prepared by the external auditors;
- (b) Monitoring of internal controls: including analysis and estimation of the various risks taken by the Group, notably in its implementation of banking products;
- (c) Distribution of responsibilities: the Group aims to ensure a wide allocation and careful management of the professional responsibilities of employees of the Group in order to avoid conflicts of interests; and

- (d) Management of information channels and information security: including systems to control physical access; backup equipment and systems for storing all banking operations and procedures; use of continuous sources of electricity for maintenance of servers; different access rights for different categories of users; anti-virus software; and monitoring of employees' use of the Internet, computers, telecommunication channels, etc.

To provide business contingency, the Group has developed a special disaster recovery programme that includes the establishment of a new backup server room in Moscow, which is currently under construction, in addition to the backup power supply system provided by an "uninterruptible power supply" and a diesel-generator set, which is currently in use. The Group uses two servers: operational and backup, which ensures backing up every 30 minutes. The Group is also has bankers blanket bond and other types of insurance (see "*Business—Insurance*") to protect against employee misconduct and fraud and to insure property, third party liability, general and operational liability and the transportation of valuables.

Litigation Risk

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own evaluations the Group's management is of the opinion that no material losses will be incurred in respect of claims which are, or may be, currently outstanding. Accordingly, as at 31 December 2009, no provision was made in respect of litigation risk.

Reputational Risk

This is the risk of losses to the Group's business due to negative perception regarding the Group's creditworthiness, its quality of service and/or regarding the quality of its business in general. The Group monitors reputational risk by reviewing publications in the media and by questionnaires completed by clients, and seeks to minimise reputational risk by ensuring high standards of compliance in its internal monitoring procedures.

Anti-Money Laundering and Anti-Terrorism Measures

As a member state of Financial Action Task Force on Money Laundering (the "**FATF**"), the Russian Federation adopted the Anti-Money Laundering Law. This law remains the principal legislative source in the Russian Federation for combating money laundering. Subsequent to the passage of the Anti-Money Laundering Law, the CBR promulgated a number of regulations in this field specifically for the banking sector.

The Group's management believes that the Group's internal policies and procedures, which have been approved by the CBR, comply fully with the provisions of the Anti-Money Laundering Law and applicable regulations.

The Chairman of the Management Board controls the Group's anti-money laundering activities and appoints the person responsible for managing the Group's anti-money laundering procedures, advises the Group's employees on these matters, arranges training programmes for them and the provision of the required information on anti-money laundering activities to the Russian authorities and reports to the CBR and the FSFM on realisation of the Bank's internal anti-money laundering regulations.

The Group's anti-money laundering policy requires, among other things: risk-based identification of every client, verification of each client's documents, monitoring of each client's operations, detection and reporting of operations according to suspicious/obligatory control criteria, record keeping and staff training. All detected suspicious operations and operations that are subject to obligatory control must be reported by the Group's compliance department on a daily basis to the CBR for further reporting to the Federal Service of Financial Monitoring.

As part of its anti-terrorism measures, every new customer of the Group is screened against the FSFM's List of Designated Extremists.

RELATED PARTY TRANSACTIONS

The Group enters into transactions in the ordinary course of its business with shareholders, directors, subsidiaries and companies with which it has significant shareholders in common. These transactions include settlements, loans, deposit taking, trade financing and foreign currency transactions and are priced at market rates. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". The Group's policy is generally to conduct all transactions with related parties at arms' length and according to terms and conditions consistent with those it applies to unrelated parties and approve them in accordance with the relevant Russian and other legislation.

As at 31 December 2009, the gross amount of loans to customers issued to related parties was approximately 1.2 per cent. of the Group's aggregate gross loans to customers, compared to 4.3 per cent. and 1.8 per cent. as at 31 December 2008 and 31 December 2007, respectively. As at 31 December 2009, liabilities to related parties were approximately 0.6 per cent. of the Group's total liabilities, compared to approximately 1.6 per cent. and 1.0 per cent. as at 31 December 2008 and 31 December 2007, respectively. For more information about the Group's related party transactions for the year ended 31 December 2009, see Note 38 (Related party transactions) of the Group's Financial Statements.

THE ISSUER

The Issuer

The Issuer was incorporated as a limited liability company under the laws of Cyprus on 7 April 2005 as a private company with limited liability and unlimited duration. The Issuer's corporate domicile is in Nicosia, Cyprus. The registered office of the Issuer is Annis Kominis, 29A P.C. 1061, Nicosia, Cyprus. The Issuer is registered with the Office of the Registrar of Companies under Registration No. 159439. The Issuer may be reached by telephone at +357 22 558 888.

Corporate Purpose of the Issuer

The principal objects of the Issuer are set forth in clause 3 of its Memorandum of Association (as currently in effect) and permit the Issuer, *inter alia*, to lend money with or without security 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 and to enter into derivative transactions.

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issue of the Notes and to use an amount equal to the proceeds of such issuance to advance the Loan to the Bank on the terms of the Loan Agreement.

Business Activity

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.

So long as any of the Notes remain outstanding, the Issuer will be subject to the restrictions set out in Condition 4 and in the Trust Deed.

Corporate Services Provider

Kinanis & Co (the "**Corporate Services Provider**"), a Cypriot company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the registered office of the Issuer. The Corporate Services Provider performs various management and corporate secretarial functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services. 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 Corporate Services Provider's principal office is 12 Egypt Street, P.C. 1097, Nicosia, Cyprus.

Recent Developments

Save as stated above, 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 31 December 2008. Save for the issue of Notes described above and their 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 1,710 divided into 1,000 shares of par value EUR 1.71 each (the "**Shares**"). The Issuer has issued 500 shares to Zoulian Management Ltd and 500 shares to Zoulian Ltd, all of which are held on trust on behalf of Mr Alexander B. Belov

(the "**Share Trustee**") under the terms of a declaration of trust (the "**Declaration of Trust**") dated 28 April 2005, under which the Share Trustee holds the Shares 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 Shares. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

Management

The Issuer is managed by a Board of Directors whose members are appointed by a general meeting of shareholders and may be suspended or removed from office by the shareholders at any time. The Issuer's Articles of Association provide that the Board of Directors of the Issuer will consist of at least one director.

The sole director of the Issuer and her business address is as follows:

Eleni P. Kinani - Annis Kominis, 29A P.C. 1061, Nicosia, Cyprus.

The Company Secretary is Zoulian Limited, also of Annis Kominis, 29A P.C. 1061, Nicosia, Cyprus.

The sole director does not hold any direct, indirect, beneficial or economic interest in any of the Shares. The directorship of the sole director 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 sole director is an employee of the Corporate Services Provider.

Financial Statements

The Issuer has produced financial statements for the years ending 31 December 2008 and 31 December 2007.

The auditors of the Issuer are C. Efstathiou & Co. Ltd of 8, Kennedy Avenue, Office 201, P.O.Box 542, Nicosia, Cyprus who are certified public accountants and registered auditors in Cyprus and the member of the Institute of Certified Public Accountants of Cyprus.

Litigation

There are no, and have not been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had during the twelve months preceding the date of this Base Prospectus, a significant effect on the financial position or profitability of the Issuer.

FORM OF THE SENIOR FACILITY AGREEMENT

The following is a summary of the text of the Senior Facility Agreement entered into between the Bank and the Issuer (as Lender)

THIS THIRD AMENDED AND RESTATED SENIOR FACILITY AGREEMENT is made on 2 November 2010

BETWEEN:

- (1) **Probusinessbank**, a company incorporated under the laws of the Russian Federation whose registered office is at 3 Pudovkina Street, Moscow 119285, Russian Federation (the "**Bank**"); and
- (2) **PBB LPN Issuance Limited**, a company incorporated under the laws of Cyprus whose registered office is at Annis Komnini 29A, P.C.1061, Nikosia, Cyprus (the "**Lender**"), the Lender and the Bank together, the "**Parties**" and each a "**Party**".

WHEREAS:

- (A) The Lender, at the request of the Bank, agreed to make available to the Bank a loan facility in the amount of the Programme Limit (as defined below) on the terms and subject to the conditions of a facility agreement dated 1 July 2005 between the Lender and the Bank (the "**Original Facility Agreement**"), as amended and supplemented in relation to each Loan (as defined therein) by a loan supplement dated by the relevant Closing Date substantially in the form set out in the form set out in Schedule 1 thereto (each, a "**Loan Supplement**");
- (B) It was intended that, concurrently with the existence of any Loan under the Original Facility Agreement, the Lender would issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as such Loan;
- (C) On 14 November 2006, the Lender and the Bank entered into an amendment and restatement of the Original Facility Agreement (the "**First Amended and Restated Facility Agreement**") to increase the Programme Limit (as defined in the Original Facility Agreement) from U.S.\$100,000,000 to U.S.\$200,000,000.
- (D) On 22 March 2007, the Lender and the Bank entered into an amendment and restatement of the First Amended and Restated Facility Agreement (the "**Second Amended and Restated Facility Agreement**") to:
 - (a) list the Programme on the Official List of the UKLA;
 - (b) increase the Programme Limit (as defined in the First Amended and Restated Facility Agreement) from U.S.\$200,000,000 to U.S.\$750,000,000; and
 - (c) amend certain of the provisions in the first Amended and Restated Facility Agreement.
- (E) The Lender and the Bank have now agreed to make certain modifications to the Second Amended and Restated Facility Agreement to provide for the issuance of Notes backed by senior or subordinated loans and to list the Programme on the ISE.
- (F) This Agreement amends and restates the Second Amended and Restated Facility Agreement. Any Loans made under the Programme on or after the date hereof shall be issued pursuant to this Agreement. This does not affect any Loans made under the Programme prior to the date of this Agreement.

IT IS AGREED:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement:

"Account" means an account in the name of the Lender with the Principal Paying Agent as specified in the relevant Loan Supplement;

"Affiliate" of any specified Person means:

- (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person; or
- (b) any other Person who is a director or officer:
 - (i) of such specified Person;
 - (ii) of any Subsidiary of such specified Person; or
 - (iii) of any Person described in clause (a) above.

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.

"Agreement" means this Third Amended and Restated Facility Agreement as amended and supplemented by the relevant loan supplement;

"Arrangers" means BCP Securities LLC or any additional or replacement arranger appointed, and excluding any Arranger whose appointment has been terminated pursuant to the Dealer Agreement;

"Auditors" means the auditors for the time being of the Bank;

"Banking Business" means in relation to the Bank or any of its Material Subsidiaries, any type of banking business (including, without limitation, any factoring, consumer credit, mortgages, issuance of banking guarantees and letters of credit (and related cash cover provision), Repos, total return swaps, prime brokerage agreements, credit derivatives, hedging, bills of exchange and promissory notes and payments under such guarantees, letters of credit and promissory notes, trading of securities, fund management and professional securities market participation business) which it conducts or they conduct or may conduct pursuant to its (or their) licences issued by the appropriate authorities, accepted market practice and any applicable law;

"Business Day" means a day on which:

- (a) the London Interbank Market is open for dealings between banks generally, and
- (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Moscow, Cyprus, London, New York City and in the city where the specified office of the Principal Paying Agent is located;

"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;

"CBR" means the Central Bank of the Russian Federation;

"Closing Date" means the date specified as such in the relevant Loan Supplement;

"Dealer Agreement" means the third amended and restated dealer agreement in relation to the Programme dated 2 November 2010 between the Lender, the Bank, the Arrangers and the other dealers appointed pursuant to it, as the same may be amended or supplemented from time to time;

"Default" means any event which is, or after notice or passage of time or after making any determination would be, an Event of Default;

"Dollars", **"\$"** and **"U.S.\$"** means the lawful currency of the United States of America;

"euro" or **"€"** means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome, as amended;

"Event of Default" has the meaning assigned to such term in clause 11.1;

"Fixed Rate Loan" means a Loan specified as such in the relevant Loan Supplement;

"Floating Rate Loan" means a Loan specified as such in the relevant Loan Supplement;

"Group" means the Bank and its Material Subsidiaries taken as a whole;

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly 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 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 (formerly International Accounting Standards Board (**"IASB"**) and interpretations issued by the International Financial Standards Committee of the IASB (as amended, supplemented or re-issued from time to time);

"incur" means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be incurred or issued by such Subsidiary at the time it becomes or is so merged into a Subsidiary;

"Indebtedness" means any indebtedness, in respect of any Person for, or in respect of, moneys borrowed or deposits received; 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 similar instrument; the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with IFRS, be treated as a finance or capital lease; receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis); any amount raised pursuant to any issue of shares which are expressed to be redeemable; any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing; any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account); any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and the amount of any liability in respect of any Guarantee or indemnity for any of the items referred to above;

"Insolvency Event" means an entry into force of a final decision of a competent Russian court finding the Bank to be insolvent;

"Insolvency Proceedings" means any proceeding in a competent Russian court relating to bankruptcy or any other proceedings including, but not limited to, the revocation of a banking licence or appointment of temporary administration, which could reasonably lead to an occurrence of an Insolvency Event;

"Interest Payment Date" means the date(s) specified as such in the relevant Loan Supplement, or, in the event of a payment in whole (but not part) in accordance with clause 5.2 or 5.3 of the date set for redemption in respect of the Loan;

"Interest Period" means each period beginning on (and including) an Interest Payment Date or, in the case of the first Interest Period the Interest Commencement Date, and ending on (but excluding) the next Interest Payment Date;

"ISE" means the Irish Stock Exchange;

"Issue Documents" means this Agreement, the Trust Deed, the Dealer Agreement, the Subscription Agreement and the Paying Agency Agreement and **"Issue Document"** means any one of them;

"Loan" means each loan to be made pursuant to, and on the terms specified in this Agreement as amended and supplemented by the relevant Loan Supplement and includes each Fixed Rate Loan and Floating Rate Loan;

"Loan Agreement" means this Agreement and (unless the context otherwise requires), in relation to a Loan, means this Agreement as amended and supplemented by the relevant Loan Supplement;

"Material Adverse Effect" means a material adverse effect on:

- (a) the business, operations, property, condition (financial or otherwise) or the reasonable business prospects of the Group taken as a whole;
- (b) the Bank's ability to perform its obligations under a Loan Agreement; or
- (c) the validity or enforceability of a Loan Agreement or the rights or remedies of the Lender under a Loan Agreement;

"Material Subsidiary" means at any time each Subsidiary of the Bank which has (together with its Subsidiaries, if any, on a consolidated basis in accordance with IFRS, as consistently applied if required to consolidate) total assets which amount to not less than 10 per cent. of the total assets of the Group.

Compliance with the 10 per cent. of total assets criteria referred to 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 Officer's Certificate that a Subsidiary of the Bank is or is not a Material Subsidiary, accompanied by a report by the Auditors addressed to the Directors of the Bank as to proper extraction of the figures used in the Officer's Certificate in determining the Material Subsidiaries of the Bank and mathematical accuracy of the calculations shall, in the absence of manifest error, be conclusive and binding on all parties, provided, however, that (i) Bank 24.ru and (ii) a Subsidiary that may be acquired by the Bank after the date of this Agreement and that is undergoing financial rehabilitation, "sanitation" or similar proceedings shall not be a Material Subsidiary;

"Noteholder" means the Person in whose name the Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof);

"Notes" means the loan participation notes that may be issued from time to time by the Lender under the Programme in Series, each Series corresponding to a Loan and, in relation to a Loan, as defined in the relevant Loan Supplement;

"Officer's Certificate" means a certificate signed on behalf of the Bank by two officers of the Bank at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Bank in a form similar to that set out in Schedule 2 hereto;

"Official List" has the meaning given to that term in section 103 of the Financial Services and Markets Act 2000;

"Original Financial Statements" means the most recent consolidated and unconsolidated financial statements of the Group

"Paying Agency Agreement" means the third amended and restated paying agency agreement dated 2 November 2010 between the Lender, the Bank, the Trustee, and others, as the same may be amended or supplemented from time to time relating to the Notes;

"Permitted Liens" means:

- (a) Security granted by the Bank or a Material Subsidiary which is existing as at the date of this Agreement;
- (b) any netting or set-off arrangement entered into by the Bank or in the ordinary course of its business for the purpose of netting debit and credit balances;
- (c) any lien arising by operation of law or in the ordinary course of business and not as a result of an Event of Default, including any rights of set-off arising as a matter of law;
- (d) any Security entered into pursuant to any Issue Document;
- (e) any Security upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Securitisation Transaction or like

arrangement and whereby all payment obligations secured by such Security or having the benefit of such Security, are to be discharged solely from such assets or revenues (including any Security granted for the purposes of a Securitisation Transaction);

- (f) any Security over any assets acquired after the date hereof and in existence at the date of such acquisition provided that such Security was not created in contemplation of the acquisition and provided further that no such Security shall extend to any other assets;
- (g) any Security securing Indebtedness of a Person existing at the time such Person is merged into or amalgamated with the Bank or any of its Subsidiaries provided that such Security was not created in contemplation of such merger or amalgamation and does not extend to any other assets, income or property of the Bank or any of its Subsidiaries;
- (h) Security created or arising in the ordinary course of Banking Business;
- (i) any Security over debt securities issued by a sovereign, state or government which is created to secure indebtedness owed to a national central bank under credit advanced by such national central bank to the Bank in the ordinary course of its Banking Business;
- (j) Security 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;
- (k) Security 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 Bank or any of the Subsidiaries has set aside on its books reserves to the extent required by IFRS (or Russian Accounting Standards as applicable);
- (l) bankers' liens in respect of deposit accounts;
- (m) statutory landlords' liens;
- (n) Security created to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements or other obligations of like nature (so long as, in each cases with respect to the items described in paragraphs (i), (ii) and (iii) above of this paragraph (n), such Security does not secure obligations constituting Indebtedness for borrowed money and is incurred in the ordinary course of business); and
- (o) Security arising from any legal proceeding, judgment, decree or other order which does not result in an Event of Default;
- (p) any Security granted by any Subsidiary in favour of the Bank;
- (q) Security upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo transaction;
- (r) Security in respect of any funds deposited by a member of the Group as collateral for the Indebtedness of any other member of the Group;

- (s) any Security securing indebtedness incurred to refinance other Indebtedness permitted to be secured by any Security permitted under paragraphs (a) to (p) (inclusive) above provided that the replacement Security does not cover any assets other than the original assets subject to the original Security and that the principal amount secured thereby is not increased;
- (t) any Security over a minority shareholding interest of 30 per cent. or less held directly or indirectly on an aggregate basis by the Bank or any of its Subsidiaries in a company or corporation where such Security is part of a security arrangement which includes the granting of security over all or substantially all of the shares of such company or corporation which is required by the lenders providing financing for such company or corporation, provided that the aggregate value of Security granted by the Bank and its Subsidiaries in respect of one transaction or a series of transactions and permitted by this paragraph does not, at any time, exceed 20 per cent. of the total shareholders' funds of the Bank; and
- (u) any Security (other than any such Security as is referred to in paragraphs (a) to (q)) where the aggregate value of assets or revenues subject to such Security does not exceed 20 per cent. of the total value of the Bank's assets;

"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;

"Principal Trust Deed" means the third amended and restated principal trust deed dated 2 November 2010 between the Lender and the Trustee as amended, supplemented and restated from time to time;

"Probusinessbank Account" means an account in the name of the Bank as specified in the relevant Loan Supplement for receipt of each Loan;

"Programme" means the programme for the issuance of loan participation notes by the Lender;

"Programme Limit" means U.S.\$750,000,000 or its equivalent other currencies being the maximum aggregate principal amount of Notes that may be issued and outstanding at any time under the Programme;

"RAR" means Russian Accounting Rules;

"Rate of Interest" has the meaning assigned to such term in the relevant Loan Supplement;

"Relevant Time" means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency and, in relation to a payment in euro, Brussels time;

"Repayment Date" has the meaning assigned to such term in the relevant Loan Supplement;

"Repo" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing, lending or rental agreement or any agreement relating to securities which is analogous to, or similar in effect to any of the foregoing and for the purposes of this definition, the term **"securities"** means any capital stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any public or private company, any government or Agency or instrumentality thereof or any supranational, international or multinational organisation.

"Rouble" means the lawful currency from time to time of the Russian Federation;

"Sale/Leaseback Transaction" means an arrangement relating to property now owned or hereafter acquired whereby the Bank or any Subsidiary of the Bank transfers such property to a Person and the Bank or such Subsidiary leases it from such Person;

"Same-Day Funds" means funds for payment, in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time reasonably determine to be customary for the settlement of international business transactions in Brussels of the type contemplated hereby;

"Securitisation Transaction" means any transaction or series of related transactions (in each case, including, but not limited to, securitisation transactions and other forms of structured finance transactions) involving the incurrence of indebtedness directly or indirectly backed by all or any portion of the Group's current or future assets or property (and revenues or rights arising therefrom) (including, but not limited to, (a) credit card receivables, debit card receivables, cheque receivables, cash remittance receivables, workers' remittances receivables, trade receivables and/or payment rights receivables (including, but not limited to, under and/or in relation to SWIFT MT100-Series and SWIFT MT200-Series payment orders (and any successors thereto) and any other similar payment orders (such as any delivered via telex, the internet or any other manner)), (b) any other class of receivables whatsoever (whether payment rights, remittances, claims or otherwise), (c) loan assets and/or (d) assets which have the benefit of collateral (including, but not limited to, mortgage-backed assets) and/or (e) the rights of any member of the Group to receive and/or retain any or all payments (and related proceeds) made in connection with any of (a) to (d) above (including, but not limited to, any claims against any banks, financial institutions or credit institutions obliged to make, receive or collect such payments or involved with the making, collection or reception of such payments)) whatsoever (including, but not limited to, where such backing is achieved by means of the grant of security over any such assets or the sale of any such assets) and any such transaction or series of related transactions may include and make provision for rights of recourse (in addition to and distinct from any rights relating to the assets which are subject to the relevant transaction and which arise from any grant of security or sale, as aforementioned) against any member of the Group (including, but not limited to, rights of recourse which (a) arise upon any failure to perform or default by underlying obligors under any assets which are subject to the relevant transaction or (b) are triggered by any breach of any provision of or any failure to satisfy any condition or test contained in the transaction documentation, where such provision, condition or test relates to any assets which are subject to the relevant transaction);

"Security" means any mortgage, pledge, security interest, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or adverse claim of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof, including a Sale/Leaseback Transaction);

"Series" means a series of Notes that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number;

"Specified Currency" means the currency specified as such in the relevant Loan Supplement;

"Subscription Agreement" means the agreement specified as such in the relevant Loan Supplement;

"Subsidiary" of any specified Person means any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organised or acquired:

- (a) in the case of a corporation, of which at least 50 per cent. of the total voting power is held by such first-named Person and/or any of its Subsidiaries and such first-named Person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or
- (b) in the case of a partnership, joint venture, association, or other business/entity, with respect to which such first-named Person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if in accordance with IFRS such entity would be consolidated with the first-named Person for financial statement purposes;

"Supplemental Trust Deed" means a supplemental trust deed in respect of a Series of Notes which constitutes and secures, *inter alia*, such Series dated the relevant Closing Date and made between the Lender and the Trustee (substantially in the form set out in Schedule 8 of the Principal Trust Deed);

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereof;

"Taxes" means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Cyprus or any taxing authority thereof or therein or any organisation of which the Russian Federation or Cyprus may be a member or with which the Russian Federation or Cyprus may be associated or any country or state from or through which the Bank makes payments hereunder, provided, however, that for the purposes of this definition the references to Cyprus shall, upon the occurrence of the Relevant Event (as this term is defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is domiciled for tax purposes; and the term "Taxation" shall be construed accordingly;

"Trust Deed" means the Principal Trust Deed as supplemented by the relevant Supplemental Trust Deed and specified as such in the relevant Loan Supplement;

"Trustee" means The Bank of New York Mellon, as trustee under the Trust Deed and any successor thereto as provided thereunder;

"UKLA" means the United Kingdom Listing Authority;

"Voting Stock" means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof;

"Warranty Date" means the date hereof, the date of each Loan Supplement, each Closing Date, each date on which the Base Prospectus is amended supplemented or replaced and each date on which the Programme Limit is increased.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Loan Agreement which are not defined in this Loan Agreement but which are defined in the Principal Trust Deed, the relevant Notes, the Paying Agency Agreement, the Dealer Agreement, the Subscription Agreement or the relevant Loan Supplement shall have the meanings assigned to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Loan Agreement otherwise require, the following shall govern the interpretation of this Loan Agreement.

- (a) All references to "**clause**" are references to a clause of this Loan Agreement.
- (b) The terms "**hereof**", "**herein**" and "**hereunder**" and other words of similar import shall mean this Loan Agreement as a whole and not any particular part hereof.
- (c) Words importing the singular number include the plural and vice versa.
- (d) All references to "**taxes**" include all present or future taxes, levies, imposts and duties of any nature and the terms "**tax**" and "**taxation**" shall be construed accordingly.
- (e) The table of contents and the headings are for convenience only and shall not affect the construction hereof.
- (f) Any reference herein to a document being in "agreed form" means that the document in question has been agreed between the proposed parties thereto, subject to any amendment that such parties may agree upon prior to the Issue Date.

2. FACILITY

2.1 Loans

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, the Lender hereby agrees to make available to the Bank Loans up to the total aggregate amount equal to the Programme Limit.

2.2 Purpose

The proceeds of each Loan will be used for working capital and general corporate purposes (unless otherwise specified in the relevant Loan Agreement), but the Lender shall not be concerned with the application thereof.

2.3 Separate Loans

It is agreed that with respect to each Loan, all the provisions of this Agreement and the Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Loan and the expressions "**Account**", "**Arrangement Fee**", "**Closing Date**", "**Day Count Fraction**", "**Loan Agreement**", "**Notes**", "**Payment Date**", "**Repayment Date**", "**Specified Currency**", "**Trust Deed**" together with all other terms that relate to such Loan shall be construed as referring to those of the particular Loan in question and not of all Loans unless expressly so provided, so that each such Loan shall be made pursuant to this Agreement and the relevant Loan Supplement, together comprising the Loan Agreement in respect of such Loan and that, unless expressly provided events affecting one Loan shall not affect any other.

3. DRAWDOWN

3.1 Drawdown

On the terms and subject to the conditions set forth herein, and, as the case may be, in each Loan Supplement on each Closing Date thereof the Lender shall make a Loan to the Bank and the Bank shall make a single drawing in the full amount of such Loan.

3.2 Disbursement

Subject to the conditions set forth herein and, as the case may be, in each Loan Supplement), on each Closing Date the Lender shall transfer the full amount of the relevant Loan to the Probusinessbank Account specified in the relevant Loan Supplement, in Same-Day Funds.

3.3 Ongoing Fees and Expenses

In consideration of the Lender establishing and maintaining the Programme and agreeing to make Loans to the Bank, the Bank shall pay on demand to the Lender as and when such payment are due in an amount or amounts in the currency so required to reimburse the Lender for its expenses relating to its management and operations in servicing the Loans (including as owed to the Trustee and the Agents) as set forth to the Bank in an invoice from the Lender.

4. INTEREST

4.1 Rate of Interest for Fixed Rate Loan

Each Fixed Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) (expressed as a percentage) equal to the applicable Rate of Interest.

If a Fixed Amount or a Broken Amount is specified in the relevant Loan Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) so specified.

4.2 Payment of Interest for Fixed Rate Loans

Interest at the Rate of Interest shall accrue on each Fixed Rate Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear by the Bank to the Account not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date.

4.3 Interest for Floating Rate Loans

(a) Interest Payment Dates

Each Floating Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but) excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, which interest shall be paid in arrear by the Bank to the relevant Account not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the relevant Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(b) **Business Day Convention**

If any date referred to in the relevant Loan Supplement that is specified to be subject to an adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is:

- (i) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event
 - (1) such date shall be brought forward to the immediately preceding Business Day; and
 - (2) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment,
- (ii) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day,
- (iii) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day, or
- (iv) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(c) **Rate of Interest for Floating Rate Notes**

The Rate of Interest in respect of Floating Rate Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Loan Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Loan Supplement.

(i) **ISDA Determination for Floating Rate Loans**

Where ISDA Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-clause (i), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (1) the Floating Rate Option is as specified in the relevant Loan Supplement;
- (2) the Designated Maturity is a period specified in the relevant Loan Supplement; and
- (3) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Loan Supplement.

For the purposes of this sub-clause (i), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Loans

Where Screen Rate Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

(1) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:

(A) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or

(B) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page,

in each case appearing on such Page at the Relevant Time on the Interest Determination Date;

(2) if the Primary Source for the Floating Rate is Reference Banks or if clause 4.3 (c) (ii) (1) (A) applies and no Relevant Date appears on the Page at the Relevant Time on the Interest Determination Date or if clause 4.3 (c) (ii) (1) (B) applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and

(3) if clause 4.3 (c) (ii) (2) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the Relevant Financial Centre of the country of the Specified Currency or, if the Specified Currency is euro, in Europe as selected by the Calculation Agent are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (A) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are quoting to leading banks in Europe) (B) to leading banks carrying on business in the Relevant Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Relevant

Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

For the purposes of this clause 4.3 (c) (iii) "**Floating Rate**" has the meaning given to it in the ISDA Definitions.

4.4 **Accrual of Interest**

Interest shall cease to accrue on each Loan on the due date for repayment unless payment is improperly withheld or refused, in which event interest shall continue to accrue (as well as before the judgment) at the applicable Rate of Interest to, but excluding, the date on which payment in full of the principal thereof is made.

4.5 **Margin, Maximum/Minimum Rates of Interest, Rate Multipliers and Rounding**

- (a) If any Margin or Rate Multiplier is specified in the relevant Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.
- (b) If any Maximum or Minimum Rate of Interest is specified in the relevant Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.
- (c) For the purposes of any calculations required pursuant to a Loan Agreement (unless otherwise specified, (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "unit" means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 **Calculations**

The amount of interest payable in respect of any Loan for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding principal amount of such Loan by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in the relevant Loan Supplement in respect of such period, in which case the amount of interest payable in respect of such Loan for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.7 **Determination and Notification of Rates of Interest and Interest Amounts**

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any

rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of such Floating Rate Loan for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date to be notified to the Bank, the Trustee, the Lender, the Paying Agent(s) and any other Calculation Agent appointed in respect of such Floating Rate Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date is subject to adjustment pursuant to clause 4.3 (b), the Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made with the consent of the Bank and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Loan becomes due and payable under clause 11, the accrued interest and the Rate of Interest payable in respect of such Floating Rate Loan shall nevertheless continue to be calculated as previously in accordance with this clause. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 **Determination or Calculation by Trustee**

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount in relation to a Floating Rate Loan, the Lender and the Bank agree that such determination or calculation may be made by or at the direction of the Trustee and such determination shall be deemed to have been made by the Calculation Agent and shall be, in the absence of manifest error, final and binding on all persons. In doing so, the Trustee shall apply the foregoing provisions, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances and shall not be liable to any person as a result. The Trustee shall incur no liability in respect of such determination or calculation and may refuse to effect such without incurring liability.

4.9 **Definitions**

In this clause 4, unless the context requires otherwise, the following defined terms shall have the meaning set out below:

"Benchmark" has the meaning specified in the relevant Loan Supplement;

"Business Day" means:

- (a) in the case of a Specified Currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such Specified Currency; and/or
- (b) in the case of euro, a day on which the TARGET System is operating (a **"TARGET Business Day"**); and/or
- (c) in the case of a Specified Currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

"Day Count Fraction" means, in respect of the calculation of an amount of interest on any Loan for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the **"Calculation Period"**):

- (a) if "**Actual/365**" or "**Actual/Actual - ISDA**" is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (b) if "**Actual/365 (Fixed)**" is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365;
- (c) if "**Actual/360**" is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 360;
- (d) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be a 30-day month));
- (e) if "**30E/360**" or "**Eurobond Basis**" is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or the last day of the Calculation Period unless, in the case of a Calculation Period ending on the Repayment Date, the Repayment Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and
- (f) if "**Actual/Actual-ISMA**" is specified in the relevant Loan Supplement:
 - (i) If the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
 - (ii) if the Calculation Period is longer than one Determination Period, the sum of :
 - (1) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Periods normally ending in any year; and
 - (2) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Periods normally ending any year.

"Determination Period" means the period from and including a Determination Date in any year to but excluding the next Determination Date;

"Determination Date" means the date specified in the relevant Loan Supplement or, if none is so specified, the Interest Payment Date;

"Effective Date" means, in respect of any Floating Rate to be determined on an Interest Determination Date, the date specified as such in the relevant Loan Supplement or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates;

"Interest Accrual Period" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"Interest Amount" means that amount of interest payable, and in the case of Fixed Rate Loans means the Fixed Amount or Broken Amount, as the case may be;

"Interest Commencement Date" means the Closing Date or such other date as may be specified in the relevant Loan Supplement;

"Interest Determination Date" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London and for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

"Interest Period" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"Interest Period Date" means each Interest Payment Date, unless otherwise specified herein;

"ISDA Definitions" means the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Loan Supplement;

"Page" means such page, section, caption, column or other part of a particular information service (including, but not limited to, Reuters Markets 3000 ("**Reuters**") and Moneyline Telerate ("**Moneyline Telerate**")) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate;

"Reference Banks" means the institutions specified as such in the relevant Loan Supplement or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that are most closely connected with the Benchmark (which, if EURIBOR is the relevant Benchmark, shall be Europe);

"Relevant Financial Centre" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such in the relevant Loan Supplement or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR) or, if none is so connected, London;

"Relevant Rate" means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date;

"Relevant Time" means, with respect to any Interest Determination Date or Repayment Date, the local time in the Relevant Financial Centre specified in the relevant Loan Supplement or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre and for this purpose **"local time"** means, with respect to Europe as a Relevant Financial Centre, 11.00 am, Brussels time;

"Representative Amount" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the relevant Loan Supplement or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time;

"Specified Duration" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the relevant Loan Supplement or, if none is specified, a period of time equal to the relevant Interest Accrual Period, ignoring any adjustment pursuant to clause 4.3 (b).

4.10 **Calculation Agent and Reference Banks**

The Lender (failing which the Bank) shall procure that there shall at all times be specified no less than four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and appointed one or more Calculation Agents if provision is made for them in a Loan Supplement and for so long as any amount remains outstanding under a Loan Agreement. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Lender shall (with the prior approval of the Bank) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of a Loan, references in the relevant Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, or to comply with any other requirement, the Lender shall (with the prior approval of the Bank) appoint a leading bank or investment banking firm engaged in the Interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both the Bank and the Lender agree that such successor Calculation Agent will be appointed on the terms of the Paying Agency Agreement in relation to the relevant Loan Agreement

5. **REPAYMENT AND PREPAYMENT**

5.1 **Repayment**

Except as otherwise provided herein and in the applicable Loan Supplement, the Bank shall repay each Loan not later than 10.00 a.m. (Relevant Time) one Business Day prior to the Repayment Date therefor.

5.2 **Prepayment in the event of Taxes or Increased Costs**

If, as a result of the application of any amendments or clarification of, or change (including a change in interpretations or application) in, the double tax treaty between the Russian Federation and Cyprus or the laws or regulations of the Russian Federation or Cyprus or of any political sub-division thereof or any authority therein having power to tax or the enforcement of the security provided for in any Trust Deed, the Bank would thereby be required to increase the payment due pursuant to a Loan Agreement as provided in clauses 6.2 or 6.3 (other than in each case where the increase in payment is in respect of any amounts due or paid pursuant to clauses 3 and 13), or if (for whatever reason) the Bank would have to or has been required to pay additional amounts pursuant to clause 8, and in any such case such obligation cannot be avoided by the Bank taking reasonable measures available to it, then the Bank may (without premium or penalty), upon not less than 20 days' notice to the Lender (which notice shall be irrevocable), prepay the Loan relating to such Loan Agreement (but not in part) on any Interest Payment Date, in the case of a Floating Rate Loan or in the case of a Fixed Rate Loan, at any time. Prior to giving any such notice in the event of increase in payment pursuant to clause 6.2, the Bank shall deliver to the Lender an Officer's Certificate confirming that it would be required to increase the amount payable, supported by an opinion of an independent tax adviser addressed to the Lender.

5.3 **Prepayment in the event of Illegality**

If, at any time, after the date of the relevant Loan Agreement, the Lender reasonably determines that it is or would be unlawful or contrary to any applicable law or regulation or regulatory requirement or directive of any Agency of any state or otherwise for the Lender to allow all or part of the Loan, relating to such Loan Agreement or the corresponding Series of Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with the relevant Loan and/or to charge or receive or to be paid interest at the rate then applicable to such Loan (an "**Event of Illegality**") then upon notice by the Lender to the Bank in writing, the Bank 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 30 days of the date on which it so notified the Bank. If such a basis has not been determined within the 30 days, then upon not less than 20 days' notice by the Lender to the Bank in writing, the Bank shall prepay such Loan in whole (but not in part) on the next Interest Payment Date therefor falling after the expiry of such 20 days' notice in the case of a Floating Rate Loan, or at any time thereafter in the case of a Fixed Rate Loan.

5.4 **Reduction of Loan upon Cancellation of Notes**

The Bank may from time to time deliver to the Lender Notes, having an aggregate principal value of at least U.S.\$500,000 (or its equivalent in the Specified Currency) together with a request for the Lender to present such Notes to the Registrar for cancellation, and may also from time to time procure the delivery to the Registrar of the relevant Global Note with instructions to cancel a specified aggregate principal amount of Notes (being at least U.S.\$500,000 (or its equivalent in the Specified Currency)) represented thereby (which instructions shall be accompanied by evidence satisfactory to the Registrar that the Bank is entitled to give such instructions), whereupon the Lender shall, pursuant to clause 9.1 of the Paying Agency Agreement, request the Registrar to cancel such Notes (or specified aggregate principal amount of Notes represented by the Global Note). Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes together with accrued interest and other amount (if any) therein shall be deemed to have been reduced as of the date of such cancellation.

5.5 Payment of Other Amounts

If a Loan is to be prepaid by the Bank pursuant to any of the provisions of clauses 5.2 or 5.3 or pursuant to the terms of the relevant Loan Agreement, the Bank shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to (and excluding) the date of actual payment and all other sums payable by the Bank pursuant to the relevant Loan Agreement. For the avoidance of doubt, if the principal amount of such Loan is reduced pursuant to the provisions of clause 5.4, then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which such Loan is so reduced and the Bank shall not be entitled to any interest in respect of the cancelled Notes.

5.6 Provisions Exclusive

Without prejudice to clause 5.4, the Bank may not voluntarily prepay or repay all or any part of any Loan except in accordance with the express terms of the relevant Loan Agreement. Any amount prepaid may not be reborrowed under such Loan Agreement.

6. PAYMENTS

6.1 Making of Payments

All payments of principal, interest and other additional amounts (other than those in respect of Reserved Rights) to be made by the Bank under each Loan Agreement shall be made unconditionally by credit transfer to the Lender not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds to the relevant Account or as the Trustee may otherwise direct following the occurrence of a Default, an Event of Default or a Relevant Event. Payment of such amounts by the Bank hereunder to the relevant Account shall comprise discharge of the Bank's payment obligations hereunder in respect of such amounts. The Bank shall, before 10.00 a.m. (Relevant Time) on the second Business Day prior to each Interest Payment Date or the Repayment Date or such other date (as the case may be), procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent by tested telex or authenticated SWIFT the payment instructions relating to such payment. The Lender agrees with the Bank that it will not deposit any other monies into the Account and that no withdrawals shall be made from the relevant Account by the Lender, other than as provided for and in accordance with the Trust Deed and the Paying Agency Agreement.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by the Bank under each Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If the Bank shall be required by applicable law to make any deduction or withholding from any payment under a Loan Agreement for or on account of any such Taxes, it shall increase the payment of principal or interest or any other payment due hereunder to such amount as may be necessary to ensure that the Lender receives a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such Taxes. The Bank shall promptly account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, penalties or interest, the Bank shall reimburse to the Lender in Dollars on demand an amount equal to such payment.

6.3 Withholding on Notes

Without prejudice to the provisions of clause 6.2, upon becoming so aware, the Lender shall, as soon as reasonably practical, notify the Bank that it has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which the Lender is obliged to make under or in respect of the Notes, and provide the Bank with a certificate describing in reasonable detail the basis for such withholding or deduction and setting out additional amounts required to be paid by the Bank to the Lender pursuant to this clause 6.3. The Bank agrees to pay into the relevant Account not later than 10.00 a.m. (Relevant Time) one Business Day prior to the date on which the payment is due to be made to the Noteholders such additional amounts as are equal to the additional amounts which the Lender would have to pay in order that the net amounts received by the Noteholders, after such withholding or deduction, will equal the respective amounts which would have been received by the Noteholders in the absence of such withholding or deduction; provided, however, that the Lender shall immediately upon receipt of any reimbursement of any sums paid pursuant to this provision, to the extent that the Noteholders of such Series are not entitled to such sums pursuant to the Conditions of such Series of Notes, pay such amounts to the Bank (it being understood that neither the Lender, the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder of such Series or such other Party is entitled to any such additional amount).

6.4 Reimbursement

- (a) To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursement relating to a deduction or withholding with respect to which the Bank has made a payment pursuant to this clause 6, it shall pay to the Bank so much of the benefit it received as will leave the Lender in substantially the same position as it would have been in had no additional amount been required to be paid by the Bank pursuant to this clause 6; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to the Bank, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender, provided that the Lender shall notify the Bank promptly upon determination that it has received any such benefit. The Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to it, and the Lender shall in no circumstances be obliged to disclose to the Bank any information regarding its tax affairs or computations.
- (b) If as a result of a failure to obtain relief from deduction or withholding of any taxes referred to in clause 6.2:
 - (i) such taxes are deducted or withheld by the Bank and pursuant to clause 6.2 an increased amount is paid by the Bank to the Lender in respect of such deduction or withholding; and
 - (ii) following the deduction or withholding of taxes as referred to above the Lender (upon instructions by the Bank) applies to the competent taxing authority for a withholding tax refund and such withholding tax is refunded or repaid by the relevant taxing authority,

the Lender shall as soon as reasonably practicable notify the Bank of the receipt of such withholding tax refund and promptly transfer the actually received amount of the withholding tax refund in the currency actually received and less any applicable costs to a bank account of the Bank specified for that purpose by the Bank.

6.5 Representations and Undertakings of the Lender

- (a) The Lender represents that, at the date hereof:
 - (i) it is a resident of Cyprus, is subject to the taxation in Cyprus on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Cyprus merely on income from sources in Cyprus or connected with property located in Cyprus and it will be able to receive certification to this effect from the Cyprus taxing authorities;
 - (ii) it does not have a permanent establishment in the Russian Federation; and
 - (iii) does not have any current intentions to effect during the term of any Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of Cyprus and subject to taxation in Cyprus;
- (b) The Lender agrees that if, *inter alia*, it should at any time cease to be a tax resident of Cyprus, the Bank may require the Lender to seek the substitution of another party as Lender under any Loan Agreement pursuant to and as provided for in and in accordance with Condition 10.3 of the Trust Deed. The Bank shall bear all costs and expenses relating to or arising out of such substitution.

7. CONDITIONS PRECEDENT

7.1 Documents to be Delivered

The obligation of the Lender to make each Loan shall be subject to the receipt by the Lender on or prior to the relevant Closing Date of evidence that the Persons mentioned in clause 14.10(e) hereof have agreed to receive process in the manner specified herein.

7.2 Further Conditions

The obligation of the Lender to make each Loan shall be subject to the further conditions precedent that as at the relevant Closing Date:

- (a) the representations and warranties made and given by the Bank in clause 9 shall be true and accurate as if made and given on the relevant Closing Date with respect to the facts and circumstances then existing;
- (b) no event shall have occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default;
- (c) the Bank shall not be in breach of any of the terms, conditions and provisions of the relevant Loan Agreement;
- (d) the Loan Agreement, Paying Agency Agreement, the relevant Subscription Agreement and the Trust Deed shall have been executed and delivered; and
- (e) the Lender shall have received the full amount of the net subscription moneys for the corresponding Series of Notes pursuant to such Subscription Agreement.

8. CHANGE IN LAW OR BANKING PRACTICES; INCREASE IN COST

8.1 Compensation

In the event that after the date of a Loan Agreement there is any change in or introduction of any tax, law, regulation, regulatory 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 change in the interpretation or application thereof by any Person charged with the administration thereof and/or any compliance by the Lender in respect of the Loan with any request, policy or guideline (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) from or of any central or other fiscal, monetary or other authority, agency or any official of any such authority which means that:

- (a) the cost to the Lender of making, funding or maintaining such Loan is increased; or
- (b) the amount of principal, interest or other amount payable to or received by the Lender under such Loan Agreement is reduced; or
- (c) 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 the Bank 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:
 - (i) 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 the Bank together with a certificate 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 all relevant supporting documents evidencing the matters set out in such certificates; and
 - (ii) upon demand by the Lender to the Bank, the Bank, in the case of clauses (a) and (c) above, shall pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of clause (b) 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 amount of such increased cost, reduced amount or payment made or foregone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to this Agreement and provided that the Lender will not be entitled to such additional amount where such reduction, payment or foregone interest or other return arises as a result of the negligence or wilful default of the Lender.

8.2 Exceptions

Clause 8.1 does not apply to the extent that any increased cost referred to in clause 8.1(a), any reduction referred to in clause 8.1(b) or any additional cost or a reduction in the return referred to in clause 8.1(c) is:

- (a) attributable to any Taxes referred to in clause 6.2 or clause 6.3;
- (b) attributable to any Taxes payable by the Lender on its overall net income, profits or gains; or
- (c) attributable to the wilful breach by the Lender of any law or regulation.

9. REPRESENTATIONS AND WARRANTIES

9.1 The Bank's Representations and Warranties

The Bank represents and warrants to the Lender and on each Warranty Date shall be deemed to, represent and warrant to the Lender, with the intention that such shall form the basis of each Loan Agreement that:

- (a) it is duly organised and incorporated and validly existing under the laws of its jurisdiction of incorporation and has the power and legal right to own its property, to conduct its business as currently conducted and to enter into and to perform its obligations under each Loan Agreement and to borrow Loans; the Bank has taken all necessary corporate, legal and other action required to authorise the borrowing of the Loans on the terms and subject to the conditions of each Loan and to authorise the execution and delivery of each Loan Agreement and all other documents to be executed and/or delivered by it in connection with each Loan Agreement, and the performance of each Loan Agreement in accordance with its terms;
- (b) the Loan Agreement, including, in relation to a Loan, the Loan Supplement relating thereto, has been duly executed and delivered by the Bank and constitutes a legal, valid and binding obligation of the Bank enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability:
 - (i) to general principles of equity;
 - (ii) to the fact that the gross-up provisions contained in clauses 6.2 and/or 6.3 may not be enforceable under Russian law and
 - (iii) with respect to the enforceability of a judgment, to the laws of relevant jurisdiction where such judgment must be enforced.
- (c) the execution, delivery and performance of each Loan Agreement including, in relation to a Loan, the Loan Supplement relating thereto, by the Bank 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 the Russian Federation;
 - (ii) the constitutive documents, rules and regulations of the Bank; or
 - (iii) any agreement or other undertaking or instrument to which the Bank is a party or which is binding upon the Bank or any of its assets, nor result in the creation or imposition of any Security on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument in circumstances where such creation or imposition would have a Material Adverse Effect;
- (d) all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial or public bodies or authorities of the Russian

Federation (including, but not limited to, any consents required from the CBR) required by the Bank in connection with the execution, delivery, performance, legality, validity, enforceability, or admissibility in evidence of each Loan Agreement have been obtained or effected and are and shall remain in full force and effect;

- (e) no Default under this Agreement or a default under any agreement or instrument evidencing any Indebtedness of the Bank, or event that with the giving of notice or the lapse of time, or both, would result in Insolvency Proceedings or would constitute an Event of Default, has occurred and is continuing, and neither of those will occur upon the making of the relevant Loan;
- (f) there are no judicial, arbitral or administrative actions, proceedings or claims (including, but not limited to with respect to taxes) which have been commenced or are, to the knowledge of the Bank, threatened, against the Bank or any of its Subsidiaries, the adverse determination of which would have a Material Adverse Effect;
- (g) except for Security of the type referred to in the definition of Permitted Liens in clause 1.1, the Bank has good title to its property free and clear of all Security and the Bank's obligations under the Loan rank at least *pari passu* with all its other unsecured and unsubordinated Indebtedness, except as otherwise provided by mandatory provisions of applicable law;
- (h) the most recent audited consolidated financial statements of the Bank:
 - (i) were prepared in accordance with IFRS;
 - (ii) unless not required by IFRS, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Bank; 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 Bank during the relevant financial year;
- (i) there has been no material adverse change since 30 June 2010 in the condition (financial or otherwise), results of business, operations or the reasonable business prospects of the Bank or in the Bank's ability to perform its obligations under any Loan Agreement;
- (j) the execution, delivery and enforceability of each Loan 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 the Russian Federation or any political subdivision or taxing authority thereof or therein;
- (k) neither the Bank nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to each Loan Agreement;
- (l) the Bank is in compliance in all material respects with all applicable provisions of law;
- (m) there are no material strikes or other material employment disputes against the Bank which have been started or are, to the Bank's knowledge, threatened;
- (n) in any proceedings taken in the Russian Federation in relation to the Loan Agreement, the choice of English law as the governing law of the Loan Agreement and any arbitration award obtained in England in relation to the Loan Agreement

will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in Russia;

- (o) subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding in respect of any Taxes is required to be made from any payment by the Bank under each Loan Agreement;
- (p) all material licences, consents, examinations, clearances, filings, registrations and authorisations which are necessary to enable the Bank to own its assets and carry on its business are in full force and effect;
- (q) the Bank is subject to civil and commercial law with respect to its obligations under each Agreement, and its execution of each Loan Agreement constitutes, and its exercise of its rights and performance of its obligations hereunder will constitute, private and commercial acts done and performed for private and commercial purposes; and
- (r) the Bank has no overdue tax liabilities which would have a Material Adverse Effect other than those which it has disclosed to the Lender in writing prior to the date hereof or which it is contesting in good faith.

9.2 Lender's Representations and Warranties

The Lender represents and warrants to the Bank as follows:

- (a) the Lender is duly incorporated under the laws of and is resident for Cypriot taxation purposes in Cyprus and has full power and capacity to execute the Issue Documents and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same;
- (b) the execution of the Issue Documents 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 Cyprus and Wales or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety;
- (c) the Issue Documents constitute legal, valid and binding obligations of the Lender subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity; and
- (d) All authorisations, consents and approvals required by the Lender for or in connection with the execution of the Issue Documents, and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.
- (e) The Lender is resident in a jurisdiction which has a double tax treaty with Russia under which the payment of interest by Russian borrowers is generally able to be made without deduction or withholding of Russian income tax (upon completion of any necessary formalities required in relation thereto).

10. COVENANTS

As long as any amount is outstanding under a Loan Agreement:

10.1 Negative Pledge

- (a) The Bank shall not create, incur, assume or permit to subsist any Security, other than Permitted Liens, over any of its assets securing any Indebtedness, unless:
 - (i) the Notes are secured equally and rateably with such other Indebtedness or;
 - (ii) such other Security for the Notes as may be approved by the Trustee or an Extraordinary Resolution of the Noteholders is provided.

10.2 Maintenance of Authorisations

The Bank shall:

- (a) 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 which are at any time required to be obtained or made in the Russian Federation for the conduct of its Banking Business and the execution, delivery or performance of any Loan Agreement or for the validity or enforceability thereof;
- (b) make or cause to be made all registrations, recordings and filings which are at any time required to be obtained or made in the Russian Federation for the execution, delivery or performance of any Loan Agreement or for the validity or enforceability thereof; and
- (c) supply certified copies to the Lender of any consent, licence, approval, authorisation, registration, recording or filing obtained or made pursuant to clauses 10.2(a) and 10.2(b).

10.3 Mergers

Subject to clause 10.4:

- (a) The Bank shall not, without the prior written consent of the Lender:
 - (i) enter 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) participate in any other type of corporate reconstruction, other than any solvent reorganisation, which:
 - (1) involves solely a merger or amalgamation of one or more Subsidiaries of the Bank with the Bank and where the Bank is the surviving entity of such merger or amalgamation; or
 - (2) has the aim of increasing the efficiency of the Bank and would not have a Material Adverse Effect.
- (b) The Bank shall ensure that, except as mentioned in clause 10.3(a), no Material Subsidiary:
 - (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) participates in any other type of corporate reconstruction if any such reorganisation or corporate reconstruction would have a Material Adverse Effect.

10.4 Disposals

The Bank shall not and shall ensure that no member of the Group shall sell, lease, transfer or otherwise dispose of, to a Person that is not a member of the Group, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets if such sale, lease, transfer or disposal would have a Material Adverse Effect, provided, however, that this clause 10.4 shall not apply to a Securitisation Transaction.

10.5 Transactions with Affiliates

The Bank shall not directly or indirectly, to conduct any business, enter into or permit to exist any transaction or series of related transactions (including 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 intercompany loans unless:

- (a) the terms of such Affiliate Transaction(s) taken either individually or in aggregate are not materially less favourable to the Bank 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 Bank or such Subsidiary; or
- (b) such Affiliate Transaction is made pursuant to a contract existing on the Closing Date (excluding any amendments or modifications thereof made after the Closing Date).

This clause 10.5 shall not apply to:

- (a) compensation or employee benefit arrangements with any officer or director of the Bank or such Subsidiary arising as a result of their employment contract; or
- (b) transactions between the Bank and any of its Subsidiaries or between such Subsidiaries.

10.6 Payment of Taxes and Other Claims

The Bank shall and shall ensure that its Subsidiaries shall 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 Bank or any Subsidiaries; and
- (b) all lawful claims for labour, materials and supplies which, if unpaid, would by law become a Security (other than a Permitted Lien) upon the property of the Bank or any Subsidiaries;

provided that none of the Bank nor any Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim:

- (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made; or

- (b) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$20,000,000.

10.7 Withholding Tax Exemption

The Bank shall give to the Lender all assistance it requires to ensure that, prior to the first interest payment and at the beginning of each calendar year, the Lender can provide the Bank with a tax residence certificate (to the extent required) so that the Lender can obtain relief from Russian withholding tax in respect of payments hereunder.

10.8 Financial Information

- (a) The Bank shall deliver to the Lender, within six months after the end of each of its financial years, copies of the Group's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period.
- (b) The Bank shall deliver to the Lender within three months after the end of the first half-year of each of its financial years, copies of its unaudited consolidated financial statements for that half-year, prepared in accordance with RAR consistently applied with the corresponding financial statements for the preceding period.
- (c) The Bank shall deliver to the Lender, without undue delay, such additional information regarding the financial position or the business of the Bank and its Subsidiaries as the Lender or the Trustee may reasonably request including providing certificates and a report of the Auditors as to the definition of Material Subsidiaries and :
 - (i) providing certification to the Trustee pursuant to clauses 14.1(g) and 14.1(k) of the Trust Deed;
 - (ii) providing to the Lender all documents dispatched by the Bank to its shareholders (or any class of them) generally or its creditors generally (but, with respect to creditors, other than in the normal course of business) at the same time as they are dispatched; and
 - (iii) providing to the Lender, promptly upon becoming aware of them, the details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group, and which, if adversely determined, are reasonably likely to have a Material Adverse Effect,

or such Officer's Certificate as either the Lender or the Trustee may request, including as to the number, if any, of Notes held by the Bank and any of its Subsidiaries.

10.9 Financial Covenants

The Bank shall maintain full compliance with prudential supervisory ratios and other requirements of CBR

10.10 Change of business

The Bank shall procure that no material change is made to the general nature of the business of the Bank or any of the Material Subsidiaries from that carried on at the date of this Agreement.

10.11 Books and Records

The Bank will, and will cause each of its Material Subsidiaries to, keep books and records which accurately reflect all of its business affairs and transactions and, while any amount is outstanding under each Loan Agreement, permit the Lender, the Trustee or any of their respective representatives, at reasonable times and intervals, to visit all of its offices, to discuss its financial matters with its officers.

10.12 Accounting Matters; Financial Year

The Bank will not make or permit, or permit any of its Material Subsidiaries to make or permit, any change in its accounting policies, reporting practices or its financial year, except as required or permitted by applicable law.

10.13 Compliance with laws

The Bank shall comply in all material respects with all laws to which it may be subject, if failure so to comply would impair its ability to perform its obligations under the Issue Documents.

10.14 Ranking of Claims

The Bank shall ensure that at all times the claims of the Lender against it under each 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.

11. EVENTS OF DEFAULT

11.1 Events of Default

If one or more of the following events of default (each, an "**Event of Default**") shall occur and be continuing, the Lender shall be entitled to the remedies set forth in clause 11.3.

- (a) The Bank fails to pay any amount payable under the Loan Agreement (in the currency and in the manner specified herein) within three Business Days' after the date on which such payment is due hereunder (or within 10 Business Days after the date on which such payment is due hereunder in the case where such failure is solely due to a technical or administrative difficulty which is beyond the Bank's control).
- (b) The Bank fails to perform or observe any covenant or agreement contained under the Loan Agreement to be performed or observed by it and such failure, if capable of being remedied, is not remedied within 15 days.
- (c) Any representation or warranty of the Bank or any statement deemed to be made by the Bank in the Loan Agreement or any other document, certificate or notice delivered by the Bank in connection with the Issue Documents or the issue of the Notes, proves to have been inaccurate, incomplete or misleading in any material respect at the time it was made or repeated or deemed to have been made or repeated.
- (d) Any Indebtedness of the Bank and/or any of its Material Subsidiaries is not paid when due (after the expiry of any applicable grace period), or any Indebtedness of the Bank and/or any of its Material Subsidiaries is declared to be or otherwise becomes due and payable prior to its specified maturity otherwise than at the option of the Bank and/or the relevant Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any Person entitled to such

Indebtedness; provided however, that the total amount of such Indebtedness which is not paid when due or becomes due and payable prior to its specified maturity is equal to or greater than U.S.\$5,000,000 (or its equivalent in another currency as reasonably determined by the Lender).

- (e) The occurrence of any of the following events:
- (i) the Bank, 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 Bank, 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 Bank or its Material Subsidiaries in any court, arbitration court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Bank or its Material Subsidiaries, 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 Bank or any of its Material Subsidiaries;
 - (iv) the entry by the Bank or any of its Material Subsidiaries into, or the agreeing by the Bank or any of its Material Subsidiaries to enter into, amicable settlement (*mirovoye soglasenie*) 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 CBR, temporary administration (*vremennoye upravleniye*) or reorganisation (*reorganizatsiya*) with respect to the Bank 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 Bank or any of its Material Subsidiaries; and/or
 - (vii) revocation of the general banking licence of the Bank or, if applicable, of any of its Material Subsidiaries or any event which results in the Bank requiring a special or additional licence or being unable to make payments in the Specified Currency hereunder.
- (f) The Bank or any of its Material Subsidiaries is unable or admits inability to pay its debts as they fall due, suspends making payments on any of its debts 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 Bank or its Material Subsidiaries is less than its liabilities; and/or a moratorium is declared in respect of any Indebtedness of any of the Bank or its Material Subsidiaries.
- (g) Any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any part of, the property, undertaking, revenues or assets of the Bank or any of its Material

Subsidiaries and the same would have a Material Adverse Effect unless the same is being contested in good faith by the Bank or the relevant Material Subsidiary and is not removed, paid out, stayed or discharged within 30 days after the same occurs.

- (h) Any governmental authorisation necessary for the performance of any obligation of the Bank under the Loan Agreement fails to be in full force and effect and, except where such failure would have a Material Adverse Effect, such failure is not remedied within 30 days after its occurrence.
- (i) Any governmental authority or court takes any action that materially and adversely affects the condition of the Bank or the ability of the Bank to perform its obligations under the Loan Agreement or adversely affects the validity or enforceability of the Loan Agreement or the rights or remedies of the Lender under this Agreement.
- (j) The shareholders of the Bank shall have approved any plan of liquidation or dissolution of the Bank.
- (k) The aggregate amount of unsatisfied judgements, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against the Bank and other Material Subsidiaries in the aggregate exceeds U.S.\$5,000,000, or the equivalent thereof in any other currency or currencies, unless such judgment, decree or order is being contested in good faith by the Bank or a Material Subsidiary, as the case may be and there is a period of 30 days following the entry thereof during which such judgment, decree or order is not discharged, waived or the execution thereof stayed and such default continues for ten days after the notice specified in clause 11.2.
- (l) At any time it is or becomes unlawful for the Bank to perform or comply with any or all of its obligations under the Loan Agreement or any of such obligations is not, or ceases to be, legal, valid, binding and enforceable.
- (m) The Bank or any of its Material Subsidiaries cease to carry on the principal business it carries on at the date hereof.
- (n) The Bank repudiates or evidences an intention to repudiate an Issue Document.
- (o) The Bank's charter is amended in a way which would contravene or result in the contravention of any material provisions of the Loan Agreement
- (p) 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 paragraphs.

11.2 Notice of Default

The Bank shall deliver to the Lender and the Trustee (i) annually on the anniversary of this Agreement, (ii) within 15 days of any request by the Lender and (iii), within 30 days after the occurrence thereof, written notice in the form of an Officer's Certificate, substantially in the form set out in Schedule 2, of any Default or Event of Default, its status and what action the Bank is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice in writing to the Bank:

- (a) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate; and
- (b) declare all amounts payable hereunder by the Bank that would otherwise be due after the date of such termination 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 the Bank;

provided, however, that if any event of any kind referred to in clause 11.1(f) occurs, the obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by the Bank 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 the Bank.

11.4 **Rights Not Exclusive**

The rights provided for in the Loan Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12. **INDEMNITY**

12.1 **Indemnification**

The Bank undertakes to the Lender, that if the Lender or any of its Affiliates, any director, officer or employee of the Lender or any Person controlling the Lender (each a "**indemnified party**") properly incurs any loss, liability, cost, claim, charge, expense (including, without limitation, legal fees, costs and expenses), demand or damage (a "**Loss**") as a result of or in connection with the Loan, the Loan Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being corresponding to such Loan or Loan Agreement outstanding (excluding any loss:

- (a) that may arise as a result of any withholding or deduction for or on account of tax where recovery of such loss has been made pursuant to clause 6.2; or
- (b) in respect of which indemnification has been received under clauses 8, 13, 14.2 and 14.6,

(it being understood that the Lender may not recover twice in respect of the same loss)) the Bank shall pay to the Lender on demand an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred 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 by the Lender contained in the Dealer Agreement. The Lender shall not have any duty or obligation whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other Person for any amounts paid to it under this clause.

12.2 **Independent Obligation**

Clause 12.1 constitutes a separate and independent obligation of the Bank from its other obligations under or in connection with this Agreement or any other obligations of the Bank 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.

12.3 **Evidence of Loss**

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in clause 12.1 and specifying in full detail the basis therefor shall be conclusive, in the absence of a manifest error, be conclusive evidence of the amount of such losses, expenses and liabilities.

12.4 **Survival**

The obligations of the Bank pursuant to clauses 6.2, 6.3, 12.1 and 14.2 shall survive the execution and delivery of each Agreement, the drawdown and repayment of the relevant Loan and the repayment of the Loan, in each case by the Bank.

13. **REIMBURSEMENT OF EXPENSES**

The Bank hereby agrees to pay to the Lender on demand in the Specified Currency or Dollars, as required, all ongoing commissions, costs, fees and expenses (including, without limitation, enforcement costs), payable by the Lender in such currency under or in respect of each Loan Agreement and the letter entered into between the Bank, the Lender, the Trustee and the Agents dated on or around the date of this Agreement in respect of the Programme (the "**Fee Side Letter**"). The Bank shall also pay the Lender for any indemnification or other payment obligations of the Lender under or in respect of the Agency Agreement, Trust Deed and/or the Fee Side Letter (other than the obligation of the Lender to make payments of principal, interest or additional amounts in respect of the corresponding Series of Notes) and in the currency so specified. Payments to the Lender referred to in this clause 13 shall be made by the Bank at least one Business Day before the relevant payment is to be made or expense incurred.

14. **GENERAL**

14.1 **Evidence of Debt**

The entries made in the relevant Account shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of the Bank's obligations recorded therein.

14.2 **Stamp Duties**

- (a) The Bank shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed by any Person in the Russian Federation or Cyprus which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement 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 to pay such taxes or similar charges.
- (b) The Bank 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 the Russian Federation or Cyprus which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement, the Bank shall reimburse the Lender on demand 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 the Bank to procure the payment of such taxes or similar charges.

14.3 **Waivers**

No failure to exercise and no delay in exercising, on the part of the Lender or the Bank, any right, power or privilege hereunder and no course of dealing between the Bank 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.

14.4 **Notices**

All notices, requests, demands or other communications to or upon the respective Parties hereto shall be given or made in the English language by telex or otherwise in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand or courier or if sent by facsimile transmission or by airmail, to the Party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

- (a) if to the Bank:

Probusinessbank

18/2 Petrovka Street
Moscow 127051

Fax: +7 495 733 9342

Attention: Mikhail Zavgorodniy

- (b) if to the Lender:

PBB LPN Issuance Limited

Komninis 29A
P.C.1061, Nikosia
Republic of Cyprus

Fax: +357 22 759 777

Attention: Mr Christos P. Kinanis

or to such other address or facsimile number as any Party may hereafter specify in writing to the other.

14.5 **Assignment**

- (a) Each Loan Agreement shall inure to the benefit of and be binding upon the Parties, their respective successors and any permitted assignee or transferee of some or all of a Party's rights or obligations under such Loan Agreement. Any reference in such Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in clause 14.5(c) 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 the Bank or any agreements of the Lender or the Bank pursuant to clause 8.

- (b) The Bank shall not assign or transfer all or any part of its rights or obligations hereunder to any other party.
- (c) Subject to the provisions of clause 17 of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement except:
 - (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of the Lender's rights and benefits (other than the Reserved Rights) under such Loan Agreement; and
 - (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits (other than the Reserved Rights) under such Agreement,

in each case, pursuant to the relevant supplemental Trust Deed.

14.6 **Currency Indemnity**

Each reference in this Agreement to the Specified Currency is of the essence. To the fullest extent permitted by law, the obligation of the Bank in respect of any amount due in the Specified Currency under each 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 the Specified Currency 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 premium and costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in the Specified Currency that may be so purchased for any reason falls short of the amount originally due, the Bank hereby agrees to indemnify and hold harmless the Lender against any deficiency in the Specified Currency. Any obligation of the Bank not discharged by payment in the Specified Currency 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.

14.7 **Prescription**

Subject to the Lender having received the principal amount thereof or interest thereon from the Bank, the Lender shall forthwith repay to the Bank the principal amount or the interest amount thereon, respectively, of any Series of Notes upon claims thereto becoming void pursuant to Condition 11 of the Notes.

14.8 **Contracts (Rights of Third Parties) Act 1999**

With the exception of the Trustee, a Person who is not a party to a Loan Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of such Agreement.

14.9 **Choice of Law**

This Agreement, and any non-contractual obligations arising out of or in connection with it, shall be governed by, and construed in accordance with, the laws of England.

14.10 **Jurisdiction**

- (a) Subject to clause 14.10 (c), any disputes arising out of or in connection with this Agreement ("**Dispute**") shall be settled by arbitration in accordance with the Rules of the London Court of International Arbitration (the "**Rules**"), which Rules are deemed to be incorporated by reference into this clause with the exception that:

- (i) any provision of the Rules relating to the nationality of an arbitrator shall not apply; and
 - (ii) if the Lender is a Respondent, the time for the Lender to send its Response to the Registrar under Article 2.1 of the Rules shall be extended to be within 60 days of service of the Request on the Lender.
- (b) The place of arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three, each of whom shall be disinterested in the dispute or controversy, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions. Lender (or if the Lender has assigned its rights under this Agreement to the Trustee, the Trustee) shall nominate an arbitrator and the Bank shall nominate an arbitrator by no later than 60 days after service of the Request under the Rules. The nominated arbitrators, in turn, shall nominate the Chairman of the Tribunal within 30 days of the date on which the last arbitrator is nominated. If the Parties fail to nominate an arbitrator or the nominated arbitrators fail to nominate a chairman within the time periods set out in this clause, the LCIA Court shall appoint the arbitrator or chairman on behalf of the Party or co-arbitrators who have failed to make such nomination. For the avoidance of doubt, if the Trustee (in its capacity as assignee of the Lender's rights) and the Lender are both parties to an arbitration with the Bank under this Agreement, the Trustee and Lender shall jointly nominate an arbitrator and the Bank shall nominate an arbitrator, who, in turn, shall nominate the Chairman of the Tribunal. In no circumstances shall the Lender, the Trustee or the Bank be liable for any consequential, special or punitive damages in connection with their obligations hereunder.

Fees of the arbitration (excluding each Party's preparation, travel, attorneys' fees and similar costs) 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 thereover. 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.

- (c) At any time before an arbitrator is nominated by the Lender (or, if the Lender has assigned its rights under this Agreement to the Trustee, the Trustee) to resolve any Dispute (or if no nomination is made by the Lender, at any time before a tribunal has been appointed under the Rules), the Lender (or if the Lender has assigned its rights under this Agreement to the Trustee, the Trustee) may, at its sole option, elect by notice in writing to the Bank that such Dispute shall instead be heard by a court of competent jurisdiction.
- (d) If the Lender gives notice under clause 14.10(c):
 - (i) each of the Parties agrees to submit to the non-exclusive jurisdiction of the Courts of England and irrevocably waives any objection which it may now or hereafter have to the Courts of England hearing such Dispute and any claim that any such proceedings have been brought in an inconvenient forum.
 - (ii) nothing contained in clause 15.10(d)(i) shall limit the right of any party to commence proceedings against another party in any other court of competent jurisdiction to the extent permitted by any applicable law, nor shall the commencement of proceedings in connection with this

Agreement in one or more jurisdictions preclude the commencement of proceedings in any other jurisdiction or in any other court of competent jurisdiction in connection with such Subordinated Loan Agreement to the extent permitted by any applicable law.

- (e) The Bank irrevocably appoints Law Debenture Corporate Services Limited with its registered office at Fifth Floor, 100 Wood Street, London EC2V 7EX, England as its authorised agent for service of process in England. If for any reason such agent shall cease to be such agent for service of process, the Bank shall forthwith, on request of the Lender, appoint a new agent for service of process in England and deliver to the Lender a copy of the new agent's acceptance of that appointment within 30 days. Nothing in this clause shall affect the right to serve process in any manner permitted by law.
- (f) The Lender irrevocably appoints Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London EC2V 7EX, England as its agent for service of process in England. If for any reason such agent shall cease to be such agent for service of process, the Lender shall forthwith, on request of the Bank, appoint a new agent for services of process in England and deliver to the Bank a copy of the new agent's acceptance of their appointment within 30 days. Nothing in this clause shall affect the right to serve in any manner permitted by law.

14.11 Counterparts

Each Loan Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

14.12 Language

The language which governs the interpretation of each Loan Agreement is the English language.

14.13 Amendments

Except as otherwise provided by its terms, no Loan Agreement may not be varied except by an agreement in writing signed by the Parties.

14.14 Partial Invalidity

The illegality, invalidity or unenforceability to any extent of any provision of each Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

IN WITNESS whereof, the Parties hereto have caused this Agreement to be executed on the date first written above.

SCHEDULE 1

Form of Loan Supplement

THIS LOAN SUPPLEMENT is made on [SIGNING DATE]

2010

BETWEEN:

- (1) **Probusinessbank**, a company incorporated under the laws of the Russian Federation whose registered office is at 3 Pudovkina Street, Moscow 119285, Russian Federation (the "**Bank**"); and
- (2) **PBB LPN Issuance Limited**, a company incorporated under the laws of Cyprus whose registered office is at Annis Komninis 29A, P.C.1061, Nikosia, Cyprus (the "**Lender**").

WHEREAS:

- (A) The Bank has entered into a third amended and restated facility agreement dated 2 November 2010 (the "**Agreement**") with the Lender in respect of the Bank's U.S.\$750,000,000 Programme for the Issuance of Loan Participation Notes (the "**Programme**").
- (B) The Bank proposes to borrow [●] (the "**Loan**") and the Lender wishes to make such Loan on the terms set out in the Agreement and this Loan Supplement.

IT IS AGREED:

1. DEFINITIONS

Capitalised terms used but not defined in this Loan Supplement shall have the meaning given to them in the Agreement save to the extent supplemented or modified herein.

2. ADDITIONAL DEFINITIONS

For the purpose of this Loan Supplement, the following expressions used in the Agreement shall have the following meanings:

"**Account**" means the account in the name of the Lender with the Principal Paying Agent (account number [●], [●]) or such other account as may from time to time be agreed between the Lender and the Trustee pursuant to the Trust Deed and notified to the Bank in writing at least five Business Days in advance of such change;

"**Calculation Agent**" means [●];

"**Closing Date**" means [●];

"**Loan Agreement**" means the Agreement as amended and supplemented by this Loan Supplement;

"**Notes**" means [●] [[●] per cent] Loan Participation Notes due [●] issued by the Lender as Series [●] under the Programme;

"**Probusinessbank Account**" means the account in the name of the Bank (account number [●] [FURTHER DETAILS];

"**Repayment Date**" means [●];

"**Specified Currency**" means [●]

"Subscription Agreement" means an agreement between the Lender, the Bank and [Dealers] dated [●] relating to the Notes; and

"Trust Deed" means the Principal Trust Deed between the Lender and the Trustee dated 1 July 2005 as amended and restated on 2 November 2010 and as further amended and supplemented by a Supplemental Trust Deed dated [●] constituting and securing the Notes.

3. INCORPORATION BY REFERENCE

Except as otherwise provided, the terms of the Agreement shall apply to this Loan Supplement as if they were set out herein and the Agreement shall be read and construed, only in relation to the Loan constituted hereby, as one document with this Loan Supplement.

4. THE LOAN

4.1 Drawdown

Subject to the terms and conditions of the Loan Agreement, the Lender agrees to make the Loan on the Closing Date to the Bank and the Bank shall make a single drawing in the full amount of the Loan.

4.2 Interest

The Loan is a [Fixed Rate] [Floating Rate] Loan. Interest shall be calculated, and the following terms used in the Agreement shall have the meanings, as set out below:

4.2.1 Fixed Rate Loan Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(a) Interest Commencement Date:	[●].
(b) Rate[(s)] of Interest:	[●] per cent per annum [payable [annually/semi-annually] in arrear].
(c) Interest Payment Date(s):	[●] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/not adjusted].
(d) Fixed Amount[(s)]:	[●] per [●] in principal amount.
(e) Broken Amount:	<i>[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount[(s)] and the Interest Payment Date(s) to which they relate]</i>
(f) Day Count Fraction (clause 4.9):	[●] (Day count fraction should be Actual/Actual-ISMA for all fixed rate loans other than those denominated in US dollars, unless specified).

(g) Determination Date(s) (clause 4.9):	☐ in each year. <i>[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last interest period]</i> ¹
(h) Other terms relating to the method of calculating interest for Fixed Rate Loans:	[Not Applicable/give details]
4.2.2 Floating Rate Loan Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(a) Interest Commencement Date:	☐
(b) Interest Period(s):	☐
(c) Specified Interest Payment Dates:	☐
(d) Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/(give details)]
(e) Business Centre(s) (Clause 4.9):	☐
(f) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination (give details)]
(g) Interest Period Date(s):	[Not Applicable/specify dates]
(h) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	☐
(i) Screen Rate Determination (Clause 4.3 (c):	☐
- Relevant Time:	☐
- Interest Determination Date:	☐ <i>[TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]</i>
- Primary Source for Floating Rate:	<i>[Specify relevant screen page and rate or "Reference Banks"]</i>
- Reference Banks (if Primary Source is	<i>[Specify four]</i>

¹ Only to be completed for a Loan where Day Count Fraction is Actual/Actual-ISMA.

"Reference Banks"): - Relevant Financial Centre: - Benchmark: - Representative Amount: - Effective Date: - Specified Duration:	<i>[The financial centre most closely connected to the Benchmark - specify if not London]</i> <i>[LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark]</i> <i>[Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period]</i> <i>[Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period]</i> <i>[Specify period for quotation if not duration of Interest Accrual Period]</i>
(j) ISDA Determination (Clause 4.3) - Floating Rate Option: - Designated Maturity: - Reset Date: - ISDA Definitions: (if different from those set out in the Conditions)	[●] [●] [●] [●]
(k) Margin(s):	[+/-] [●] per cent. per annum
(l) Minimum Rate of Interest:	[●] per cent. per annum
(m) Maximum Rate of Interest:	[●] per cent. per annum
(n) Day Count Fraction (Clause 4.9):	[●]
(o) Rate Multiplier:	[●]
(p) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Agreement:	[●]

5. **FEES AND EXPENSES**

In consideration of the Lender making the Loan to the Bank the Bank hereby agrees that it shall pay to the Lender, in Same-Day Funds, the total amount that shall be agreed between the Lender and the Bank, being the "**Arrangement Fee**" in respect of the Loan, representing the reasonable costs and expenses incurred by the Lender in connection with such Loan, increased by front-end fees, commissions and expense, which shall include the amount of all of the commissions, fees, costs and expenses as set forth in clause [5.1] of the Subscription Agreement, paragraph 1 of the Fee Side Letter and clause 13 of the Facility Agreement pursuant to an invoice submitted by the Lender to the Bank in the total amount.

6. **GOVERNING LAW**

This Loan Supplement, and any non-contractual obligations arising out of or in connection with it, shall be governed by and construed in accordance with English law.

This Loan Supplement has been entered into on the date stated at the beginning.

7. **COUNTERPARTS**

This Loan Supplement may be executed in counterparts by facsimile (which shall be valid means of execution) or by original signature, both of which when executed and delivered shall be an original, but both of which when taken together shall constitute a single instrument.

FORM OF THE SUBORDINATED FACILITY AGREEMENT

The following is a summary of the text of the Subordinated Facility Agreement entered into between the Bank and the Issuer (as Lender)

THIS SUBORDINATED FACILITY AGREEMENT (THE "**AGREEMENT**") is made on [●]

BETWEEN:

- (1) **Probusinessbank**, a company incorporated under the laws of the Russian Federation whose registered office is at 3 Pudovkina Street, Moscow 119285, Russian Federation (the "**Bank**"); and
 - (2) **PBB LPN Issuance Limited**, a company incorporated under the laws of Cyprus whose registered office is at Annis Komninis 29A, P.C.1061, Nikosia, Cyprus (the "**Lender**"),
- the Lender and the Bank together, the "**Parties**" and each a "**Party**".

WHEREAS:

- (A) The Lender has at the request of the Bank agreed to make available to the Bank senior and subordinated loan facilities in the maximum amount of the Programme Limit (as defined below). The subordinated loan facility is to be made available on the terms and subject to the conditions of this subordinated facility agreement, as amended and supplemented in relation to each Subordinated Loan (as defined below) by a subordinated loan supplement dated by the relevant Closing Date substantially in the form set out in Schedule 1 hereto (each, a "**Subordinated Loan Supplement**"); and
- (B) It is intended that, concurrently with the extension of any Subordinated Loan under this Agreement, the Lender will issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as such Subordinated Loan.

IT IS AGREED:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement:

"Account" means an account in the name of the Lender with the Principal Paying Agent as specified in the relevant Subordinated Loan Supplement;

"Additional Capital" means additional capital as determined under the Additional Capital Regulation;

"Additional Capital Regulation" means Regulation No. 215-P "On the Methodology of Calculation of Net Worth (Capital) of Credit Organisations" dated 10 February 2003 issued by CBR, as the same may be amended or replaced from time to time;

"Affiliate" of any specified Person means:

- (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person; or
- (b) any other Person who is a director or officer:
 - (i) of such specified Person;
 - (ii) of any Subsidiary of such specified Person; or

(iii) of any Person described in clause (a) above.

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;

"**Agreement**" means this Subordinated Facility Agreement, as amended and supplemented by the relevant Subordinated Loan Supplement;

"**Arranger**" means BCP Securities LLC or any additional or replacement arranger appointed, and excluding any Arranger whose appointment has been terminated pursuant to the Dealer Agreement;

"**Auditors**" means the auditors for the time being of the Bank;

"**Banking Business**" means, in relation to the Bank, any type of banking business (including, without limitation, any factoring, consumer credit, mortgages, issuance of banking guarantees and letters of credit (and related cash cover provision), bills of exchange and promissory notes and payments under such guarantees, letters of credit and promissory notes, trading of securities (including repo transactions), fund management and professional securities market participation business) which it conducts or may conduct pursuant to its licences issued by the appropriate authorities and accepted market practice in the locations where the Bank conducts its operations and any applicable law;

"**Business Day**" means a day on which:

- (a) the London Interbank Market is open for dealings between banks generally; and
- (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Moscow, Cyprus, London, New York City and in the city where the specified office of the Principal Paying Agent is located;

"**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;

"**CBR**" means the Central Bank of the Russian Federation;

"**Charge**" means the first fixed charge with full title guarantee and as continuing security for the payment of all sums under the Trust Deed and the Notes by the Lender in favour of the Trustee over:

- (a) all the rights, title and interest in and to all sums of money now or in the future deposited in the Account and the debts represented thereby (other than interest from time to time earned thereon);
- (b) all principal, interest and other amounts now or hereby payable by the Bank to the Lender under the relevant Subordinated Loan Agreement; and

- (c) the right to receive all sums which may be or become payable by the Bank under any claim, award or judgment relating to the relevant Subordinated Loan Agreement,

provided that, subject to the Trust Deed: (i) for the avoidance of doubt, the Lender shall remain the legal and beneficial owner of the Charged Property following the granting of the Charge; and (ii) in the case of each of clauses (a), (b) and (c) above, there shall be excluded from the Charge the Reserved Rights and any amounts relating to the Reserved Rights;

"Charged Property" means the property subject to the Charge;

"Closing Date" means the date specified as such in the relevant Subordinated Loan Supplement;

"Dealer Agreement" means the dealer agreement in relation to the Programme dated 2 November 2010 between the Lender, the Bank, the Arranger and the other dealers appointed pursuant to it, as may be amended or supplemented from time to time;

"Dollars", **"\$"** and **"U.S.\$"** means the lawful currency of the United States of America;

"euro" or **"€"** means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome, as amended;

"Event of Default" has the meaning assigned to such term in clause 12;

"Fixed Rate Subordinated Loan" means a Subordinated Loan specified as such in the relevant Subordinated Loan Supplement;

"Floating Rate Subordinated Loan" means a Subordinated Loan specified as such in the relevant Subordinated Loan Supplement;

"Group" means the Bank and its Material Subsidiaries taken as a whole;

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly 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 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 (formerly International Accounting Standards Board (**"IASB"**) and interpretations issued by the International Financial Standards Committee of the IASB (as amended, supplemented or re-issued from time to time);

"incur" means issue, assume, Guarantee, incur or otherwise become liable for, provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such

Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be incurred or issued by such Subsidiary at the time it becomes or is so merged into a Subsidiary;

"Indebtedness" means any indebtedness, in respect of any Person for, or in respect of moneys borrowed or deposits received, 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 similar instrument; the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with IFRS, be treated as a finance or capital lease; receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis); any amount raised pursuant to any issue of shares which are expressed to be redeemable; any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing; any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account); any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and the amount of any liability in respect of any Guarantee or indemnity for any of the items referred to above;

"Insolvency Event" means an entry into force of a final decision of a competent Russian court finding the Bank to be insolvent;

"Insolvency Proceedings" means any proceeding in a competent Russian court relating to bankruptcy or any other proceedings including, but not limited to, the revocation of a banking licence or appointment of temporary administration, which could reasonably lead to an occurrence of an Insolvency Event;

"Interest Payment Date" means the date(s) specified as such in the relevant Subordinated Loan Supplement, or, in the event of a payment in whole (but not part) in accordance with clause 5.2, 5.3 or 5.4, the date set for redemption in respect of the Subordinated Loan;

"Interest Period" means each period beginning on (and including) an Interest Payment Date or, in the case of the first Interest Period the Interest Commencement Date, and ending on (but excluding) the next Interest Payment Date;

"Issue Documents" means this Agreement, the Trust Deed, the Dealer Agreement, the Subscription Agreement and the Paying Agency Agreement and **"Issue Document"** means any one of them;

"Material Adverse Effect" means a material adverse effect on:

- (a) the business, operations, property, condition (financial or otherwise) or the reasonable business prospects of the Group taken as a whole;
- (b) the Bank's ability to perform its obligations under a Subordinated Loan Agreement; or
- (c) the validity or enforceability of a Subordinated Loan Agreement or the rights or remedies of the Lender under a Subordinated Loan Agreement;

"Material Subsidiary" means at any time each Subsidiary of the Bank which has (together with its Subsidiaries, if any, on a consolidated basis in accordance with IFRS, as consistently applied if required to consolidate) total assets which amount to not less than 10% of the total assets of the Group.

Compliance with the 10% of total assets criteria referred to 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 Officer's Certificate that a Subsidiary of the Bank is or is not a Material Subsidiary, accompanied by a report by the Auditors addressed to the Directors of the Bank as to proper extraction of the figures used in the Officer's Certificate in determining the Material Subsidiaries of the Bank and mathematical accuracy of the calculations shall, in the absence of manifest error, be conclusive and binding on all parties, provided, however, that (i) Bank 24.ru and (ii) a Subsidiary that may be acquired by the Bank after the date of this Agreement and that is undergoing financial rehabilitation, "sanitation" or similar proceedings shall not be a Material Subsidiary.

"Noteholder" means the Person in whose name the Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof);

"Notes" means the loan participation notes that may be issued from time to time by the Lender under the Programme in Series, each Series corresponding to a Senior Loan or a Subordinated Loan;

"Officers' Certificate" means a certificate signed on behalf of the Bank by two officers of the Bank at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Bank in a form similar to that set out in Schedule 2 hereto;

"Paying Agency Agreement" means the third amended and restated paying agency agreement dated 2 November 2010 between the Lender, the Bank, the Trustee, and others as may be amended, supplemented and restated from time to time relating to the Notes;

"Permitted Liens" means:

- (a) Security granted by the Bank or a Material Subsidiary which is existing as at the date of this Agreement in respect of agreements made by the Bank or a Material Subsidiary, other than this Agreement;
- (b) any netting or set-off arrangement entered into by the Bank or in the ordinary course of its business for the purpose of netting debit and credit balances;
- (c) any lien arising by operation of law or in the ordinary course of business and not as a result of an Event of Default, including any rights of set-off arising as a matter of law;
- (d) any Security entered into pursuant to any Issue Document;
- (e) any Security upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Securitisation Transaction or like arrangement and whereby all payment obligations secured by such Security or having the benefit of such Security, are to be discharged solely from such assets or revenues (including any Security granted for the purposes of a Securitisation Transaction);
- (f) any Security over any assets acquired after the date hereof and in existence at the date of such acquisition provided that such Security was not created in contemplation of the acquisition and provided further that no such Security shall extend to any other assets;

- (g) any Security securing Indebtedness of a Person existing at the time such Person is merged into or amalgamated with the Bank or any of its Subsidiaries provided that such Security was not created in contemplation of such merger or amalgamation and does not extend to any other assets, income or property of the Bank or any of its Subsidiaries;
- (h) Security created or arising in the ordinary course of Banking Business;
- (i) any Security over debt securities issued by a sovereign, state or government which is created to secure indebtedness owed to a national central bank under credit advanced by such national central bank to the Bank in the ordinary course of its Banking Business;
- (j) Security 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;
- (k) Security 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 Bank or any of the Subsidiaries has set aside on its books reserves to the extent required by IFRS (or Russian Accounting Standards as applicable);
- (l) bankers' liens in respect of deposit accounts;
- (m) statutory landlords' liens;
- (n) Security created to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements or other obligations of like nature (so long as, in each cases with respect to the items described in paragraphs (i), (ii) and (iii) above of this paragraph (n), such Security does not secure obligations constituting Indebtedness for borrowed money and is incurred in the ordinary course of business); and
- (o) Security arising from any legal proceeding, judgment, decree or other order which does not result in an Event of Default;
- (p) any Security granted by any Subsidiary in favour of the Bank;
- (q) Security upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo transaction;
- (r) Security in respect of any funds deposited by a member of the Group as collateral for the Indebtedness of any other member of the Group;
- (s) any Security securing indebtedness incurred to refinance other Indebtedness permitted to be secured by any Security permitted under paragraphs (a) to (p) (inclusive) above provided that the replacement Security does not cover any assets other than the original assets subject to the original Security and that the principal amount secured thereby is not increased;
- (t) any Security over a minority shareholding interest of 30 per cent. or less held directly or indirectly on an aggregate basis by the Bank or any of its Subsidiaries in a company or corporation where such Security is part of a security arrangement which includes the granting of security over all or substantially all of the shares of

such company or corporation which is required by the lenders providing financing for such company or corporation, provided that the aggregate value of Security granted by the Bank and its Subsidiaries in respect of one transaction or a series of transactions and permitted by this paragraph does not, at any time, exceed 20 per cent. of the total shareholders' funds of the Bank; and

- (u) any Security (other than any such Security as is referred to in paragraphs (a) to (q)) where the aggregate value of assets or revenues subject to such Security does not exceed 20 per cent. of the total value of the Bank's assets.

"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;

"Principal Trust Deed" means the third amended and restated principal trust deed dated 2 November 2010 between the Lender and the Trustee as amended, supplemented and restated from time to time;

"Probusinessbank Account" means an account in the name of the Bank as specified in the relevant Subordinated Loan Supplement for receipt of each Subordinated Loan;

"Programme" means the programme for the issuance of loan participation notes by the Lender;

"Programme Limit" means U.S.\$750,000,000 or its equivalent in other currencies being the maximum aggregate principal amount of Notes that may be issued and outstanding at any time under the Programme;

"RAR" means Russian Accounting Rules;

"Rate of Interest" has the meaning assigned to such term in the relevant Subordinated Loan Supplement;

"Relevant Time" means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency and, in relation to a payment in euro, Brussels time;

"Repayment Date" has the meaning assigned to such term in the relevant Subordinated Loan Supplement;

"Repo" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing, lending or rental agreement or any agreement relating to securities which is analogous to, or similar in effect to any of the foregoing and for the purposes of this definition, the term **"securities"** means any capital stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any public or private company, any government or Agency or instrumentality thereof or any supranational, international or multinational organisation;

"Reserved Rights" means the rights excluded from the Charge, being all and any rights, interests and benefits in respect of the obligations of the Bank under clauses 5.3 (other than the right to receive any amount payable under such clause), 6.2 (to the extent that the Bank shall reimburse the Lender on demand for any amount paid by the Lender in respect of applicable taxes, penalties or interest), 6.3 (to the extent that the Lender has received amounts to which the Noteholders are not entitled), 8, 12 and 13 of this Agreement;

"Rouble" means the lawful currency from time to time of the Russian Federation;

"Sale/Leaseback Transaction" means an arrangement relating to property now owned or hereafter acquired whereby the Bank or any Subsidiary of the Bank transfers such property to a Person and the Bank or such Subsidiary leases it from such Person;

"Same-Day Funds" means funds for payment, in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time reasonably determine to be customary for the settlement of international business transactions in Brussels of the type contemplated hereby;

"Securitisation Transaction" means any transaction or series of related transactions (in each case, including, but not limited to, securitisation transactions and other forms of structured finance transactions) involving the incurrence of indebtedness directly or indirectly backed by all or any portion of the Group's current or future assets or property (and revenues or rights arising therefrom) (including, but not limited to, (a) credit card receivables, debit card receivables, cheque receivables, cash remittance receivables, workers' remittances receivables, trade receivables and/or payment rights receivables (including, but not limited to, under and/or in relation to SWIFT MT100-Series and SWIFT MT200-Series payment orders (and any successors thereto) and any other similar payment orders (such as any delivered via telex, the internet or any other manner)), (b) any other class of receivables whatsoever (whether payment rights, remittances, claims or otherwise), (c) loan assets and/or (d) assets which have the benefit of collateral (including, but not limited to, mortgage-backed assets) and/or (e) the rights of any member of the Group to receive and/or retain any or all payments (and related proceeds) made in connection with any of (a) to (d) above (including, but not limited to, any claims against any banks, financial institutions or credit institutions obliged to make, receive or collect such payments or involved with the making, collection or reception of such payments)) whatsoever (including, but not limited to, where such backing is achieved by means of the grant of security over any such assets or the sale of any such assets) and any such transaction or series of related transactions may include and make provision for rights of recourse (in addition to and distinct from any rights relating to the assets which are subject to the relevant transaction and which arise from any grant of security or sale, as aforementioned) against any member of the Group (including, but not limited to, rights of recourse which (a) arise upon any failure to perform or default by underlying obligors under any assets which are subject to the relevant transaction or (b) are triggered by any breach of any provision of or any failure to satisfy any condition or test contained in the transaction documentation, where such provision, condition or test relates to any assets which are subject to the relevant transaction);

"Security" means any mortgage, pledge, security interest, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or adverse claim of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof, including a Sale/Leaseback Transaction);

"Senior Creditors" means all creditors of the Bank other than creditors whose claims are in respect of (i) the share capital of the Bank (including preference shares) or (ii) other obligations ranking junior to the claims of the Lender pursuant to applicable law or otherwise (excluding the Reserved Rights).

"Senior Facility Agreement" means the third amended and restated facility agreement in relation to the Programme dated 2 November 2010 between the Lender and the Bank, as may be amended, supplemented and restated from time to time;

"Senior Loan" means each loan to be made pursuant to, and on the terms specified in the Senior Facility Agreement and the relevant Senior Loan Supplement;

"Senior Loan Supplement" has the meaning ascribed to it in the Senior Facility Agreement;

"Series" means a series of Notes that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number;

"Specified Currency" means the currency specified as such in the relevant Subordinated Loan Supplement;

"Subordinated Loan" means each subordinated loan made or to be made pursuant to, and on the terms specified in a Subordinated Loan Supplement and includes each Fixed Rate Subordinated Loan and Floating Rate Subordinated Loan, provided in each case, that each such subordinated loan is unsecured;

"Subordinated Loan Agreement" means the agreement constituted by a Subordinated Loan Supplement and incorporating the terms of this Agreement;

"Subscription Agreement" means the agreement specified as such in the relevant Subordinated Loan Supplement;

"Subsidiary" of any specified Person means any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organised or acquired:

- (a) in the case of a corporation, of which more than 50% of the total voting power is held by such first-named Person and/or any of its Subsidiaries and such first-named Person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or
- (b) in the case of a partnership, joint venture, association, or other business/entity, with respect to which such first-named Person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if in accordance with IFRS such entity would be consolidated with the first-named Person for financial statement purposes;

"Supplemental Trust Deed" means a supplemental trust deed in respect of a Series of Notes which constitutes and secures, *inter alia*, such Series dated the relevant Closing Date and made between the Lender and the Trustee (substantially in the form set out in Schedule 8 of the Principal Trust Deed);

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereof;

"Taxes" means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Cyprus or any taxing authority thereof or therein or any organisation of which the Russian Federation or Cyprus may be a member or with which the Russian Federation or Cyprus may be associated or any country or state from or through which the Bank makes payments hereunder, provided, however, that for the purposes of this definition the references to Cyprus shall, upon the occurrence of the Relevant Event (as this term is defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is domiciled for tax purposes; and the term "Taxation" shall be construed accordingly;

"Trust Deed" means the Principal Trust Deed as supplemented by the relevant Supplemental Trust Deed and specified as such in the relevant Subordinated Loan Supplement;

"Trustee" means The Bank of New York Mellon, as trustee under the Trust Deed and any successor thereto as provided thereunder;

"Voting Stock" means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof; and

"Warranty Date" means the date hereof, the date of each Subordinated Loan Supplement, each Closing Date, each date on which the Base Prospectus is amended, supplemented or replaced and each date on which the Programme Limit is increased.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in the Principal Trust Deed, the relevant Notes, the Paying Agency Agreement, the Dealer Agreement, the Subscription Agreement or the relevant Subordinated Loan Supplement shall have the meanings assigned to such terms therein.

1.3 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"** are references to a 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) All references to **"taxes"** include all present or future taxes, levies, imposts and duties of any nature and the terms **"tax"** and **"taxation"** shall be construed accordingly.
- (e) The table of contents and the headings are for convenience only and shall not affect the construction hereof.
- (f) Any reference herein to a document being in "agreed form" means that the document in question has been agreed between the proposed parties thereto, subject to any amendment that such parties may agree upon prior to the Issue Date.

2. SUBORDINATED FACILITY

2.1 Subordinated Loans

On the terms and subject to the conditions set forth herein and, as the case may be, in each Subordinated Loan Supplement, the Lender hereby agrees to make available to the Bank unsecured Subordinated Loans up to, together with any Senior Loans the Lender agrees to make available to the Bank under the Senior Facility Agreement, the total aggregate amount equal to the Programme Limit.

2.2 Purpose

The proceeds of each Subordinated Loan less the sums to be applied in accordance with clause 3.2 will be used for working capital and general corporate purposes (unless otherwise specified in the relevant Subordinated Loan Agreement), but the Lender shall not be concerned with the application thereof.

2.3 Subordination

(a) Subordination

The claims of the Lender under this Agreement, excluding the Reserved Rights, constitute the direct, unconditional and unsecured subordinated obligations of the Bank and will rank at least equally with all other unsecured and subordinated obligations of the Bank (whether actual or contingent) having a fixed maturity from time to time outstanding save only for such obligations as may be preferred by mandatory provisions of applicable law and will be senior to the claims of holders of (a) the Bank's share capital (including preference shares) and (b) all other obligations ranking junior to the claims of the Lender pursuant to applicable law or otherwise (excluding the Reserved Rights). Subject to clause 2.3 (b) below, the Reserved Rights constitute the direct, unconditional, unsecured and unsubordinated obligations of the Bank and will rank at least equally with other unsecured and unsubordinated obligations of the Bank save only for such obligations as may be preferred by mandatory provisions of applicable law.

(b) Insolvency Event

Upon the occurrence of an Insolvency Event and so long as such Insolvency Event is continuing, the claims of the Lender under this Agreement shall be satisfied after the claims of all other unsubordinated creditors of the Bank have been satisfied.

The Lender agrees that so long as any Insolvency Event has occurred and is continuing, any amounts that would otherwise be due to the Lender under this Agreement, other than amounts in respect of the Reserved Rights, will only be paid after the payment in full of all claims of the Senior Creditors (including interest and other amounts in respect of such claims accruing after the date of commencement of such Insolvency Event). Thereafter, such amounts that would otherwise be paid to the Lender under this Agreement will be paid equally and rateably, together with all obligations of the Bank ranking equally in right of payment with the liabilities of the Bank under this Agreement.

(c) No Set-Off

The Lender shall not be entitled to offset any liabilities of the Bank under this Agreement, excluding the Reserved Rights, against any liabilities owing by the Lender to the Bank.

(d) Reclassification

- (i) If by the date falling 90 days after the date of this Agreement (the "**Final Approval Date**"), the CBR does not finally and unconditionally approve the Subordinated Loan Agreement and the Subordinated Loan as subordinated loan eligible for inclusion into own funds (capital) (the "**Own Funds**") of the Bank within the meaning of the Additional Capital Regulation and issue to the Bank the corresponding final approval (the "**Final Approval**") of the CBR; or
- (ii) if as a result of any amendment to, clarification of or change in (including a change in interpretation or application of) the Additional Capital Regulation or other applicable requirements of the CBR, the Subordinated Loan shall cease to qualify as Additional Capital, provided that in accordance with the Russian legislation which will be in force at that time or official clarifications received by the Bank from CBR the Subordinated Loan shall be no longer

treated as Additional Capital, or otherwise subject to the prior written consent from CBR,

such Subordinated Loan shall be treated as senior in priority to any subordinated debt or class of equity of the Bank and clause 2.3 (a) to (c) shall be disregarded.

2.4 Separate Subordinated Loans

It is agreed that with respect to each Subordinated Loan, all the provisions of this Agreement and the Subordinated Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Subordinated Loan and the expressions "**Account**", "**Arrangement Fee**", "**Closing Date**", "**Day Fraction**", "**Payment Date**", "**Repayment Date**", "**Trust Deed**" together with all other terms that relate to such Subordinated Loan shall be construed as referring to those of the particular Subordinated Loan in question and not of all Subordinated Loans unless expressly so provided, so that each such Subordinated Loan shall be made pursuant to this Agreement and the relevant Subordinated Loan Supplement, together comprising the Subordinated Loan Agreement in respect of such Subordinated Loan and that, unless expressly provided events affecting one Subordinated Loan shall not affect any other.

3. DRAWDOWN

3.1 Drawdown

On the terms and subject to the conditions set forth herein, and, as the case may be, in each Subordinated Loan Supplement on each Closing Date thereof the Lender shall make a Subordinated Loan to the Bank and the Bank shall make a single drawing in the full amount of such Subordinated Loan.

3.2 Subordinated Loan Arrangement Fee

In consideration of the Lender's undertaking to make a Subordinated Loan available to the Bank, the Bank agrees that it shall, one Business Day before each Closing Date, pay the Lender in Same-Day Funds, an Arrangement Fee (as defined in the relevant Subordinated Loan Supplement) in connection with the financing of such Subordinated Loan. The total amount of the Arrangement Fee as increased by front-end commissions, fees and expenses shall be as specified in the relevant Subordinated Loan Supplement.

3.3 Disbursement

Subject to the conditions set forth herein and, as the case may be, in each Subordinated Loan Supplement), on each Closing Date the Lender shall transfer the full amount of the relevant Subordinated Loan to the Probusinessbank Account specified in the relevant Subordinated Loan Supplement, in Same-Day Funds.

3.4 Ongoing Fees and Expenses

In consideration of the Lender establishing and maintaining the Programme and agreeing to make Subordinated Loans to the Bank, the Bank shall pay on demand to the Lender as and when such payment are due in an amount or amount to reimburse the Lender for its expenses relating to its management and operations in servicing the Subordinated Loans as set forth to the Bank in an invoice from the Lender.

4. INTEREST

4.1 Rate of Interest for Fixed Rate Subordinated Loan

Each Fixed Rate Subordinated Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) (expressed as a percentage) equal to the applicable Rate of Interest.

If a Fixed Amount or a Broken Amount is specified in the relevant Subordinated Loan Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) so specified.

4.2 Payment of Interest for Fixed Rate Subordinated Loans

Interest at the Rate of Interest shall accrue on each Fixed Rate Subordinated Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear by the Bank to the Account not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date.

4.3 Interest for Floating Rate Subordinated Loans

(a) Interest Payment Dates

Each Floating Rate Subordinated Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date) and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, which interest shall be paid in arrear by the Bank to the relevant Account not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the relevant Subordinated Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Subordinated Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(b) Business Day Convention

If any date referred to in the relevant Subordinated Loan Supplement that is specified to be subject to an adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is:

- (i) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event:
 - (1) such date shall be brought forward to the immediately preceding Business Day; and
 - (2) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment,

- (ii) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day,
- (iii) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day, or
- (iv) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(c) **Rate of Interest for Floating Rate Notes**

The Rate of Interest in respect of Floating Rate Subordinated Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Subordinated Loan Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Subordinated Loan Supplement.

(i) **ISDA Determination for Floating Rate Subordinated Loans**

Where ISDA Determination is specified in the relevant Subordinated Loan Supplement as the manner in which the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this clause 4.3 (c) (i), **"ISDA Rate"** for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (1) the Floating Rate Option is as specified in the relevant Subordinated Loan Supplement; and
- (2) the Designated Maturity is a period specified in the relevant Subordinated Loan Supplement.

For the purposes of this clause 4.3 (c) (i), **"Floating Rate"**, **"Calculation Agent"**, **"Floating Rate Option"**, **"Designated Maturity"** and **"Swap Transaction"** have the meanings given to those terms in the ISDA Definitions.

(ii) **Screen Rate Determination for Floating Rate Subordinated Loans**

Where Screen Rate Determination is specified in the relevant Subordinated Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

- (1) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:
 - (A) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or

- (B) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page,

in each case appearing on such Page at the Relevant Time on the Interest Determination Date;

- (2) if the Primary Source for the Floating Rate is Reference Banks or if clause (1) (A) applies and no Relevant Date appears on the Page at the Relevant Time on the Interest Determination Date or if clause (1) (B) applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and
- (3) if clause (2) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the Relevant Financial Centre of the country of the Specified Currency or, if the Specified Currency is euro, in Europe as selected by the Calculation Agent are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (i) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are quoting to leading banks in Europe) (ii) to leading banks carrying on business in the Relevant Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Relevant Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

For the purposes of this clause 4.3 (c) (ii), "**Floating Rate**" has the meaning given to it in the ISDA Definitions.

4.4 **Accrual of Interest**

Interest shall cease to accrue on each Subordinated Loan on the due date for repayment unless payment is improperly withheld or refused, in which event interest shall continue to accrue (as well as before the judgment) at the applicable Rate of Interest to, but excluding, the date on which payment in full of the principal thereof is made.

4.5 **Margin, Maximum/Minimum Rates of Interest, Rate Multiplies and Rounding**

- (a) If any Margin or Rate Multiplier is specified in the relevant Subordinated Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x),

or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.

- (b) If any Maximum or Minimum Rate of Interest is specified in the relevant Subordinated Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.
- (c) For the purposes of any calculations required pursuant to a Subordinated Loan Agreement (unless otherwise specified, (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 **Calculations**

The amount of interest payable in respect of any Subordinated Loan for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding principal amount of such Subordinated Loan by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in the relevant Subordinated Loan Supplement in respect of such period, in which case the amount of interest payable in respect of such Subordinated Loan for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.7 **Determination and Notification of Rates of Interest and Interest Amounts**

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of such Floating Rate Subordinated Loan for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date to be notified to the Bank, the Trustee, the Lender, the Paying Agent(s) and any other Calculation Agent appointed in respect of such Floating Rate Subordinated Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date is subject to adjustment pursuant to clause 4.3 (b), the Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made with the consent of the Bank and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Subordinated Loan becomes due and payable under clause 12, the accrued interest and the Rate of Interest payable in respect of such Floating Rate Subordinated Loan shall nevertheless continue to be calculated as previously in accordance with this clause. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount in relation to a Floating Rate Subordinated Loan, the Lender and the Bank agree that such determination or calculation may, following a written request of the Lender and the Bank, be made by or at the direction of the Trustee and such determination and calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this clause, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects, it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. The Trustee shall incur no liability in respect of any such determination or calculation.

4.9 Definitions

In this clause 4, unless the context requires otherwise, the following defined terms shall have the meaning set out below:

"Benchmark" has the meaning specified in the relevant Subordinated Loan Supplement; and

"Business Day" means:

- (a) in the case of a Specified Currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such Specified Currency; and/or
- (b) in the case of euro, a day on which the TARGET System is operating (a **"TARGET Business Day"**); and/or
- (c) in the case of a Specified Currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

"Day Count Fraction" means, in respect of the calculation of an amount of interest on any Subordinated Loan for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the **"Calculation Period"**):

- (a) if **"Actual/365"** or **"Actual/Actual - ISDA"** is specified in the relevant Subordinated Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (b) if **"Actual/365 (Fixed)"** is specified in the relevant Subordinated Loan Supplement, the actual number of days in the Calculation Period divided by 365;
- (c) if **"Actual/360"** is specified in the relevant Subordinated Loan Supplement, the actual number of days in the Calculation Period divided by 360;
- (d) if **"30/360"**, **"360/360"** or **"Bond Basis"** is specified in the relevant Subordinated Loan Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or

31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be a 30-day month));

- (e) if "**30E/360**" or "**Eurobond Basis**" is specified in the relevant Subordinated Loan Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or the last day of the Calculation Period unless, in the case of a Calculation Period ending on the Repayment Date, the Repayment Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and
- (f) if "**Actual/Actual-ISMA**" is specified in the relevant Subordinated Loan Supplement:
 - (i) If the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
 - (ii) if the Calculation Period is longer than one Determination Period, the sum of :
 - (1) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Periods normally ending in any year; and
 - (2) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Periods normally ending any year;

"Determination Period" means the period from and including a Determination Date in any year to but excluding the next Determination Date;

"Determination Date" means the date specified in the relevant Subordinated Loan Supplement or, if none is so specified, the Interest Payment Date;

"Effective Date" means, in respect of any Floating Rate to be determined on an Interest Determination Date, the date specified as such in the relevant Subordinated Loan Supplement or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates;

"Interest Accrual Date" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"Interest Amount" means that amount of interest payable, and in the case of Fixed Rate Subordinated Loans means the Fixed Amount or Broken Amount, as the case may be;

"Interest Commencement Date" means the Closing Date or such other date as may be specified in the relevant Subordinated Loan Supplement;

"Interest Determination Date" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Subordinated Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London and for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

"Interest Period" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"Interest Period Date" means each Interest Payment Date, unless otherwise specified herein;

"ISDA Definitions" means the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Subordinated Loan Supplement;

"Page" means such page, section, caption, column or other part of a particular information service (including, but not limited to, Reuters Markets 3000 ("**Reuters**") as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate;

"Reference Banks" means the institutions specified as such in the relevant Subordinated Loan Supplement or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that are most closely connected with the Benchmark (which, if EURIBOR is the relevant Benchmark, shall be Europe);

"Relevant Financial Centre" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such in the relevant Subordinated Loan Supplement or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR) or, if none is so connected, London;

"Relevant Rate" means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date;

"Relevant Time" means, with respect to any Interest Determination Date or Repayment Date, the local time in the Relevant Financial Centre specified in the relevant Subordinated Loan Supplement or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre and for this purpose "**local time**" means, with respect to Europe as a Relevant Financial Centre, 11.00 am, Brussels time;

"Representative Amount" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the relevant Subordinated Loan Supplement or, if none if

specified, an amount that is representative for a single transaction in the relevant market at the time; and

"Specified Duration" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the relevant Subordinated Loan Supplement or, if none is specified, a period of time equal to the relevant Interest Accrual Period, ignoring any adjustment pursuant to clause 4.3 (b).

4.10 Calculation Agent and Reference Banks

The Lender (failing which the Bank) shall procure that there shall at all times be specified no less than four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and appointed one or more Calculation Agents if provision is made for them in a Subordinated Loan Supplement and for so long as any amount remains outstanding under a Subordinated Loan Agreement. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Lender shall (with the prior approval of the Bank) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of a Subordinated Loan, references in the relevant Subordinated Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Subordinated Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, or to comply with any other requirement, the Lender shall (with the prior approval of the Bank) appoint a leading bank or investment banking firm engaged in the Interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both the Bank and the Lender agree that such successor Calculation Agent will be appointed on the terms of the Paying Agency Agreement in relation to the relevant Subordinated Loan Agreement.

4.11 Rate of Interest in Line with Market

At the time the Subordinated Loan Agreement is entered into, or any amendments are made thereto, the Rate of Interest shall not substantially deviate from the market for similar loans. For the avoidance of doubt, it is hereby provided that the Rate of Interest is recognised to substantially deviate from the market if it substantially exceeds the average interest rate on the market for similar loans, as determined in accordance with Article 269 of the Tax Code of the Russian Federation.

4.12 Interest prepayment subject to the prior written consent of the CBR

No prepayment of interest on any Subordinated Loan may be made and no Interest Payment Date may be changed without the prior written consent of the CBR.

5. REPAYMENT AND PREPAYMENT

5.1 Repayment

Except as otherwise provided herein and in the applicable Subordinated Loan Supplement,

- (a) the Bank shall repay each Subordinated Loan not later than 10.00 a.m. (Relevant Time) one Business Day prior to the Repayment Date therefor;
- (b) the Bank shall not prepay all or any part of any Subordinated Loan (except with the prior written consent of the CBR); and
- (c) in respect of any Subordinated Loan this Agreement may not be terminated without the prior written consent of the CBR earlier than the Repayment Date for such Subordinated Loan or amended without the prior written consent to the CBR.

5.2 Prepayment Option

Notwithstanding the provisions of clause 5.1 and except as otherwise provided in the applicable Subordinated Loan Supplement:

- (a) the Bank shall be entitled, at its option, to prepay any Subordinated Loan in whole but not in part if, as a result of any amendment to, clarification of or change in (including a change in interpretation or application of) the Additional Capital Regulation or other applicable requirements of the CBR such Subordinated Loan would cease to qualify as Additional Capital, provided that in accordance with the Russian legislation which will be in force at that time or official clarifications received by the Bank from the CBR the Subordinated Loan shall be no longer treated as Additional Capital, or otherwise subject to the prior written consent from the CBR, in an amount equal to the principal amount of such Subordinated Loan to be prepaid plus accrued and unpaid interest upon the Bank giving not less than 30 nor more than 60 days' prior notice to the Lender (which notice shall be irrevocable); and
- (b) if the CBR fails to issue the Final Approval by the Final Approval Date, the Bank shall be entitled, at its option, to prepay the Subordinated Loan in whole but not in part, on the next Interest Payment Date following the Final Approval Date, the principal amount thereof together with any accrued interest and all other amounts payable by the Bank pursuant to this Agreement upon the Bank giving not less than 30 nor more than 60 days' prior notice to the Lender (which notice shall be irrevocable).

5.3 Prepayment in the event of Taxes or Increased Costs

If, as a result of the application of any amendments or clarification of, or change (including a change in interpretations or applications) in the laws or regulations of the Russian Federation, which would materially deteriorate the terms of this Agreement for the parties thereto, and in particular if the Bank would thereby be required to increase the payment due pursuant to a Subordinated Loan Agreement as provided in clauses 6.2 or 6.3 (other than in each case where the increase in payment is in respect of any amounts due or paid pursuant to clauses 3 and 13), or if (for whatever reason) the Bank would have to or has been required to pay additional amounts pursuant to clause 8, and in any such case such obligation cannot be avoided by the Bank taking reasonable measures available to it, then, with the prior written consent of CBR, the Bank may (without premium or penalty), upon not less than 10 days' notice to the Lender (which notice shall be irrevocable), prepay the Subordinated Loan relating to such Subordinated Loan Agreement (but not in part) at any time. Prior to giving any such notice in the event of increase in payment pursuant to clause 6.2, the Bank shall deliver to the Lender an Officer's Certificate confirming that it would be required to increase the amount payable, supported by an opinion of an independent tax adviser addressed to the Lender.

5.4 **Prepayment in the event of Illegality**

If, at any time, after the date of the relevant Subordinated Loan Agreement, the Lender reasonably determines that it is or would be unlawful or contrary to the Russian law or regulation or regulatory requirement or directive of any Agency of the Russian Federation or otherwise for the Lender to allow all or part of the Subordinated Loan, relating to such Subordinated Loan Agreement or the corresponding Series of Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with the relevant Subordinated Loan and/or to charge or receive or to be paid interest at the rate then applicable to such Subordinated Loan (an "**Event of Illegality**") then upon notice by the Lender to the Bank in writing, the Bank 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 30 days of the date on which it so notified the Bank. If such a basis has not been determined within the 30 days, then upon seven Business Days' notice by the Lender to the Bank in writing, the Bank, subject to the prior written consent of the CBR, shall prepay such Subordinated Loan in whole (but not in part) on the next Interest Payment Date therefor falling after the expiry of such seven Business Days' notice or on such earlier date as the Lender shall certify to be necessary to comply with such requirements.

5.5 **Payment of Other Amounts**

If a Subordinated Loan is to be prepaid by the Bank pursuant to any of the provisions of clauses 5.2, 5.3 or 5.4 or pursuant to the terms of the relevant Subordinated Loan Agreement, the Bank shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to (and excluding) the date of actual payment and all other sums payable by the Bank pursuant to the relevant Subordinated Loan Agreement. For the avoidance of doubt, if the principal amount of such Subordinated Loan is reduced pursuant to the provisions of clause 5.4, then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which such Subordinated Loan is so reduced and the Bank shall not be entitled to any interest in respect of the cancelled Notes.

5.6 **Provisions Exclusive**

The Bank may not voluntarily prepay or repay all or any part of any Subordinated Loan except in accordance with the express terms of the relevant Subordinated Loan Agreement. Any amount prepaid may not be reborrowed under such Subordinated Loan Agreement.

6. **PAYMENTS**

6.1 **Making of Payments**

All payments of principal, interest and other additional amounts (other than those in respect of Reserved Rights) to be made by the Bank under each Subordinated Loan Agreement shall be made unconditionally by credit transfer to the Lender not later than 10.00 a.m. (in the Principal Financial Centre) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds to the relevant Account or as the Trustee may otherwise direct following the occurrence of an Insolvency Event or a Relevant Event. Payment of such amounts by the Bank hereunder to the relevant Account shall comprise discharge of the Bank's payment obligations hereunder in respect of such amounts. The Lender agrees with the Bank that it will not deposit any other monies into the Account and that no withdrawals shall be made from the relevant Account by the Lender, other than as provided for and in accordance with the Trust Deed and the Paying Agency Agreement.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by the Bank under each Subordinated Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If the Bank shall be required by applicable law to make any deduction or withholding from any payment under a Subordinated Loan Agreement for or on account of any such Taxes, it shall increase the payment of principal or interest or any other payment due hereunder to such amount as may be necessary to ensure that the Lender receives a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such Taxes. The Bank shall promptly account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, penalties or interest, the Bank shall reimburse to the Lender in the Specified Currency on demand an amount equal to such payment.

6.3 Withholding on Notes

Without prejudice to the provisions of clause 6.2, upon becoming so aware, the Lender shall, as soon as reasonably practical, notify the Bank that it has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which the Lender is obliged to make under or in respect of the Notes, and provide the Bank with a certificate describing in reasonable detail the basis for such withholding or deduction and setting out additional amounts required to be paid by the Bank to the Lender pursuant to this clause 6.3. The Bank agrees to pay into the relevant Account one Business Day prior to the date on which the payment is due to be made such additional amounts as are equal to the additional amounts which the Lender would have to pay in order that the net amounts received by the Noteholders, after such withholding or deduction, will equal the respective amounts which would have been received by the Noteholders in the absence of such withholding or deduction; provided, however, that the Lender shall immediately upon receipt of any reimbursement of any sums paid pursuant to this provision, to the extent that the Noteholders of such Series are not entitled to such sums pursuant to the Conditions of such Series of Notes, pay such amounts to the Bank (it being understood that neither the Lender, the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder of such Series or such other Party is entitled to any such additional amount).

6.4 Reimbursement

- (a) To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursement relating to a deduction or withholding with respect to which the Bank has made a payment pursuant to this clause 6, it shall pay to the Bank so much of the benefit it received as will leave the Lender in substantially the same position as it would have been in had no additional amount been required to be paid by the Bank pursuant to this clause 6; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to the Bank, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender, provided that the Lender shall notify the Bank promptly upon determination that it has received any such benefit. The Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to it, and the Lender shall in no circumstances be obliged to disclose to the Bank any information regarding its tax affairs or computations.
- (b) If as a result of a failure to obtain relief from deduction or withholding of any taxes referred to in clause 6.2:

- (i) such taxes are deducted or withheld by the Bank and pursuant to clause 6.2 an increased amount is paid by the Bank to the Lender in respect of such deduction or withholding; and
- (ii) following the deduction or withholding of taxes as referred to above the Lender (upon instructions by the Bank) applies to the competent taxing authority for a withholding tax refund and such withholding tax is refunded or repaid by the relevant taxing authority,

the Lender shall as soon as reasonably practicable notify the Bank of the receipt of such withholding tax refund and promptly transfer the actually received amount of the withholding tax refund in the currency actually received and less any applicable costs to a bank account of the Bank specified for that purpose by the Bank.

6.5 Representations and Undertakings of the Lender

- (a) The Lender represents that, at the date hereof:
 - (i) it is at the date hereof a resident of Cyprus, is subject to the taxation in Cyprus on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Cyprus merely on income from sources in Cyprus or connected with property located in Cyprus and it will be able to receive certification to this effect from the Cyprus taxing authorities;
 - (ii) it does not have a permanent establishment in the Russian Federation; and
 - (iii) does not have any current intentions to effect during the term of any Subordinated Loan any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of Cyprus and subject to taxation in Cyprus;
- (b) The Lender agrees that if, *inter alia*, it should at any time cease to be a tax resident of Cyprus, the Bank may substitute another party as Lender as provided for in Condition 10.3.

7. CONDITIONS PRECEDENT

7.1 Documents to be Delivered

The obligation of the Lender to make each Subordinated Loan shall be subject to the receipt by the Lender on or prior to the relevant Closing Date of evidence that the Persons mentioned in clause 15.10(e) hereof have agreed to receive process in the manner specified herein.

7.2 Further Conditions

The obligation of the Lender to make each Subordinated Loan shall be subject to the further conditions precedent that as at the relevant Closing Date:

- (a) the representations and warranties made and given by the Bank in clause 9.1 shall be true and accurate as if made and given on the relevant Closing Date with respect to the facts and circumstances then existing;
- (b) no event shall have occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Insolvency Event;

- (c) the Bank shall not be in breach of any of the terms, conditions and provisions of the relevant Subordinated Loan Agreement;
- (d) the Subordinated Loan Agreement, the Paying Agency Agreement, the Subscription Agreement and the Trust Deed shall have been executed and delivered; and
- (e) the Lender shall have received the full amount of the net subscription moneys for the corresponding Series of Notes pursuant to such Subscription Agreement; and
- (f) the Lender shall have received in full the amount referred to in clause 3.2, if due and payable above, as specified in the relevant Subordinated Loan Supplement.

8. CHANGE IN LAW OR BANKING PRACTICES; INCREASE IN COST

8.1 Compensation

In the event that after the date of a Subordinated Loan Agreement there is any change in or introduction of any tax, law, regulation, regulatory 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 change in the interpretation or application thereof by any Person charged with the administration thereof and/or any compliance by the Lender in respect of the Subordinated Loan with any request, policy or guideline (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) from or of any central or other fiscal, monetary or other authority, agency or any official of any such authority which means that:

- (a) the cost to the Lender of making, funding or maintaining such Subordinated Loan is increased; or
- (b) the amount of principal, interest or other amount payable to or received by the Lender under such Subordinated Loan Agreement is reduced; or
- (c) 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 the Bank hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Subordinated Loan,

then subject to the following, and in each such case:

- (i) 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 the Bank together with a certificate 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 all relevant supporting documents evidencing the matters set out in such certificates; and
- (ii) upon demand by the Lender to the Bank, the Bank, in the case of clauses (a) and (c) above, shall pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of clause (b) 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 amount of such increased cost, reduced amount or payment made or foregone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to this Agreement and provided that the Lender will not be entitled to such additional amount where such reduction, payment or foregone interest or other return arises as a result of the negligence or wilful default of the Lender.

8.2 Exceptions

Clause 8.1 does not apply to the extent that any increased cost referred to in clause 8.1(a), any reduction referred to in clause 8.1(b) or any additional cost or a reduction in the return referred to in clause 8.1(c) is:

- (a) attributable to any Taxes referred to in clause 6.2 or clause 6.3;
- (b) attributable to any Taxes payable by the Lender on its overall net income, profits or gains; or
- (c) attributable to the wilful breach by the Lender of any law or regulation.

9. REPRESENTATIONS AND WARRANTIES

9.1 The Bank's Representations and Warranties

The Bank represents and warrants to the Lender, and on each Warranty Date shall be deemed to represent and warrant to the Lender, with the intention that such shall form the basis of each Subordinated Loan Agreement, that:

- (a) it is duly organised and incorporated and validly existing under the laws of its jurisdiction of incorporation and has the power and legal right to own its property, to conduct its business as currently conducted and to enter into and to perform its obligations under each Subordinated Loan Agreement and to borrow Subordinated Loans; the Bank has taken all necessary corporate, legal and other action required to authorise the borrowing of the Subordinated Loans on the terms and subject to the conditions of each Subordinated Loan and to authorise the execution and delivery of each Subordinated Loan Agreement and all other documents to be executed and/or delivered by it in connection with each Subordinated Loan Agreement, and the performance of each Subordinated Loan Agreement in accordance with its terms;
- (b) the Subordinated Loan Agreement, including, in relation to a Subordinated Loan, the Subordinated Loan Supplement relating thereto, has been duly executed and delivered by the Bank and constitutes a legal, valid and binding obligation of the Bank enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability:
 - (i) to general principles of equity;
 - (ii) to the fact that the gross-up provisions contained in clauses 6.2 and/or 6.3 may not be enforceable under Russian law; and
 - (iii) with respect to the enforceability of a judgment, to the laws of relevant jurisdiction where such judgment must be enforced;
- (c) the execution, delivery and performance of each Subordinated Loan Agreement including, in relation to a Subordinated Loan, the Subordinated Loan Supplement

relating thereto, by the Bank 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 the Russian Federation;
 - (ii) the constitutive documents, rules and regulations of the Bank; or
 - (iii) any agreement or other undertaking or instrument to which the Bank is a party or which is binding upon the Bank, nor result in the creation or imposition of any Security on any of its respective assets pursuant to the provisions of any such agreement or other undertaking or instrument in circumstances where such creation or imposition would have a Material Adverse Effect;
- (d) all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial or public bodies or authorities of the Russian Federation (including, but not limited to, any consents required from the CBR, other than the Final Approval of the CBR), required by the Bank in connection with the execution, delivery, performance, legality, validity, enforceability, or admissibility in evidence of each Subordinated Loan Agreement have been obtained or effected and are and shall remain in full force and effect;
- (e) no default under this Agreement or a default under any agreement or instrument evidencing any Indebtedness of the Bank, or event that with the giving of notice or the lapse of time, or both, would result in Insolvency Proceedings or would constitute an Event of Default, has occurred and is continuing, and neither of those will occur upon the making of the relevant Subordinated Loan;
- (f) there are no judicial, arbitral or administrative actions, proceedings or claims (including, but not limited to, with respect to taxes) which have been commenced or are, to the knowledge of the Bank, threatened, against the Bank or any of its Subsidiaries, the adverse determination of which would have a Material Adverse Effect;
- (g) except for Security of the type referred to in the definition of Permitted Liens in clause 1.1, the Bank has good title to its property free and clear of all Security, and the Bank's obligations under the Subordinated Loan rank at least *pari passu* with all its other unsecured and subordinated Indebtedness except as otherwise provided by mandatory provisions of applicable law;
- (h) the most recent audited consolidated financial statements of the Bank:
 - (i) were prepared in accordance with IFRS;
 - (ii) unless not required by IFRS, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Bank; 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 Bank during the relevant financial year;
- (i) there has been no material adverse change since 30 June 2010 in the condition (financial or otherwise), results of business, operations or the reasonable business prospects of the Bank or in the Bank's ability to perform its obligations under any Subordinated Loan Agreement;

- (j) the execution, delivery and enforceability of each Subordinated Loan 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 the Russian Federation or any political subdivision or taxing authority thereof or therein;
- (k) neither the Bank nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to each Subordinated Loan Agreement;
- (l) the Bank is in compliance in all material respects with all applicable provisions of law;
- (m) there are no material strikes or other material employment disputes against the Bank which have been started or are, to the Bank's knowledge, threatened;
- (n) in any proceedings taken in the Russian Federation in relation to each Subordinated Loan Agreement, the choice of English law as the governing law of each Subordinated Loan Agreement and any arbitration award obtained in England in relation to each Subordinated Loan Agreement will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in Russia;
- (o) subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding in respect of any Taxes is required to be made from any payment by the Bank under each Subordinated Loan Agreement;
- (p) all material licences, consents, examinations, clearances, filings, registrations and authorisations which are necessary to enable the Bank to own its assets and carry on its business are in full force and effect;
- (q) the Bank is subject to civil and commercial law with respect to its obligations under each Subordinated Loan Agreement, and its execution of each Subordinated Loan Agreement constitutes, and its exercise of its rights and performance of its obligations hereunder will constitute, private and commercial acts done and performed for private and commercial purposes;
- (r) the Bank has no overdue tax liabilities which would have a Material Adverse Effect other than those which it has disclosed to the Lender in writing prior to the date hereof or which it is contesting in good faith;
- (s) the Bank's obligations under each Subordinated Loan Agreement constitute direct, unconditional and unsecured obligations of the Bank and qualify as Additional Capital.

9.2 **Lender's Representations and Warranties**

The Lender represents and warrants to the Bank as follows:

- (a) the Lender is duly incorporated under the laws of Cyprus and is resident for Cypriot taxation purposes in Cyprus and has full power and capacity to execute the Issue Documents and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same;

- (b) the execution of the Issue Documents 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 Cyprus or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety;
- (c) the Issue Documents constitute legal, valid and binding obligations of the Lender subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity;
- (d) all authorisations, consents and approvals required by the Lender for or in connection with the execution of the Issue Documents, and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect; and
- (e) the Lender is resident in a jurisdiction which has a double tax treaty with Russia under which the payment of interest by Russian borrowers is generally able to be made without deduction or withholding of Russian income tax (upon completion of any necessary formalities required in relation thereto).

10. LIMITED ACCELERATION RIGHTS

10.1 Insolvency Event

If an Insolvency Event has occurred and is continuing and/or Insolvency Proceedings have commenced, the Lender may, by notice in writing to the Bank (i) declare the Subordinated Loan to be cancelled whereupon the same shall forthwith be cancelled; and/or (ii) declare all amounts payable hereunder by the Bank to be due and payable, subject to and in accordance with clause 2.3 (unless clause 2.3(d) applies), whereupon all such amounts shall become immediately due and payable in accordance with the provisions of clause 2.3, without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Bank).

10.2 Payment Defaults

Without prejudice to its right to enforce the obligations of the Bank under this Agreement when they fall due, at all times whilst the Subordinated Loans qualify as Additional Capital, the Lender shall have no right to accelerate payments under this Agreement in the case of a default in payments of principal, interest or other amounts due under this Agreement or for breaches of representations without the prior written consent of the CBR.

10.3 Notice of Insolvency Events, etc.

The Bank shall promptly deliver to the Lender and the Trustee, upon it becoming aware thereof, written notice of any Insolvency Event or any event that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Insolvency Event.

10.4 Rights Not Exclusive

Whilst the Subordinated Loan qualifies as Additional Capital, the Lender may not accelerate the Subordinated Loan other than pursuant to clause 10.1 or clause 12.3 but, aside from such limited acceleration rights, the rights provided for in the Subordinated Loan Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

11. COVENANTS

As long as any amount is outstanding under the Subordinated Loan Agreement:

11.1 Maintenance of Authorisations

The Bank shall:

- (a) 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 which are at any time required to be obtained or made in the Russian Federation for the conduct of its Banking Business and the execution, delivery or performance of the Subordinated Loan Agreement or for the validity or enforceability thereof;
- (b) make or cause to be made all registrations, recordings and filings which are at any time required to be obtained or made in the Russian Federation for the execution, delivery or performance of the Subordinated Loan Agreement or for the validity or enforceability thereof; and
- (c) supply certified copies to the Lender of any consent, licence, approval, authorisation, registration, recording or filing obtained or made pursuant to clauses 11.1(a) and 11.1(b).

11.2 Mergers

Subject to clause 11.3:

- (a) The Bank shall not, without the prior written consent of the Lender:
 - (i) enter 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) participate in any other type of corporate reconstruction, other than any solvent reorganisation, which:
 - (1) involves solely a merger or amalgamation of one or more Subsidiaries of the Bank with the Bank and where the Bank is the surviving entity of such merger or amalgamation; or
 - (2) has the aim of increasing the efficiency of the Bank and would not have a Material Adverse Effect.
- (b) The Bank shall ensure that, except as mentioned in clause 11.2(a), no Material Subsidiary:
 - (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) participates in any other type of corporate reconstruction if any such reorganisation or corporate reconstruction would have a Material Adverse Effect.

11.3 Disposals

The Bank shall not and shall ensure that no member of the Group shall sell, lease, transfer or otherwise dispose of, to a Person that is not a member of the Group, by one or

more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets if such sale, lease, transfer or disposal would have a Material Adverse Effect, provided however, that this clause 11.3 shall not apply to a Securitisation Transaction.

11.4 **Transactions with Affiliates**

The Bank shall not directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including 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 intercompany loans unless:

- (a) the terms of such Affiliate Transaction(s) taken either individually or in aggregate are not materially less favourable to the Bank 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 Bank or such Subsidiary; or
- (b) such Affiliate Transaction is made pursuant to a contract existing on the Closing Date (excluding any amendments or modifications thereof made after the Closing Date).

This clause 11.4 shall not apply to:

- (c) compensation or employee benefit arrangements with any officer or director of the Bank or such Subsidiary arising as a result of their employment contract; or
- (d) transactions between the Bank and any of its Subsidiaries or between such Subsidiaries.

11.5 **Payment of Taxes and Other Claims**

The Bank shall and shall ensure that its Subsidiaries shall 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 Bank or any Subsidiaries; and
- (b) all lawful claims for labour, materials and supplies which, if unpaid, would by law become a Security (other than a Permitted Lien) upon the property of the Bank or any Subsidiaries;

provided that none of the Bank 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 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.\$20,000,000.

11.6 **Withholding Tax Exemption**

The Bank shall give to the Lender all assistance it requires to ensure that, prior to the first interest payment and at the beginning of each calendar year, the Lender can provide the

Bank with a tax residence certificate (to the extent required) so that the Lender can obtain relief from Russian withholding tax in respect of payments hereunder.

11.7 Financial Information

- (a) The Bank shall deliver to the Lender, within six months after the end of each of its financial years, copies of the Group's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period.
- (b) The Bank shall deliver to the Lender within three months after the end of the first half-year of each of its financial years, copies of its unaudited consolidated financial statements for that half-year, prepared in accordance with RAR consistently applied with the corresponding financial statements for the preceding period.
- (c) The Bank shall deliver to the Lender, without undue delay, such additional information regarding the financial position or the business of the Bank and its Subsidiaries as the Lender or the Trustee may reasonably request including providing certificates and a report of the Auditors as to the definition of Material Subsidiaries and :
 - (i) providing certification to the Trustee pursuant to clauses 14.1(g) and 14.1(k) of the Principal Trust Deed;
 - (ii) providing to the Lender all documents dispatched by the Bank to its shareholders (or any class of them) generally or its creditors generally (but, with respect to creditors, other than in the normal course of business) at the same time as they are dispatched; and
 - (iii) providing to the Lender, promptly upon becoming aware of them, the details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group, and which, if adversely determined, are reasonably likely to have a Material Adverse Effect,

or such Officer's Certificate as either the Lender or the Trustee may request, including as to the number, if any, of Notes held by the Bank and any of its Subsidiaries.

11.8 Financial Covenants

The Bank shall maintain full compliance with prudential supervisory ratios and other requirements of CBR.

11.9 Change of business

The Bank shall procure that no material change is made to the general nature of the business of the Bank or any of the Material Subsidiaries from that carried on at the date of this Agreement.

11.10 Books and Records

The Bank will, and will cause each of its Material Subsidiaries to, keep books and records which accurately reflect all of its business affairs and transactions and, while any amount is outstanding under each Subordinated Loan Agreement, permit the Lender, the Trustee or any of their respective representatives, at reasonable times and intervals, to visit all of its offices, to discuss its financial matters with its officers.

11.11 Accounting Matters; Financial Year

The Bank will not make or permit, or permit any of its Material Subsidiaries to make or permit, any change in its accounting policies, reporting practices or its financial year, except as required or permitted by applicable law.

11.12 Compliance with laws

The Bank shall comply in all material respects with all laws to which it may be subject, if failure so to comply would impair its ability to perform its obligations under the Issue Documents.

11.13 Ranking of Claims

The Bank shall ensure that at all times the claims of the Lender against it under each Subordinated 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. EVENTS OF DEFAULT

12.1 Events of Default

Provided that the Subordinated Loan ceases to be qualified by the CBR as Additional Capital, if one or more of the following events of default (each, an "**Event of Default**") shall occur and be continuing, the Lender will be entitled to the remedies set forth in clause 12.3.

- (a) The Bank fails to pay any amount payable under the Subordinated Loan Agreement (in the currency and in the manner specified therein) within three Business Days' after the date on which such payment is due hereunder (or within 10 Business Days after the date on which such payment is due hereunder in the case where such failure is solely due to a technical or administrative difficulty which is beyond the Bank's control).
- (b) The Bank fails to perform or observe any covenant or agreement contained under the Subordinated Loan Agreement to be performed or observed by it and such failure, if capable of being remedied, is not remedied within 15 days.
- (c) Any representation or warranty of the Bank or any statement deemed to be made by the Bank in the Subordinated Loan Agreement proves to have been inaccurate, incomplete or misleading in any material respect at the time it was made or repeated or deemed to have been made or repeated.
- (d) Any Indebtedness of the Bank and/or any of its Material Subsidiaries is not paid when due (after the expiry of any applicable grace period), or any Indebtedness of the Bank and/or any of its Material Subsidiaries is declared to be or otherwise becomes due and payable prior to its specified maturity otherwise than at the option of the Bank and/or the relevant Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; provided however, that the total amount of such Indebtedness which is not paid when due or becomes due and payable prior to its specified maturity is equal to or greater than U.S.\$5,000,000 (or its equivalent in another currency).

- (e) The occurrence of any of the following events:
- (i) the Bank, 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 Bank, 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 Bank or its Material Subsidiaries in any court, arbitration court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Bank or its Material Subsidiaries, unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous;
 - (iii) the institution of the bankruptcy management (*konkursnoye proizvodstvo*) over the Bank or any of its Material Subsidiaries;
 - (iv) the institution of the financial rehabilitation (*finansovoye ozdorovlenie*), pursuant to the request of the CBR, temporary administration (*vremennoye upravleniye*) or reorganisation (*reorganizatsiya*) with respect to the Bank 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);
 - (v) any judicial liquidation in respect of the Bank or any of its Material Subsidiaries; and/or
 - (vi) revocation of the general banking licence of the Bank or, if applicable, of any of its Material Subsidiaries or any event which results in the Bank requiring a special or additional licence or being unable to make payments in the Specified Currency under the Subordinated Loan Agreement.
- (f) The Bank or any of its Material Subsidiaries is unable or admits inability to pay its debts as they fall due, suspends making payments on any of its debts 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 Bank or its Material Subsidiaries is less than its liabilities; and/or a moratorium is declared in respect of any Indebtedness of any of the Bank or its Material Subsidiaries.
- (g) Any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any part of, the property, undertaking, revenues or assets of the Bank or any of its Material Subsidiaries and the same would have a Material Adverse Effect unless the same is being contested in good faith by the Bank or the relevant Material Subsidiary and is not removed, paid out, stayed or discharged within 30 days after the same occurs.
- (h) Any governmental authorisation necessary for the performance of any obligation of the Bank under the Subordinated Loan Agreement fails to be in full force and effect and, except where such failure would have a Material Adverse Effect, such failure is not remedied within 30 days after its occurrence.
- (i) Any governmental authority or court takes any action that materially and adversely affects the condition of the Bank or the ability of the Bank to perform its obligations under the Subordinated Loan Agreement or adversely affects the validity or

enforceability of the Subordinated Loan Agreement or the rights or remedies of the Lender under the Subordinated Loan Agreement.

- (j) The shareholders of the Bank shall have approved any plan of liquidation or dissolution of the Bank.
- (k) The aggregate amount of unsatisfied judgements, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against the Bank and other Material Subsidiaries in the aggregate exceeds U.S.\$5,000,000, or the equivalent thereof in any other currency or currencies, unless such judgment, decree or order is being contested in good faith by the Bank or any other Subsidiary, as the case may be, and there is a period of 30 days following the entry thereof during which such judgment, decree or order is not discharged, waived or the execution thereof stayed and such default continues for ten days after the notice specified in clause 12.2 below.
- (l) At any time it is or becomes unlawful for the Bank to perform or comply with any or all of its obligations under the Subordinated Loan Agreement or any of such obligations is not, or ceases to be, legal, valid, binding and enforceable.
- (m) The Bank or any of its Material Subsidiaries ceases to carry on the principal business it carries on at the date hereof.
- (n) The Bank repudiates or evidences an intention to repudiate the Subordinated Loan Agreement.
- (o) The Bank's charter is amended in a way which would contravene or result in the contravention of any material provisions of the Subordinated Loan Agreement
- (p) Any event occurs which under the laws of any relevant jurisdiction an analogous effect to any of the events has referred to in any of the foregoing paragraphs.

12.2 Notice of Default

The Bank shall deliver to the Lender and the Trustee (i) annually on the anniversary of this Agreement,(ii) within 15 days of any request by the Lender and (iii), within 30 days after the occurrence thereof, written notice in the form of an Officer's Certificate, substantially in the form set out in Schedule 2, of any Default or Event of Default, its status and what action the Bank is taking or proposes to take with respect thereto.

12.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice in writing to the Bank:

- (a) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate; and
- (b) declare all amounts payable hereunder by the Bank that would otherwise be due after the date of such termination 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 the Bank;

provided, however, that if any event of any kind referred to in clause 12.1(f) occurs, the obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by the Bank 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 the Bank.

13. INDEMNITY

13.1 Indemnification

The Bank undertakes to the Lender, that if the Lender or any of its Affiliates, any director, officer or employee of the Lender or any Person controlling the Lender (each a "**indemnified party**") properly incurs any loss, liability, cost, claim, charge, expense (including, without limitation, legal fees, costs and expenses), demand or damage (a "**Loss**") as a result of or in connection with the Subordinated Loan, the Subordinated Loan Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being corresponding to such Subordinated Loan or Subordinated Loan Agreement outstanding (excluding any loss:

- (a) that may arise as a result of any withholding or deduction for or on account of tax where recovery of such loss has been made pursuant to clause 6.2; or
- (b) in respect of which indemnification has been received under clauses 8, 14, 15.2 and 15.6,

(it being understood that the Lender may not recover twice in respect of the same loss))

the Bank shall pay to the Lender on demand an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred 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 by the Lender contained in the Subscription Agreement. The Lender shall not have any duty or obligation whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other Person for any amounts paid to it under this clause.

13.2 Independent Obligation

Clause 13.1 constitutes a separate and independent obligation of the Bank from its other obligations under or in connection with this Agreement or any other obligations of the Bank 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.

13.3 Evidence of Loss

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in clause 13.1 and specifying in full detail the basis therefor shall, in the absence of a manifest error, be conclusive evidence of the amount of such losses, expenses and liabilities.

13.4 Survival

The obligations of the Bank pursuant to clauses 6.2, 6.3, 13.1 and 15.2 shall survive the execution and delivery of each Subordinated Loan Agreement, the drawdown and repayment of the relevant Subordinated Loan and the repayment of the Subordinated Loan, in each case by the Bank.

14. **REIMBURSEMENT OF EXPENSES**

The Bank hereby agrees to pay to the Lender on demand in the Specified Currency all ongoing commissions, costs, fees and expenses (including, without limitation, enforcement costs), payable by the Lender under or in respect of each Subordinated Loan Agreement and the letter entered into between the Bank, the Lender, the Trustee and the Agents dated on or around the date of this Subordinated Facility Agreement in respect of the Programme (the "**Fee Side Letter**"). The Bank shall also pay the Lender for any indemnification or other payment obligations of the Lender under or in respect of the Agency Agreement, Trust Deed and/or the Fee Side Letter (other than the obligation of the Lender to make payments of principal, interest or additional amounts in respect of the corresponding Series of Notes). Payments to the Lender referred to in this clause 14 shall be made by the Bank at least one Business Day before the relevant payment is to be made or expense incurred.

15. **GENERAL**

15.1 **Evidence of Debt**

The entries made in the relevant Account shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of the Bank's obligations recorded therein.

15.2 **Stamp Duties**

- (a) The Bank shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed by any Person in the Russian Federation or Cyprus which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Subordinated Loan Agreement 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 to pay such taxes or similar charges.
- (b) The Bank 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 the Russian Federation or Cyprus which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Subordinated Loan Agreement, the Bank shall reimburse the Lender on demand 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 the Bank to procure the payment of such taxes or similar charges.

15.3 **Waivers**

No failure to exercise and no delay in exercising, on the part of the Lender or the Bank, any right, power or privilege hereunder and no course of dealing between the Bank 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.

15.4 **Notices**

All notices, requests, demands or other communications to or upon the respective Parties hereto shall be given or made in the English language in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand or courier or if

sent by facsimile transmission or by airmail, to the Party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

- (a) if to the Bank:

Probusinessbank

18/2 Petrovka Street
Moscow 127051

Fax: +7 495 733 9342

Attention: Mikhail Zavgorodniy

- (b) if to the Lender:

PBB LPN Issuance Limited

Komnini 29A
P.C.1061, Nikosia
Republic of Cyprus

Fax: +357 22 759 777

Attention: Mr Christos P. Kinanis

or to such other address or facsimile number as any Party may hereafter specify in writing to the other.

15.5 Assignment

- (a) Each Subordinated Loan Agreement shall inure to the benefit of and be binding upon the Parties, their respective successors and any permitted assignee or transferee of some or all of a Party's rights or obligations under such Subordinated Loan Agreement. Any reference in such Subordinated Loan Agreement to any Party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in clause 15.5(c) 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 the Bank or any agreements of the Lender or the Bank pursuant to clause 8, unless such discussions or agreements materially affect the interests of the Trustee and the Noteholders.
- (b) The Bank shall not assign or transfer all or any part of its rights or obligations hereunder to any other party.
- (c) Subject to the provisions of clause 17 of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Subordinated Loan Agreement (other than the Reserved Rights) except:
- (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of the Lender's rights and benefits under such Subordinated Loan Agreement; and

- (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under such Agreement, in each case, pursuant to the relevant supplemental Trust Deed.

15.6 **Currency Indemnity**

Each reference in this Agreement to the Specified Currency is of the essence. To the fullest extent permitted by law, the obligation of the Bank in respect of any amount due in the Specified Currency under each Subordinated Loan 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 the Specified Currency 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 premium and costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in the Specified Currency that may be so purchased for any reason falls short of the amount originally due, the Bank hereby agrees to indemnify and hold harmless the Lender against any deficiency in the Specified Currency. Any obligation of the Bank not discharged by payment in the Specified Currency 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.

15.7 **Prescription**

Subject to the Lender having received the principal amount thereof or interest thereon from the Bank, the Lender shall forthwith repay to the Bank the principal amount or the interest amount thereon, respectively, of any Notes upon claims thereto becoming void pursuant to Condition 11 of the Notes.

15.8 **Contracts (Rights of Third Parties) Act 1999**

With the exception of the Trustee, a Person who is not a party to a Subordinated Loan Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of such Agreement.

15.9 **Choice of Law**

This Agreement, and any non-contractual obligations arising out of or in connection with it, shall be governed by, and construed in accordance with, the laws of England.

15.10 **Jurisdiction**

- (a) Subject to clause 15.10 (c), any disputes arising out of or in connection with this Agreement ("**Dispute**") shall be settled by arbitration in accordance with the Rules of the London Court of International Arbitration (the "**Rules**"), which Rules are deemed to be incorporated by reference into this clause with the exception that:
 - (i) any provision of the Rules relating to the nationality of an arbitrator shall not apply; and
 - (ii) if the Lender is a Respondent, the time for the Lender to send its Response to the Registrar under Article 2.1 of the Rules shall be extended to be within 60 days of service of the Request on the Lender.
- (b) The place of arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three, each of whom shall be disinterested in the dispute or controversy, shall have no connection with any party thereto and shall be an attorney experienced in

international securities transactions. Lender (or if the Lender has assigned its rights under this Agreement to the Trustee, the Trustee) shall nominate an arbitrator and the Bank shall nominate an arbitrator by no later than 60 days after service of the Request under the Rules. The nominated arbitrators, in turn, shall nominate the Chairman of the Tribunal within 30 days of the date on which the last arbitrator is nominated. If the Parties fail to nominate an arbitrator or the nominated arbitrators fail to nominate a chairman within the time periods set out in this clause, the LCIA Court shall appoint the arbitrator or chairman on behalf of the Party or co-arbitrators who have failed to make such nomination. For the avoidance of doubt, if the Trustee (in its capacity as assignee of the Lender's rights) and the Lender are both parties to an arbitration with the Bank under this Agreement, the Trustee and Lender shall jointly nominate an arbitrator and the Bank shall nominate an arbitrator, who, in turn, shall nominate the Chairman of the Tribunal. In no circumstances shall the Lender, the Trustee or the Bank be liable for any consequential, special or punitive damages in connection with their obligations hereunder.

Fees of the arbitration (excluding each Party's preparation, travel, attorneys' fees and similar costs) 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 thereover. 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.

- (c) At any time before an arbitrator is nominated by the Lender (or, if the Lender has assigned its rights under this Agreement to the Trustee, the Trustee) to resolve any Dispute (or if no nomination is made by the Lender, at any time before a tribunal has been appointed under the Rules), the Lender (or if the Lender has assigned its rights under this Agreement to the Trustee, the Trustee) may, at its sole option, elect by notice in writing to the Bank that such Dispute shall instead be heard by a court of competent jurisdiction.
- (d) If the Lender gives notice under clause 15.10(c):
 - (i) each of the Parties agrees to submit to the non-exclusive jurisdiction of the Courts of England and irrevocably waives any objection which it may now or hereafter have to the Courts of England hearing such Dispute and any claim that any such proceedings have been brought in an inconvenient forum.
 - (ii) nothing contained in clause 15.10(d)(i) shall limit the right of any party to commence proceedings against another party in any other court of competent jurisdiction to the extent permitted by any applicable law, nor shall the commencement of proceedings in connection with this Agreement in one or more jurisdictions preclude the commencement of proceedings in any other jurisdiction or in any other court of competent jurisdiction in connection with such Subordinated Loan Agreement to the extent permitted by any applicable law.
- (e) The Bank irrevocably appoints Law Debenture Corporate Services Limited with its registered office at Fifth Floor, 100 Wood Street, London EC2V 7EX England as its authorised agent for service of process in England. If for any reason such agent shall cease to be such agent for service of process, the Bank shall forthwith, on request of the Lender, appoint a new agent for service of process in England and deliver to the Lender a copy of the new agent's acceptance of that

appointment within 30 days. Nothing in this clause shall affect the right to serve process in any manner permitted by law.

- (f) The Lender irrevocably appoints Law Debenture Corporate Services Limited with its registered office at Fifth Floor, 100 Wood Street, London EC2V 7EX England as its agent for service of process, if for any reason such agent shall cease to be such agent for service of process, the Lender shall forthwith, on request of the Bank, appoint a new agent for services of process in England and deliver to the Bank a copy of the new agent's acceptance of their appointment within 30 days. Nothing in this clause shall affect the right to serve in any manner permitted by law.

15.11 Counterparts

Each Subordinated Loan Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

15.12 Language

The language which governs the interpretation of each Subordinated Loan Agreement is the English language.

15.13 Amendments and termination subject to the prior written consent of the CBR

No Subordinated Loan Agreement may be varied or terminated except by an agreement in writing signed by the Parties and subject to the prior written consent of the CBR.

15.14 Partial Invalidity

The illegality, invalidity or unenforceability to any extent of any provision of each Subordinated Loan Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

IN WITNESS whereof, the Parties hereto have caused this Agreement to be executed on the date first written above.

SCHEDULE 1

Form of Subordinated Loan Supplement

THIS SUBORDINATED LOAN SUPPLEMENT is made on [SIGNING DATE]

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BETWEEN:

- (1) **Probusinessbank**, a company incorporated under the laws of the Russian Federation whose registered office is at 3 Pudovkina Street, Moscow 119285, Russian Federation (the "**Bank**"); and
- (2) **PBB LPN Issuance Limited**, a company incorporated under the laws of Cyprus whose registered office is at Annis Komninis 29A, P.C.1061, Nikosia, Cyprus (the "**Lender**").

WHEREAS:

- (A) The Bank has entered into a subordinated facility agreement dated 2 November 2010 (the "**Agreement**") with the Lender in respect of the Bank's US\$750,000,000 Programme for the Issuance of Loan Participation Notes (the "**Programme**").
- (B) The Bank proposes to borrow [•] (the "**Subordinated Loan**") and the Lender wishes to make such Subordinated Loan on the terms set out in the Agreement and this Subordinated Loan Supplement.

IT IS AGREED:

1. DEFINITIONS

Capitalised terms used but not defined in this Subordinated Loan Supplement shall have the meaning given to them in the Agreement save to the extent supplemented or modified herein.

2. ADDITIONAL DEFINITIONS

For the purpose of this Subordinated Loan Supplement, the following expressions used in the Agreement shall have the following meanings:

"**Account**" means the account in the name of the Lender with the Principal Paying Agent (account number [•], [•]) or such other account as may from time to time be agreed between the Lender and the Trustee pursuant to the Trust Deed and notified to the Bank in writing at least five Business Days in advance of such change;

"**Calculation Agent**" means [•];

"**Closing Date**" means [•];

"**Subordinated Loan Agreement**" means the agreement constituted by this Subordinated Loan Supplement;

"**Notes**" means [•] [[•] per cent] Loan Participation Notes due [•] issued by the Lender as Series [•] under the Programme;

"**Repayment Date**" means the date falling after 5 (five) years and 6 (six) months after the Closing Date, i.e. [•].

"**Specified Currency**" means [•];

"Subscription Agreement" means an agreement between the Lender, the Bank and the Arranger dated [●] 2010 relating to the Notes; and

"Trust Deed" means the Third Amended and Restated Principal Trust Deed between the Lender and the Trustee dated 2 November 2010 as amended and restated from time to time and supplemented by a Supplemental Trust Deed dated [●] constituting and securing the Notes.

3. INCORPORATION BY REFERENCE

Except as otherwise provided, the terms of the Agreement shall apply to this Subordinated Loan Supplement as if they were set out herein and the Agreement shall be read and construed, only in relation to the Subordinated Loan to be made pursuant to this Subordinated Loan Supplement, as one document with this Subordinated Loan Supplement.

4. THE SUBORDINATED LOAN

4.1 Drawdown

Subject to the terms and conditions of the Subordinated Loan Agreement, the Lender agrees to make the Subordinated Loan on the Closing Date to the Bank and the Bank shall make a single drawing in the full amount of the Subordinated Loan.

4.2 Interest

The Subordinated Loan is a [Fixed Rate] [Floating Rate] Subordinated Loan. Interest shall be calculated, and the following terms used in the Agreement shall have the meanings, as set out below:

4.2.1 Fixed Rate Subordinated Loan [Applicable/Not Applicable] Provisions

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

(a)	Interest Commencement Date:	[●].
(b)	Rate[(s)] of Interest:	[●] [payable [annually/semi-annually] in arrear].
(c)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/not adjusted].
(d)	Fixed Amount[(s)]:	[●] per [●] in principal amount.
(e)	Broken Amount:	[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount[(s)] and the Interest Payment Date(s) to which they relate]
(f)	Day Count Fraction (clause 4.9):	[●] (Day count fraction should be Actual/Actual-ISMA for all fixed rate loans

other than those denominated in US dollars, unless specified).

(g) Determination Date(s) (clause 4.9): [●] in each year. *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last interest period]²*

(h) Other terms relating to the method of calculating interest for Fixed Rate Subordinated Loans: [Not Applicable/give details]

4.2.2 Floating Rate Subordinated Loan Provisions [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

(a) Interest Commencement Date: [●]

(b) Interest Period(s): [●]

(c) Specified Interest Payment Dates: [●]

(d) Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Preceding Business Day Convention *(give details)*]

(e) Business Centre(s) (Clause 4.9): [●]

(f) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination *(give details)*]

(g) Interest Period Date(s): [Not Applicable/specify dates]

(h) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): [●]

(i) Screen Rate Determination (Clause 4.3 (c): [●]

- Relevant Time: [●]

- Interest Determination Date: [●] *[TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]*

- Primary Source for Floating Rate: *[Specify relevant screen page and rate or "Reference Banks"]*

² Only to be completed for a Loan where Day Count Fraction is Actual/Actual-ISMA.

- Reference Banks (if Primary Source is Reference Banks): *[Specify four]*

- Relevant Financial Centre: *[The financial centre most closely connected to the Benchmark - specify if not London]*

- Benchmark: *[LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark]*

- Representative Amount: *[Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period]*

- Effective Date: *[Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period]*

- Specified Duration: *[Specify period for quotation if not duration of Interest Accrual Period]*

- (j) ISDA Determination (Clause 4.3)
 - Floating Rate Option: *[•]*
 - Designated Maturity:: *[•]*
 - ISDA Definitions: (if different from those set out in the Conditions) *[•]*

- (k) Margin(s): *[+/-] [•] per cent per annum*
- (l) Minimum Rate of Interest: *[•] per cent per annum*
- (m) Maximum Rate of Interest: *[•] per cent per annum*
- (n) Day Count Fraction (Clause 4.9): *[•]*
- (o) Rate Multiplier: *[•]*
- (p) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Subordinated Loans, if different from those set out in the Agreement: *[•]*

5. FEES AND EXPENSES

In consideration of the Lender making the Loan to the Bank the Bank hereby agrees that it shall pay to the Lender, in Same-Day Funds, the total amount that shall be agreed

between the Lender and the Bank, being the "**Arrangement Fee**" in respect of the Loan, representing the reasonable costs and expenses incurred by the Lender in connection with such Loan, increased by front-end fees, commissions and expense, which shall include the amount of all the commissions, fees, costs and expenses as set forth in clause [5.1] of the Subscription Agreement, [paragraph [●] of the Fee Side Letter] and clause [13] of the Facility Agreement pursuant to an invoice submitted by the Lender to the Bank in the total amount.

6. **GOVERNING LAW**

This Subordinated Loan Supplement, and any non-contractual obligations arising out of or in connection with it, shall be governed by and construed in accordance with English law.

This Subordinated Loan Supplement has been entered into on the date stated at the beginning.

TERMS AND CONDITIONS OF THE SENIOR NOTES

*The following is the text of the Terms and Conditions of the senior notes (the "**Notes**"), issued for the purpose of financing senior loans by the Issuer to Probusinessbank (the "**Bank**"), which contain summaries of certain provisions of the corresponding Trust Deed, and which (subject to completion and amendment in accordance with the provisions of the relevant Pricing Supplement or Final Terms) will be attached to the Notes in definitive form, if any, and (subject to the provisions thereof) apply to the Global Note representing each Series. All capitalised terms that are not defined in these conditions will have the meanings given to them in the relevant Trust Deed and the relevant Pricing Supplement or Final Terms. References in the Conditions to Notes are to the Notes of one Series only, not to all Notes that may be issued under the Programme:*

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified thereon (the "**Supplemental Trust Deed**") supplemental to the third amended and restated trust deed (as further amended or supplemented as at the Issue Date the "**Principal Trust Deed**") dated 2 November 2010, and each made between PBB LPN Issuance Limited (the "**Issuer**") and The Bank of New York Mellon (the "**Trustee**", which expression shall include the trustee or trustees for the time being under the Trust Deed) as trustee for the holders of the Notes (the "**Noteholders**"). The Principal Trust Deed and the Supplement Trust Deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified, are together referred to as the "**Trust Deed**". In the event the terms of the Trust Deed and the Notes conflict, the terms of the Trust Deed shall prevail.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a senior loan (the "**Loan**") as specified hereon to the Bank. The Issuer and the Bank have recorded the terms of the Loan in a third amended and restated senior facility agreement (the "**Facility Agreement**") dated 2 November 2010, as supplemented on the Issue Date specified hereon by a loan supplement (the "**Loan Supplement**" and, together with the Facility Agreement, the "**Loan Agreement**") each between the Issuer and the Bank. In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations 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 by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively on the covenant to pay under the Loan Agreement and the credit and financial standing of the Bank. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer. None of the Noteholders, the Trustee 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, 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 or the Trustee for so long as the Notes are outstanding, 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.

The Issuer will charge by way of first fixed charge in favour of the Trustee certain of its rights and interests as lender under the Loan Agreement (other than any rights and benefits constituting Reserved Rights) as security for its payment obligations in respect of the Notes and under the Trust Deed (the "**Charge**") and will assign absolutely certain other rights under the Loan Agreement to the Trustee (together with the Charge, the "**Security Interests**"). "**Reserved Rights**" are the rights excluded from the Charge, being all and any rights, interests and benefits of the Issuer in respect of the obligations of the Bank under clauses 3.4, 5.3 (other than the right to receive any amount payable under such clause), 6.2 (to the extent that the Bank shall

reimburse the Issuer on demand for any amount paid by the Issuer in respect of Russian Federation taxes, penalties or interest), 6.3 (only to the extent that the Issuer has received amounts to which the Noteholders are entitled), 3.2, 8, 10.8, 12.1-12.3 and 14.2 (to the extent that the Bank shall reimburse the Issuer for any amount paid by the Issuer in respect of such taxes, charges or costs) of the Loan Agreement and, for the avoidance of doubt, clauses 6.3, 6.4, and 6.5 of the Loan Agreement.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) 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 under the Security Interests).

The Notes have the benefit of, and payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Bank) pursuant to a third amended and restated senior paying agency agreement (the "**Paying Agency Agreement**") dated 2 November 2010 and made between the Issuer and The Bank of New York Mellon, as the paying agent and the registrar (a "**Paying Agent**" and the "**Registrar**", which expressions shall include any successors), The Bank of New York Mellon as the principal paying agent (the "**Principal Paying Agent**" and a "**Paying Agent**"), which expression shall include any successors) and The Bank of New York Mellon as the transfer agent (the "**Transfer Agent**") and as calculation agent (the "**Calculation Agent**"), which expressions shall include any successors), the Bank and the Trustee.

Copies of the Trust Deed, the Loan Agreement, the Paying Agency Agreement and the Pricing Supplement or Final Terms (as applicable) are available for inspection by Noteholders during normal business hours at the principal office of the Trustee being, at the date hereof, at 101 Barclay Street, Floor 4E, New York, NY 10286, USA, at the specified office of the Principal Paying Agent and at the specified office of the Paying Agent.

Certain provisions of these terms and conditions (the "**Conditions**") include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Pricing Supplement or Final Terms (as applicable), the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Paying Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

1. STATUS

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance 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 solely to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by the Issuer pursuant to the terms of the Loan Agreement, less any amount in respect of Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amounts in respect of Reserved Rights, will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to 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. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Bank.

Noteholders have notice of, and have accepted, these Conditions, the Pricing Supplement or Final Terms (as applicable) and the contents of the Trust Deed, the Paying Agency Agreement and the Loan Agreement, and Noteholders are deemed to have accepted that:

- (a) neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph (f) below, liability or obligation in respect of the performance and observance by the Bank of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from the Bank under the Loan Agreement;
- (b) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of the Bank;
- (c) neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Bank 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, the Paying Agent, the Registrar, the Calculation Agent or the Transfer Agent of their respective obligations under the Paying Agency Agreement;
- (e) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Bank under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. The Bank has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of the Bank; and
- (f) the Issuer and the Trustee shall be entitled to rely on self-certification of the Bank as a means of monitoring whether the Bank is complying with its respective obligations under the Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Bank'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 the usual or any investigations which might be made by a security holder in relation to the property which is the subject of security 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 assigned property 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 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; the Trustee has no responsibility for the value of such security.

The obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by the Bank to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes.

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 or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to the Bank except through action by the Trustee pursuant to the relevant Security Interests created in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee, shall be required to take any step, action or proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction.

2. **FORM AND DENOMINATION**

The Notes are issued in fully registered form, in the Specified Denomination shown hereon.

A Note issued under the Principal Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing or any other kind of Note, depending on the Interest and Redemption/Payment Basis specified therein.

3. **REGISTER, TITLE AND TRANSFERS**

3.1 **Registers**

The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Paying Agency Agreement. In these Conditions the "**holder**" of a Note 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 Note will be issued to each Noteholder in respect of its registered holding.

3.2 **Title**

The holder of each Note shall (except as 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 Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note) and no person shall be liable for so treating such holder.

3.3 **Transfers**

A Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the Registrar or at the specified office of the 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. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Note will be issued to the transferor.

3.4 **Registration and Delivery of the Notes**

Subject to Conditions 3.6 and 3.7, within five business days of the surrender of a Note in accordance with the immediately preceding paragraph above, the Registrar will register the transfer in question and deliver a new Note to each relevant holder for collection at its specified office 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 has its specified office.

3.5 No Charge

The transfer of a Note will be effected without charge but against such indemnity as the Registrar 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

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 Registers are subject to the detailed regulations concerning the transfer of Notes scheduled to the Paying Agency Agreement. The Regulations may be changed by the Lender 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. RESTRICTIVE COVENANTS

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, 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 Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*, incur any indebtedness for borrowed monies (other than issuing further Notes (which may be consolidated and form a single series with Notes of any Series) and/or creating or incurring further obligations relating to such Notes), engage in any business (other than entering into the Programme, issuing Notes thereunder from time to time for the sole purpose of financing Loans to the Bank in accordance with the Loan Agreement and each Loan Supplement, entering into related agreements and transactions and performing any act incidental or necessary in connection with any of the foregoing), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or similar facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (other than as contemplated in these Conditions and the Trust Deed), issue any shares (other than shares as are in issue at the date of the Principal Trust Deed), give any guarantee or assume any other liability, or subject to the laws of Cyprus, petition for any winding-up or bankruptcy.

5. INTEREST

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed by a percentage) equal to the Rate(s) of Interest specified hereon which shall be equal to the rate per annum at which interest under the Loan accrues. Accordingly, 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 the amount of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

If a Fixed Coupon Amount or a Broken Amount is specified hereon, the amount of interest payable on each Interest Payment Date will be an amount equal to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified hereon or as soon thereafter as the same is received.

5.2 Interest on Floating Rate Notes

- (a) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding principal amount from (and including the Interest Commencement Date) at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified thereon, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in arrear on each Interest Payment Date or as soon thereafter as the same is received. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.
- (b) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
- (c) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period (as defined in the Loan Agreement) shall be determined in the manner specified hereon and as set out in the Loan Agreement.

5.3 Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgement) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

5.4 Calculations

The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Note by the Day Count Fraction as specified hereon and in the Loan Agreement, unless the Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

5.5 Publication of Rates of Interest and Interest Amounts

As soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Loan Agreement, the Calculation Agent shall cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, the Bank, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculations upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination, but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5.2(b) the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If a Loan becomes due and payable under clause 11 of the relevant Loan Agreement, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon the parties.

5.6 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Loan Agreement, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent and shall, in the absence of manifest error, be final and binding on all persons. In doing so, the Trustee shall apply the foregoing provisions of the Conditions, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances and shall not be liable to any person as a result.

6. REDEMPTION

6.1 Scheduled Redemption

Unless the Loan is previously prepaid, repaid or reduced pursuant to clause 5.2, 5.3 or 5.4 of the Loan Agreement, the Bank will be required to repay the Loan one Business Day (as defined in the Loan Agreement) before its Repayment Date (as defined in the Loan Agreement) and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will on that date be redeemed or repaid by the Issuer in

the relevant Specified Currency on the Maturity Date specified hereon at the Final Redemption Amount (which, unless specified otherwise hereon, is 100 per cent. of the principal amount thereof).

6.2 **Early Redemption**

If the Loan should become repayable (and be repaid) pursuant to the Loan Agreement prior to its scheduled repayment date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their Early Redemption Amount (which, unless otherwise specified hereon is par together with interest accrued to the date of redemption) and the Issuer will endeavour to give not less than fifteen days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

To the extent that the Issuer receives amounts of principal, interest and/or additional amounts if any (other than amounts in respect of the Reserved Rights) following acceleration of the Loan pursuant to clause 11 of the Loan Agreement, the Issuer shall pay an amount equal to end in the same currency as such amounts on the Business Day following receipt of such amounts, subject as provided in Condition 7.

6.3 **Cancellation**

The Loan Agreement also provides that the Bank may, among other things, from time to time deliver Notes to the Issuer, having an aggregate principal value of at least U.S.\$5,000,000, together with a request for the Issuer to present such Notes to the Registrar for cancellation, whereupon the Issuer shall, pursuant to the Paying Agency Agreement, request the Registrar to cancel such Notes. Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation shall be extinguished as of the date of such cancellation and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

7. **PAYMENTS**

7.1 **Principal**

Payments of principal shall be made against presentation and surrender of the relevant Notes at the Specified Office of the Principal Paying Agent or at the specified office of the Transfer Agent or Registrar in the manner provided below.

7.2 **Interest**

Interest shall be paid to the person shown on the relevant Register at the opening of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest shall be made in the Specified Currency by cheque drawn on a bank in the principal financial centre for the Specified Currency or, in the case of euro, in a city in which banks have access the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereof (a "**Payment Bank**") and mailed to the Noteholder (or to the first named of joint Noteholders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the Specified Currency maintained by the payee with, a Payment Bank in the principal financial centre of such Specified Currency or in the case of euro a Payment Bank specified by the payee or at the option of the payee, by a euro-cheque and (in case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent.

7.3 **Payments subject to fiscal laws**

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, 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 **Payments on Business Days**

If the due date for payments of interest or principal is not a Business Day, Noteholder 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 such delay. In this paragraph, "**Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation in such jurisdiction as may be specified as "Financial Centres" hereon, and (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried out on the relevant currency in the principal financial centre of such country or (ii) (in the case of payment in euro) which is a TARGET Business Day.

7.5 **Accrued Interest**

The Paying Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or the Paying Agent, and appoint additional or other paying agents provided that (i) so long as the Notes are listed on any stock exchange, there will be a paying agent and transfer agent with a specified office in such place as may be required by the rules of the relevant stock exchange and (ii) there will be a Paying Agent with specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any other law implementing or complying with or introduced in order to conform to such Directive. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days and not less than 30 days' notice thereof shall be given to the Noteholders in accordance with Condition 14.

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Closing Date, shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

7.6 **Payments by the Bank**

Save as otherwise directed by the Trustee at any time after the Security Interests created in the Trust Deed become enforceable, the Issuer will pursuant to clause 6 of the Paying Agency Agreement require the Bank to make all payments of principal, interest and any additional amounts to be made pursuant to the Loan Agreement to the Principal Paying Agent for the account of Issuer (the "**Account**"). Under the Charge, the Issuer will charge by way of first fixed charge, all the rights, title and interest in and to all sums of money then or in the future deposited in the Account to the Trustee for the benefit of the Noteholders.

8. **TAXATION**

All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of Cyprus or any authority thereof or

therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

In such event, the Issuer shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required, but only to the extent and at such time as the Issuer receives equivalent amounts from the Bank under the Loan Agreement. To the extent that the Issuer receives a lesser additional amount from the Bank, the Issuer shall account to each Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received by the Issuer pursuant to the provisions of the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to, the payment of such additional amount to the Issuer provided that no such additional amount will be payable in respect of any Note:

- to a Noteholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with the Cyprus other than the mere holding of such Notes or the receipt of payments in respect thereof;
- presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such thirtieth day;
- where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or to any other European Union Directives implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

As used herein, "**Relevant Date**", (i) means the date on which the equivalent payment under the Loan Agreement first becomes due but (ii) if the full amount payable by the Bank has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, means the date on which such full amount shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9. **ENFORCEMENT**

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

The Trust Deed also provides that, in the case of an Event of Default (as defined in the Loan Agreements), or of a Relevant Event (as defined in the Trust Deed), the Trustee

may, and shall, if requested to do so by Noteholders owning 25 per cent. in aggregate 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 indemnified and/or prefunded to its satisfaction, declare all amounts payable under the Loan Agreements by the Bank to be due and payable (in the case of an Event of Default), or enforce the security created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid and thereupon shall cease to be outstanding.

10. MEETINGS OF NOTEHOLDERS; MODIFICATION AND WAIVER; SUBSTITUTION; EXERCISE OF POWERS; APPOINTMENT/REMOVAL OF TRUSTEES

10.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Loan Agreement or the Trust Deed. Noteholders will vote *pro rata* according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

10.2 Modifications and Waiver

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed or the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders (as a class). The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions of the Notes or the Trust Deed by the Bank or the Issuer of the terms of the Loan Agreement, 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, if in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (as a class) provided always that (subject to certain exceptions) the Trustee may not exercise such power of waiver in contravention of any express direction by an Extraordinary Resolution of the Noteholders or otherwise as provided in the Trust Deed. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be promptly notified to the Noteholders in accordance with Condition 14.

10.3 Substitution

The Trust Deed contains provisions to the effect that the Issuer may, and at the request of the Bank shall, having obtained the consent of the Bank and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such reasonable requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as lender under the Loan Agreement as issuer and principal obligor in respect of the Notes and the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute lender's rights under the Loan Agreement, being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholder in accordance with Condition 14 or the Bank shall use its best endeavours to ensure that the substitute obligor does so.

10.4 **Exercise of Powers**

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, the Bank or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

10.5 **Appointment and Removal of Trustee**

The Trust Deed contains provisions for the appointment or removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution, provided that, in the case of removal of a Trustee, at all times there remains a trustee in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders by the Issuer in accordance with Condition 14. The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders provided that such retirement shall not become effective unless there remains a trustee in office after such resignation.

11. **PRESCRIPTION**

Notes will become void unless presented for payment of principal within ten years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12. **INDEMNIFICATION OF TRUSTEE**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction and to be paid its costs and expenses in priority to the claims of Noteholders. The Trustee is entitled to enter into contracts or transactions with the Issuer and/or the Bank and any entity related to the Issuer and/or the Bank without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed, or by the Bank in respect of the Loan Agreement. The Trustee has no liability to Noteholders for any shortfall arising from the Trustee being subject to tax as a result of the Trustee holding or realising the Security Interests.

13. **REPLACEMENT OF NOTES**

If a Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and stock exchange requirements, be replaced at the specified office of the Registrar or at the specified office of the Paying Agent in London on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Notes must be surrendered before replacements will be issued.

14. NOTICES

All notices shall be deemed to have been duly given if posted to such holders at their respective addresses as shown on the register of Noteholders maintained by the Registrar.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

15. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. Such further Notes shall be issued under a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides. In relation to any further issue which is to be consolidated and form a single series with the Notes, the Issuer will enter into a Loan Agreement supplemental to the Loan Agreement with the Bank on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Notes). The Issuer will provide a further fixed charge in favour of the Trustee and amend the existing Security Interests in respect of certain of its rights and interests under such Loan Agreement and will assign absolutely certain of its rights under such Loan Agreement which will secure both the Notes and such further Notes and which will amend and supplement the Security Interests in relation to the existing Notes of such Series.

16. 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 except and to the extent that the Notes expressly provide for such Act to apply to any of their terms.

17. GOVERNING LAW

The Notes, the Paying Agency Agreement, the Trust Deed, and any non-contractual obligations arising out of or in connection with it, are governed by and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the jurisdiction of the Court of England and has appointed an agent for the service of process in England.

TERMS AND CONDITIONS OF THE SUBORDINATED NOTES

The terms and conditions of the Subordinated Notes will be identical to these described under "Terms and Conditions of the Senior Notes" above, with the following alternative or supplemental provisions, references to the "Notes" in the Terms and Conditions of the Senior Notes being construed as references to the Subordinated Notes:

- (a) The reference in the first paragraph of the introductory section to the "senior notes (the **"Notes"**) issued for the purpose of financing senior loans by the Issuer to Probusinessbank (the **"Bank"**)" shall be replaced by a reference to the "subordinated notes (the **"Notes"**) issued for the purpose of financing subordinated loans by the Issuer to Probusinessbank (the **"Bank"**)".
- (b) The references in the third paragraph of the introductory section to the "senior loan" and the "senior facility" shall be replaced by references to, respectively, the "subordinated loan" and the "subordinated facility".
- (c) The references in the fourth paragraph of the introductory section to clauses 5.3, 12.1 - 12.3 and 14.2 of the Loan Agreement shall be replaced with references to, respectively, clauses 5.4, 11.1 - 11.3 and 13.2 of the Loan Agreement. The reference to clause 10.7 of the Loan Agreement shall not apply.
- (d) The first paragraph of Condition 6.2 shall read as follows:

"If the Loan should become repayable (and be repaid) in one of the following cases:

 - (i) pursuant to the Loan Agreement; or
 - (ii) at the option of the Issuer, if, by the date falling 90 days after the date of the Loan Agreement, the Central Bank of Russia has not finally and unconditionally approved the Loan Agreement and the Loan as additional capital as determined under the Regulation No. 215-P "On the Methodology of Calculation of Net Worth (Capital) of Credit Organisations" dated 10 February 2003 issued by the Central Bank of Russia, as the same may be amended or replaced from time to time,

prior to its scheduled repayment date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their Early Redemption Amount (which, unless otherwise specified hereon is par together with interest accrued to the date of redemption) and the Issuer will give not less than fifteen days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14."
- (e) The reference in Condition 6.2 to "clause 11 of the Loan Agreement" shall be replaced by a reference to "clause 10 of the Loan Agreement".
- (f) In the second paragraph of Condition 9 the words "or an Insolvency Event" shall be added after each reference to an "Event of Default".
- (g) The following provision shall be added to Condition 9:

"Unless the loan under the Loan Agreement ceases to be qualified by the Central Bank of Russia as Additional Capital (as defined in the Loan Agreement), the Issuer shall have no right to accelerate payments under the Loan Agreement in the case of a default in payments of principal, interest or other amounts due under the Loan Agreement or for breaches of representations under the Loan Agreement."

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and conditions contained in a Third Amended and Restated Senior Dealer Agreement dated 2 November 2010 (the "**Senior Dealer Agreement**") and a Dealer Agreement relating to the Subordinated Notes dated 2 November 2010 (the "**Subordinated Dealer Agreement**", and together with the Senior Dealer Agreement, the "**Dealer Agreements**") between the Issuer, the Bank and the Arranger and Dealer, the Notes will be offered from time to time by the Issuer to the Dealer(s) or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreements. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes. Each of the Issuer and the Bank has agreed to indemnify the Dealer(s) against certain losses, as set out in the Dealer Agreements.

Selling Restrictions

United States

The Notes and the corresponding Loans have not been and will not be registered under the Securities Act, the securities laws of any State or other jurisdiction of the United States, and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act.

Each Dealer has agreed that, and each further dealer appointed under the Programme will be requested to agree that, except as permitted by the Dealer Agreement, it will not offer or sell the Notes (i) as part of their distribution at any time or (ii) otherwise until after completion of the distribution compliance period within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance 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, U.S. persons.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Notes offered and sold outside the United States to non-U.S. persons may be sold in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such tranche of Notes) may violate the registration requirements of the Securities Act

This Base Prospectus has been prepared by the Issuer and the Bank for use in connection with the offer and sale of the Notes outside the United States and for the listing of Notes on the Irish Stock Exchange, or other stock exchange specified in the Final Terms. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States. Distribution of this Base Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States is prohibited.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) 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 any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Under Russian law, the Notes are securities of a foreign issuer. The Notes are not eligible for initial offering and public circulation in the Russian Federation. Neither the issue of the Notes nor a securities prospectus in respect of the Notes has been, or is intended to be, registered with the Federal Service for Financial Markets of the Russian Federation. The information provided in this Base Prospectus is not an offer, or invitation to make offers, to sell, exchange or otherwise transfer the Notes in the Russian Federation or to or for the benefit of any Russian person or entity.

Cyprus

The Dealer is required to represent and agree that in relation to the Notes, it will not provide from within Cyprus all or any "Investment Services" and "Non-Core Services" (as such terms are defined in the Investment Firms Law, Act No. 148(I) of 2002, as amended (the "IFL")) or otherwise provide Investment Services and Non-Core Services from outside Cyprus to residents or persons domiciled in Cyprus or otherwise conclude in Cyprus any transaction relating to such Investment Services and Non-Core Services in contravention of the IFL and the regulations made pursuant to or in relation thereto and it will not issue an offer or invitation to subscribe or purchase or otherwise procure subscribers or purchasers for the Notes within or in Cyprus.

Republic of Italy

The offering of any Notes has not been registered with the *Commissione Nazionale per la Società de la Borsa* ("**CONSOB**") (the Italian securities and exchange commission) pursuant to the Italian securities legislation and, accordingly no Notes can be offered, sold or distributed nor any copies of this Base Prospectus or any other document relating to any Notes can be distributed in the Republic of Italy ("**Italy**") in a solicitation to the public at large (*sollecitazione all'investimento*) within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of 24 February 1998, unless an exemption applies. Accordingly, any Notes in Italy:

- (a) shall only be offered or sold to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph of CONSOB Regulation No 11522 of 1 July 1998 (the "Regulation No 11522"), as amended, and effected in compliance with the terms and procedures provided therein; or
- (b) shall only be offered or sold in circumstances which are exempted from the rules of solicitation of investments pursuant to Article 100 of Legislative Decree No 58 of 24 February 1998 (the "Financial Services Act") and Article 33, first paragraph, of CONSOB Regulation No 11971 of 14 May 1999,
- (c) but, in any case, cannot be offered, sold and/or delivered, either in the primary or in the secondary market, to individuals in Italy, and in any event, the offer or sale of any Notes in Italy shall be effected in accordance with all relevant Italian securities, tax and exchange control and other applicable laws and regulations.

Moreover and subject to the foregoing, no Notes may be offered, sold or delivered and neither this Base Prospectus nor any other material relating to any Notes may be distributed or made available in Italy unless such offer, sale or delivery of any Notes or distribution or availability of copies of this Base Prospectus or any other material relating to the Notes in Italy is:

- (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September, 1993 (the "**Italian Banking Act**"), the Regulation No. 11522 and any other applicable laws and regulations;
- (b) in compliance with Article 129 of the Italian Banking Act and the implementing instructions of the Bank of Italy, pursuant to which the issue, trading or placement of securities (e.g., Notes) in Italy is subject to prior and subsequent notification to the Bank of Italy, unless an exemption, depending *inter alia* on the amount of the issue and the characteristics of the securities, applies; and
- (c) in compliance with any other applicable requirement or limitation which may be imposed from time to time by CONSOB or the Bank of Italy.

General

Each Dealer has agreed that it has, to the best of its knowledge and belief, complied and will comply with applicable laws and regulations in each jurisdiction in which they offer, sell or deliver Notes or distribute this Base Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or the Bank.

No action has or will be taken in any jurisdiction by the Issuer, the Bank or any of the Dealers 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. Accordingly, each Dealer has undertaken to the Issuer and the Bank that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

These selling restrictions may be modified by the agreement of the Issuer, the Bank and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms or the Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

The Arranger, the Dealers and their respective affiliates have engaged in transactions with the Bank and other members of the Group (including, in some cases, credit agreements and credit

lines) in the ordinary course of their banking business and the Arranger and the Dealers performed various investment banking, financial advisory, and other services for the Bank, for which they received customary fees, and the Arranger, the Dealers and their respective affiliates may provide such services in the future.

TAXATION

The following is a general description of certain tax laws relating to the Notes and does not purport to be a comprehensive discussion of the tax treatment of every Series of Notes. Prospective purchasers of any Series of Notes are advised to consult their own tax advisors as to the consequences of the purchase, ownership and disposition of any Series of Notes in light of their particular circumstances, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of any Series of Notes.

Russian Federation

Taxation of the Notes

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 payments of interest on the Loan. The summary is based on the laws of Russia in effect on the date of this Base Prospectus. 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 the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief in respect of the Notes, and it should be noted that there may be practical difficulties involved in claiming double tax treaty relief. Prospective investors should consult their own advisors regarding the tax consequences of investing in the Notes. No representation with respect to Russian tax consequences to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Further, the substantive provisions of Russian tax law applicable to financial instruments as well as the relative practice of Russian authorities may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets and tax systems.

For the purposes of this summary, a non-resident Noteholder means:

- an individual Noteholder that is not considered a Russian tax resident under Russian law when they earn income from the Notes. By inference this means an individual not actually present in the Russian Federation for an aggregate period of 183 days or more (including days of arrival into the Russian Federation and days of departure from the Russian Federation) in any period comprising 12 consecutive months. Presence in the Russian Federation for tax residency purposes is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education; or
- a legal entity or organisation, in each case not organised under Russian law, that purchases, holds and disposes of the Notes otherwise than through a permanent establishment in Russia.

A resident Noteholder means any Noteholder (including any individual and any legal entity or organisation) not qualifying as a non-resident Noteholder.

The residency rules may be affected by an applicable double tax treaty. It is anticipated that the Russian tax residency rules applicable to legal entities or organisations may change in the future.

The Russian tax treatment of interest payments made by the Bank to the Issuer under the Loan Agreement may affect the Noteholders. See “*Taxation of Interest on the Loan*” below.

Non-Resident Noteholders

A non-resident Noteholder that is a legal entity or corporate body should not be subject to Russian withholding tax on any gain on sale or other disposition of the Notes even if payment is received from a source within the Russian Federation, although there is some residual uncertainty

regarding the treatment of any part of such gain which is attributable to accrued interest on the Notes. If the payment upon sale or other disposal of the Notes is received from a Russian source, accrued interest may be distinguished from the total gain and taxed at a rate of 20 per cent. 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. Withholding tax on interest may be reduced or eliminated in accordance with the provisions of an applicable double tax treaty. However, there is no assurance that advance treaty relief would be granted and obtaining a refund can be difficult, if not impossible. Non-resident holders that are commercial and governmental entities should consult their own tax advisors with respect to this possibility.

If proceeds from a disposal of Notes are received from a source within Russia by a non-resident Noteholder who is an individual, the gain on such disposal will generally be subject to tax at a rate of 30 per cent., (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 taxation treaty relief. In this regard, if Notes are disposed of within Russia, the gains on such disposition are to be regarded as received for personal income tax purposes as income from a Russian source. The tax should be withheld at source if the disposal proceeds are paid by a broker or a trust manager that is a Russian legal entity or organization, or any other person, who carries out operations under an agency agreement, a commission agreement or another similar agreement in favour of the non-resident Noteholder who is an individual, or, if the tax is not withheld, then the non-resident Noteholder who is an individual should file a tax return and pay tax in Russia.

There is some uncertainty regarding treatment of the portion of proceeds (if any) attributable to accrued interest received by the non-resident Noteholder who is an individual. Proceeds attributable to accrued interest may be taxed at a rate of 30 per cent., irrespective of any capital gain or loss on the disposal of the Notes. In addition, there is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of the Notes, the currency of sale of the Notes and Russian Roubles.

Non-resident Noteholders who are individuals should consult their own advisers with respect to the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposition of the Notes.

Tax Treaty Relief

Where proceeds from the disposition of Notes are received from a Russian source, in order to enjoy the benefits of an applicable double tax treaty, the non-resident Noteholder, whether an individual, legal entity or organisation, must comply with the certification, information and reporting requirements in force in the Russian Federation.

Currently, a non-resident Noteholder that is a legal entity or organisation would need to provide the payer of income with a certificate of tax residence issued by the competent authority of the relevant treaty country. This certificate should be legalised or apostilled by a respective competent authority. The Russian translation of the certificate should be provided. The tax residency confirmation needs to be renewed on an annual basis, and provided to the payer of income before the first payment of income in each calendar year.

A non-resident Noteholder who is an individual must provide to the tax authorities with a certificate of tax residence issued by the competent authority of the relevant treaty country and appropriate documentary proof of income received and the tax payment made outside the Russian Federation on income with respect to which the treaty benefits are claimed. This documentary proof must be confirmed by the tax authority of the relevant treaty country. Because of uncertainties regarding the form and the procedures for providing such documentary proof, individuals in practice may not be able to obtain advance treaty relief on the receipt of proceeds from a source within the Russian Federation and obtaining a refund of the taxes withheld can be extremely difficult and time-consuming, if not impossible.

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 which are legal entities or organisations, and within one year after the year to which the treaty benefit relates for non-resident Noteholders who are individuals.

To process a claim for a refund, a non-resident Noteholder that is a legal organisation should provide to the Russian tax authorities: (1) an apostilled or legalised confirmation of the foreign tax residency of the non-resident Noteholder at the time the income was paid, as required by an applicable tax treaty; (2) an application for a refund of the tax withheld; and (3) copies of the relevant contracts or other documents based on which the income was paid, as well as payment documents confirming the payment of the tax that was paid to the Russian budget system on the relevant account of the Federal Treasury (Form 1012DT for dividends and interest and 1011DT for other income are intended to combine (1) and (2) for foreign legal entities and organisations).

Non-resident Noteholders who are individuals should present to the tax authorities a tax residency certificate issued by the competent authorities in their country of residence for tax purposes and a document issued or approved by the tax authorities in the country in which they are resident for tax purposes, confirming the amount of income received and taxed in that country and amount of the tax paid in respect of this income. The Russian tax authorities may require a Russian translation of some documents. Procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

Resident Noteholders

A resident Noteholder is subject to all applicable Russian taxes in respect of gains from a disposal of the Notes and interest received on the Notes. Resident Noteholders should consult their own tax advisers with respect to their tax position regarding the Notes.

Taxation of Interest on the Loan

The Russian tax treatment of interest payments made by the Bank to the Issuer under the Loan Agreement may affect the Noteholders.

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal entity 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 professional advice the Bank has received, it believes that payments of interest on the Loan should not be subject to withholding tax under the terms of the double tax treaty between the Russian Federation and Ireland. However, there can be no assurance that such relief will be obtained. Preliminary approval from the Russian tax authorities for the purposes of obtaining treaty relief from Russian withholding tax is neither required nor possible. However, the Russian tax authorities may subsequently scrutinise the Issuer's eligibility for treaty relief during tax audits in respect of each payment under the Loan Agreement.

The Issuer has granted security by way of charge in favor of the Trustee over certain of its rights and interests as lender under the Loan Agreement (other than any rights over and benefits constituting Reserved Rights as defined in the Trust Deed) as security for the Issuer's payment obligations in respect of the Notes and under the Trust Deed and has assigned absolutely certain administrative rights under the Loan Agreement. Upon any enforcement by the Trustee of the security granted to it by the Issuer by way of the security interests in the Trust Deed, 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 the Bank to the Trustee will in general be subject to Russian income tax withholding at a rate of 20 per cent. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty. It may be impossible for Noteholders to claim a refund of such tax withheld.

If payments under the Loan are subject to any withholding tax (as a result of which the Issuer would reduce the payments under the corresponding series of Notes by the amount of such withholding), the Bank will be obliged (except in limited circumstances) to increase the amounts payable as may be necessary to ensure that the Issuer receives a net amount that will not be less than the amount it would have received in the absence of such withholding. As provided in the Irish taxation section below, payments in respect of the Notes will be made without deduction or withholding for or on account of Irish taxes save as required by law. In that event, the Issuer will be required to pay any amounts only to the extent that the Issuer receives corresponding amounts from the Bank under the Loan Agreement. The Loan Agreement provides for the Bank to pay such corresponding additional amounts in these circumstances. There is some doubt as to whether the gross-up provisions contained in the Loan Agreement are valid and enforceable under Russian law. Due to the limited recourse nature of the Notes, if the Bank were to fail to pay any such gross-up amounts (e.g., by reason of such gross-up amounts payable to the Issuer under the Loan Agreement being held to be invalid under Russian law), the amounts payable by the Issuer under the Notes would be correspondingly reduced. Also, subject to certain conditions (including the consent of the CBR), the Bank may repay the Loan in full, in which case all outstanding Notes would be redeemable at par with accrued interest.

VAT is not applied to interest and principal payments under the Loan, since rendering of financial services involving the provision of the Loan in monetary form is not subject to Russian VAT.

Cyprus

The following is a general summary of certain tax aspects of the Notes under Cypriot law and practice in force and applied as at the date of this Base Prospectus and does not purport to be a comprehensive description of all tax aspects relating to the Notes. This summary does not analyse the tax position of the Issuer and it does not constitute nor should it be construed as, tax or legal advice. Prospective investors should consult their tax and other professional advisers as to the specific tax consequences of acquiring, holding and disposing of the Notes and of receiving interest on the Notes.

Introduction

In accordance with the provisions of the Income Tax Law, Law 118(I)/2002 (as amended) (the "**Income Tax Law**") a person (natural or legal) is liable to tax on its worldwide income on the basis of residency.

A person is resident in Cyprus for the purposes of the Income Tax Law where, in the case of a natural person, that person is present in Cyprus for a period (or periods in aggregate) exceeding 183 days in the tax year and in the case of a company, its management and control is exercised in Cyprus. The tax year for the purposes of the Income Tax Law coincides with the calendar year.

Cyprus tax residents (natural or legal persons) would also be liable to tax on interest received under the Special Defence Contribution Law, Law 117 (I) of 2002 (as amended) (the "**SCDF Law**") (as described below).

Non-Cyprus tax residents are taxed on income derived from sources in Cyprus or from a business activity which is carried out through a permanent establishment in Cyprus. A company is regarded as having a "permanent establishment" in Cyprus, if it has a fixed base of business through which the business is carried out fully or partially, including a management base, a branch or an office.

Interest Income

Non-Cyprus Tax Residents

Persons (individuals and legal) who are not residents for tax purposes pursuant to the provisions of the Income Tax Law will not be liable for any income tax or for the special contribution defence tax (as described below). Payments of interest made by the Company to such persons will not be subject to any Cyprus withholding taxes.

Cyprus tax resident individuals

Under the provisions of the Income Tax Law, an individual who is a tax resident in Cyprus and who receives or is credited with interest, is exempt from income tax in respect of that interest. However such interest income is subject to special contribution defence tax pursuant to the provisions of the SCDF Law at the rate of 10% tax, unless it can be established that such interest income is of an "active" nature (i.e. arises from the ordinary activities or is closely related to the ordinary activities of the individual), in which case it will be exempt from this special contribution defence tax and will be taxed as income under the Income Tax Law.

Cyprus tax resident companies that pay interest in respect of which special contribution defence tax is due to Cyprus tax resident individuals are obliged to withhold the special contribution defence tax at source and remit the tax to the Cypriot tax authorities.

Cyprus tax resident companies

Any interest received that is deemed to be of an "active" nature (i.e. arising from the ordinary activities or closely related to the ordinary activities of the business) will be subject to income tax in Cyprus at a rate of 10% (after deduction of expenses wholly and exclusively incurred for the production of income) and will be exempt from the special contribution defence tax.

Any interest received that is deemed to be of a "passive" nature will not be subject to income tax as from 1 January 2009. Instead, passive interest income is subject to a 10% special contribution defence tax on the total amount (without deducting expenses).

Cyprus tax resident companies that pay interest in respect of which special contribution defence tax is due to other Cyprus tax resident companies are obliged to withhold the special contribution defence tax at source and remit the tax to the Cypriot tax authorities.

Profit from the Disposal of the Notes

Any gains derived from the disposal of the Notes by a Cyprus resident individual or company are exempt from income tax in Cyprus.

Any gains from the disposal of the Notes are not subject to Cyprus income tax, irrespective of the trading nature of the gain, the number of Notes held or the period for which the Notes were held. Any gain is also outside the scope of the application of the Capital Gains Tax Law 1980-2002 (as amended).

Interest income is, however, subject to the treatment set out above.

Savings Directive

Cyprus has enacted into Cyprus law EU Directive 2003/48/EC relating to the taxation of savings by virtue of the provisions of the Assessment and Collection of Taxes (Amendment) Law 146(I) of 2004. Pursuant to this law, the Cypriot Council of Ministers issued the Assessment and Collection of Tax (Provision of Information Regarding Interest Payments) Regulations of 2005. These regulations impose Savings Directive standards on Cypriot financial institutions making EU cross-border savings interest payments to individuals resident in other EU Member States, such as automatic reporting to the tax authorities to the other Member State of (a) an individual's identity

and permanent address, (b) the name and address of the paying agent and (c) the bank account details.

Stamp Duty

Following the enactment of the Stamp Duty (Amendment) (No. 2) Law 2002, section 4 of the Stamp Duty Law, Law 19/1963 as amended provides that:

"(1) every instrument specified in the First Schedule shall be chargeable with duty of the amount specified in the said Schedule as the proper duty therefore respectively if it relates to any asset situated in the Republic or to matter or things which shall be performed or done in the Republic irrespective of the place where the document is made."

In accordance with the principles of rulings of the Commissioner of Stamp Duty, the issue of Notes by PBB LPN Issuance will not be liable to stamp duty where the proceeds of the issue will remain outside Cyprus, will be utilised for purposes outside Cyprus and the obligation under such Notes will be repaid outside Cyprus.

The transfers of the Notes effected outside of Cyprus between non-residents of Cyprus do not attract stamp duty in Cyprus, provided that the transferor and the transferee are not residents of Cyprus.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Series of listed Notes, subject only to the deletion of non-applicable provisions, is set out below.

FINAL TERMS DATED [●]

Joint-Stock Commercial Bank "Probusinessbank"

(open joint-stock company)

Issue of [Aggregate Principal Amount of Series] [Title of Loan Participation Notes]

by PBB LPN Issuance Limited for the purpose of financing a Loan to

Probusinessbank under a

U.S.\$750,000,000 Programme for the Issuance of Loan Participation Notes

Part A – Contractual Terms

This document constitutes the Final Terms relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the base prospectus dated [●] [and the Supplemental Base Prospectus dated [●]] (the "**Base Prospectus**") (which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus [and the Supplemental Base Prospectus] [is] [are] available for viewing at the specified offices of the Principal Paying Agent, the registered office of the Issuer and www.ise.ie, and copies may be obtained from the specified offices of the Principal Paying Agent and the registered office of the Issuer.

1.	(i)	Issuer:	PBB LPN Issuance Limited
	(ii)	Borrower:	Probusinessbank
2.	(i)	Series Number:	[●]
	(ii)	Tranche Number:	[●]
3.		Specified Currency or Currencies	[●]
4.		Aggregate Principal Amount	
	(i)	Series:	[●]
	(ii)	Tranche:	[●]
5.	(i)	Issue price:	[●] per cent. of the Aggregate Principal Amount [plus accrued interest from <i>[insert date]</i> (<i>in the case of fungible issues only, if applicable</i>)]
	(ii)	Net proceeds:	[●]
6.		Specified Denominations:	U.S.\$100,000 and integral multiples of U.S.\$1,000 thereafter
7.	(i)	Issue Date:	[●]

- (ii) Interest Commencement Date: [●]
8. Maturity Date: [Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]
- [if the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available]*
9. Interest Basis: [[●] per cent. Fixed Rate]
- [Floating Rate]
- (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par/other (specify)]
11. Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Basis: Notes into another interest or redemption/payment basis]*
12. Put/Call Options: None (except on the occurrence of Put Event as provided for in the second paragraph of Condition 10.5)
13. (i) Status of the Notes: [Senior/Subordinated], Registered
- (ii) Date Board approval for issuance of Notes: [●]
14. Listing: Ireland
15. Method of distribution: [Syndicated/Non-syndicated]
16. Loan [●]

PROVISIONS RELATING TO INTEREST PAYABLE UNDER THE LOAN

17. **Fixed Rate Note Provisions** [APPLICABLE/NOT APPLICABLE] (IF NOT APPLICABLE, DELETE THE REMAINING SUB-PARAGRAPHS OF THIS PARAGRAPH)
- (i) Rate[(s)] of Interest: [●] per cent. per annum payable [annually/semi-annually] in arrear
- (ii) Interest Payment Date(s): [●] in each year [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]*/not adjusted]

(iii)	Fixed Coupon Amount[(s)]:	[●] per [●] in principal amount
(iv)	Broken Amount(s):	<i>[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate]</i>
(v)	Day Count Fraction:	[●] (<i>Day count fraction should be Actual/Actual-ISMA for all fixed rate issues other than those denominated in U.S. dollars, unless the client requests otherwise</i>)
(vi)	Determination Dates:	[●] in each year. <i>[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]</i>
(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/ <i>give details</i>]
18.	Floating Rate Note Provisions	Not Applicable
(i)	Interest Period(s):	[●]
(ii)	Specified Interest	[●]
	Payment Dates:	
(iii)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day/Convention/other (<i>give details</i>)]
(iv)	Additional Business Centre(s):	[●]
(v)	Manner in which the Rate(s) of [Screen Rate Determination/ISDA Determination/Interest is/are to be determined:	other (<i>give details</i>)]
(vi)	Interest Period Date(s):	[Not Applicable/ <i>specify dates</i>]
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
(viii)	Screen Rate Determination:	As set out in the attached Loan Supplement
(ix)	ISDA Determination:	As set out in the attached Loan Supplement
(x)	Margin(s):	[●] per cent. per annum

- (xi) Minimum Rate of Interest: [•] per cent, per annum
- (xii) Maximum Rate of [•] per cent. per annum Interest:
Day Count Fraction [•]
(Condition 5):
- (xiv) Rate Multiplier: [•]
- (xv) Fall back provisions, [•]
rounding provisions,
denominator and any
other terms relating to the
method of calculating
interest on Floating Rate
Loans, if different from
those set out in the
Conditions:

Fall back provisions, [•]
rounding provisions,
denominator and any
other terms relating to the
method of calculating
interest on Floating Rate
Loans, if different from
those set out in the
Conditions:
19. **Zero Coupon Note Provisions** [Applicable / Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) [Amortisation/Accrual] [•] per cent. per annum
Yield:
- (ii) Reference Price: [•]
- (iii) Any other formula/basis of determining amount payable: *(Consider applicable day count fraction if not U.S. dollar denominated)*
- (iv) Day Count Fraction in relation to Redemption Amounts and late payment: [Condition 10.7 applies/specify other]
20. **Index-Linked Interest Note** [Applicable / Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Index/Formula/other variable: *[give or annex details]*
- (ii) Calculation Agent responsible for calculating the principal and/or interest due: [•]

- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [•]
 - (iv) Determination Date(s): [•]
 - (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [•]
 - (vi) Interest or calculation period(s): [•]
 - (vii) Specified Interest Payment Dates: [•]
 - (viii) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
 - (ix) Business Centre(s): [•]
 - (x) Minimum Rate/Amount of Interest: [•] per cent. per annum
 - (xi) Maximum Rate/Amount of Interest: [•] per cent. per annum
 - (xii) Day Count Fraction: [•]
21. **Dual Currency Note Provisions** [Applicable / Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Rate of exchange/method of calculating rate of exchange: [*give details*]
 - (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: [•]
 - (iii) Provisions applicable where calculation by reference to rate of exchange impossible or impracticable: [•]
 - (iv) Person at whose option Specified Currency(ies): [•]

is/are payable:

PROVISIONS RELATING TO REDEMPTION

22. **Call Option** [Applicable / Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption [●]
Date(s):
 - (ii) Optional Redemption [●] per Note of [●] specified denomination
Amount(s) of each Note
and method, if any, of
calculation of such
amount(s):
 - (iii) If redeemable in part: [●]
 - (a) Minimum Redemption [●]
Amount
 - (b) Maximum Redemption [●]
Amount:
 - (iv) Notice period (if other (NB: If setting notice periods which are different to
than as set out in the those provided in the Conditions, the Issuer is
Conditions): advised to consider the practicalities of distribution of
information through intermediaries, for example,
clearing systems and custodians, as well as any
other notice requirements which may apply, for
example, as between the Issuer and the Agent)
23. **Put Option** [Applicable / Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption [●]
Date(s):
 - (ii) Optional Redemption [●] per Note of [●] specified denomination
Amount(s) of each Note
and method, if any, of
calculation of such
amount(s):
 - (iii) Notice period (if other (NB: If setting notice periods which are different to
than Conditions): those as set out in the provided in the Conditions, the
Issuer is advised to consider the practicalities of
distribution of information through intermediaries, for
example, clearing systems and custodians, as well
as any other notice requirements which may apply,
for example, as between the Issuer and the Agent)
24. **Final Redemption Amount of each Note**
- In cases where the Final Nominal amount
Redemption Amount is Index-
Linked or other variable-linked:

25. Early Redemption Amount

Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions): [Not Applicable/*give details*]

AMENDMENTS TO THE TERMS AND CONDITIONS OF THE NOTES

26. Amendments to the terms and conditions of the Notes: [None][For the purpose of the Notes, the terms and conditions of the Notes as set out in the Third Amended and Restated Trust Deed dated 2 November 2010, shall be amended by substituting certain conditions as specified and set out in Annex 1 below].

GENERAL PROVISIONS APPLICABLE TO THE NOTES

27. Form of Notes: Registered Notes
28. Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable][New York]
29. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No - *give details*]
30. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/*give details*]
31. Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: [Not Applicable/*give details*]
32. Redenomination, renominatisation and reconventioning provisions: Redenomination [Not] Applicable
33. Consolidation provisions: [Not Applicable/*give details*]
34. Other final terms: [Not Applicable/*give details*]
35. Governing law: English law

DISTRIBUTION

36. (i) If syndicated, names of [Not Applicable/*give names*]
Managers:
- (ii) Stabilising Manager(s) (if [Not Applicable/*give names*]
any):
37. If non-syndicated, name of [Not Applicable/*give names*]
Dealer:
38. Whether TEFRA D or TEFRA C Not Applicable
rules applicable or TEFRA rules
not applicable:
39. Additional selling restrictions: [●]

LISTING APPLICATION

This Final Terms comprises the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the U.S.\$750,000,000 Loan Participation Note Programme of PBB LPN Issuance Limited.

RESPONSIBILITY

The Issuer and the Borrower accept responsibility for the information contained in this Final Terms.

Signed on behalf of the Issuer:

By:

Duly authorised

By:.....

Duly authorised

Signed on behalf of the Borrower:

By:

Duly authorised

By:.....

Duly authorised

Part B – Other Information

1. LISTING

- (i) Listing: [Ireland]
- (ii) Admission to trading: Application has been made to the [Irish Stock Exchange] for the Notes to be admitted to the Official List and trading on its regulated market with effect from [●].
- (iii) Estimate of total expenses related to admission to trading: [●]

2. RATINGS

Ratings: The Notes to be issued have not been rated:

3. NOTIFICATION

Not applicable

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

So far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the Issue.

5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (i) Reasons for the offer: The proceeds from this issue of Notes will be on lent by the Issuer to the Borrower for its general corporate purposes.
- (ii) Estimated net proceeds: [●]
- (iii) Estimated total expenses: [●] [Include breakdown of expenses]

6. FIXED RATE NOTES ONLY – YIELD

Indication of yield: Based upon a re-offer price of 100 per cent. of their principal amount the yield of the Notes is [●] per cent. on an annual basis.

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

7. OPERATIONAL INFORMATION

ISIN Code: XS [●]
Common Code: [●]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Societe Anonyme and the relevant identification number(s): Not Applicable

Delivery: Delivery against payment

Names and addresses of additional Paying Agent(s) (if any): Not applicable

8. **GENERAL**

Tradable Amount: U.S.\$1,000

Applicable TEFRA exemption: Not Applicable (Registered Notes)

FORM OF PRICING SUPPLEMENT

The form of Pricing Supplement that will be issued in respect of each Series of unlisted Notes, subject only to the deletion of non-applicable provisions, is set out below.

PRICING SUPPLEMENT DATED [●]

Probusinessbank

**Issue of [Aggregate Principal Amount of Series] [Title of Loan Participation Notes]
by PBB LPN Issuance Limited for the purpose of financing a Loan to
Probusinessbank under a
U.S.\$100,000,000 Programme for the Issuance of Loan Participation Notes**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 2 November 2010. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Prospectus [as so supplemented].

[The following alternative language applies if the first Series of an issue which is being increased was issued under a Prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Base Prospectus dated 2 November 2010. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Base Prospectus dated 2 November 2010.]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.]

(i)	Issuer:	PBB LPN Issuance Limited
(ii)	Borrower:	Probusinessbank
(iii)	Series Number:	[●]
(iv)	[(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.) Specified Currency: [●] Aggregate Principal Amount: [●]	
(v)	Issue Price:	[●] per cent. of the Aggregate Principal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]
(vi)	Proceeds:	[●]
(vii)	Specified Denominations:	[●]
(viii)	Issue Date:	[●]
(ix)	Interest Commencement Date:	[●]
(x)	Maturity Date:	[Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]

[if the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available]

- (xi) Interest Basis: [[•] per cent. Fixed Rate]
[Floating Rate]
(further particulars specified below)
- (xii) Redemption/Payment Basis: [Redemption at par/other (specify)]
- (xiii) Change of Interest or Redemption/
Payment Basis: [Specify details of any provision for convertibility of
Notes into another interest or redemption/payment
basis]
- (xiv) Status and Form of the Notes: [Senior/Subordinated], Registered
- (xv) Method of distribution: [Syndicated/Non-syndicated]
- (xvi) Financial Centres (Condition 7): [•]
- (xvii) Loan: [•]

PROVISIONS RELATING TO INTEREST PAYABLE UNDER THE LOAN

1. **Fixed Rate Note Provisions:** [Applicable/Not Applicable] (if not applicable, delete the remaining sub-paragraphs of this paragraph)
 - (i) Rate[(s)] of Interest: [•] per cent. per annum payable [annually/semi-annually] in arrear
 - (ii) Interest Payment Date(s): [•] in each year [adjusted in accordance with
[specify Business Day Convention and any
applicable Business Centre(s) for the definition of
"Business Day"]/not adjusted]
 - (iii) Fixed Coupon Amount [(s)] [•] per [•] in principal amount
 - (iv) Broken Amount: [Insert particulars of any initial or final broken
interest amounts which do not correspond with the
Fixed Coupon Amount[(s)] and the Interest
Payment Date(s) to which they relate]
 - (v) Day Count Fraction [•] (Day count fraction should be Actual/Actual-
ISMA for

	(Condition 5): <i>in U.S.</i>	<i>all fixed rate issues other than those denominated dollars, unless the client requests otherwise)</i>
(vi)	Determination Date(s)	[•] in each year. <i>[Insert regular interest payment dates,</i>
	(Condition 5):	<i>ignoring issue date or maturity date in the case of a long or short first or last coupon]</i> ²
(vii)	Other terms relating to the	[Not Applicable/ <i>give details</i>]
	(1) method of calculating interest	
	(2) for Fixed Rate Notes:	
2.	Floating Rate Note Provisions:	[Applicable/Not Applicable] <i>(If not applicable, delete</i> <i>the remaining sub-paragraphs of this paragraph)</i>
(i)	Interest Period(s):	[•]
(ii)	Specified Interest Payment Dates:	[•]
(iii)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day/Convention/other (<i>give details</i>)]
(iv)	Additional Business Centre(s):	[•]
(v)	Manner in which the Rate(s) of [Screen Rate Determination/ ISDA Determination/Interest is/are to be determined:	other (<i>give details</i>)]
(vi)	Interest Period Date(s):	[Not Applicable/ <i>specify dates</i>]
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[•]
(viii)	Screen Rate Determination:	As set out in the attached Loan Supplement
(ix)	ISDA Determination:	As set out in the attached Loan Supplement
(x)	Margin(s):	[+/-] [•] per cent. per annum
(xi)	Minimum Rate of Interest:	[•] per cent, per annum
(xii)	Maximum Rate of Interest:	[•] per cent. per annum

- (xiii) Day Count Fraction
(Condition 5): [•]
- (xiv) Rate Multiplier: [•]
- (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Conditions: [•]

PROVISIONS RELATING TO REDEMPTION

- (i) Final Redemption Amount of each Note: [•] per Note of [•] specified denomination/Other]
- (ii) Early Redemption Amount(s) [Principal amount/Other of each Note] payable if the Loan should become repayable under the Loan Agreement prior to the Maturity Date

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- (i) Other terms or special conditions:³ [Not Applicable/*give details*]

DISTRIBUTION

- (i) If syndicated, names of Managers: [Not Applicable/*give names*]
- (ii) Stabilising Agent (if any): [Not Applicable/*give name*]
- (iii) Dealer's Commission: [•]
- (iv) If non-syndicated, name of Dealer: [Not Applicable/*give name*]
- (v) Additional selling restrictions: [Not Applicable/*give details*]

OPERATIONAL INFORMATION

- (i) ISIN Code: [•]
- (ii) Common Code: [•]
- (iii) Any clearing system(s) other than Euroclear and Clearstream, [Not Applicable/*give name(s) and number(s)*]

³ If full terms and conditions are to be used, please add the following here:

"The full text of the Conditions which apply to the Notes [which will be endorsed on the Notes in definitive form] are set out in [Annex hereto], which Conditions replace in their entirety those appearing in the Base Prospectus for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary."

The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the pricing supplement.

Luxembourg and the relevant
identification number(s):

- (iv) The Agents appointed in respect of
The Notes are: [●]

GENERAL

- (i) Additional steps that may only be
taken following approval by an
Extraordinary Resolution in
accordance with Condition 10: [Not Applicable/*give details*]
- (ii) The aggregate principal amount of
Notes issued has been translated
into U.S. dollars at the rate of [●],
producing a sum of (for Notes not
denominated in U.S. dollars): [Not Applicable/U.S.\$ [●]]

[STABILISING

In connection with this issue, [insert name of Stabilising Agent] (the "Stabilising Agent") or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Agent or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.]

RESPONSIBILITY

The Issuer and the Borrower accept responsibility for the information contained in this Pricing Supplement which, when read together with the Prospectus referred to above, contains all information that is material in the context of the issue of the Notes.

Signed on behalf of the Issuer:

By:

Duly authorised

By:.....

Duly authorised

Signed on behalf of the Borrower:

By:

Duly authorised

By:.....

Duly authorised

[THE FINAL FORM OF LOAN SUPPLEMENT WILL BE ATTACHED]

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes thereunder have been duly authorised by a resolution of the Board of Directors of PBB LPN Issuance Limited dated 2 November 2010.

Documents Available

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available in physical or electronic form from the registered office of the Bank and from the specified offices of the Principal Paying Agent:

- (a) the constitutional documents of each of the Issuer and the Bank (in each case, where relevant, with an English translation thereof);
- (b) audited financial statements of the Issuer for the years ended 2008 and 2007;
- (c) the audited consolidated IFRS annual financial statements of the Bank and the audited non-consolidated financial statements of the Bank, each for the years ended 31 December 2009, 2008 and 2007;
- (d) the programme agreements and the Notes in definitive form;
- (e) copies of the Trust Deeds;
- (f) a copy of this Base Prospectus; and
- (g) any future Base Prospectuses, prospectuses, information memoranda and supplements including Final Terms and/or Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Principal Paying Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and the Bank produces financial statements in accordance with IFRS. The Bank publishes audited annual non-consolidated financial statements, all based on RAR. In addition, in accordance with RAR, the Bank is not required to and does not publish notes to any of its financial statements.

No material change

There has been no material adverse change in the prospects of the Bank since 31 December 2009 being the date of the last published audited financial statements. There has been no significant change in the financial or trading position of the Bank since the date of its last published financial statements being 31 December 2009.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms or Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms or Pricing Supplement.

Authorisations

Each of the Issuer and the Bank has obtained all necessary consents, approvals and authorisations in Cyprus and the Russian Federation, respectively, in connection with the Programme, the issuance of the Notes and the performance of their respective obligations in relation thereto. The Bank shall ensure that all necessary consents, approvals and authorisations in the Russian Federation required for the Bank's entry into and performance of its obligations under the Loan Agreements entered into in connection with the Programme are duly obtained.

OVERVIEW OF THE GROUP'S MEMBER BANKS AND ASSOCIATED COMPANIES

VUZ-Bank

The Bank acquired 94.5 per cent. of the share capital of VUZ-Bank on 12 March 2003 from individual and corporate shareholders of VUZ-Bank. In June 2007, the Bank subscribed to newly issued shares in VUZ-Bank, increasing its interest to 98.43 per cent. In October 2007, the Bank increased its interest in the share capital of VUZ-Bank to 100.0 per cent. by buying out the remaining minority shareholders.

VUZ-Bank was incorporated as a limited liability company under the laws of the Russian Federation on 5 September 1991 and reorganised into an open joint-stock company on 6 September 1999. VUZ-Bank has its registered office at 31B Malysheva Street/11 Bankovsky Lane, Ekaterinburg 620014, Russian Federation.

VUZ-Bank is regulated by the CBR, operating under Banking Licence No. 1557 dated 6 June 2000 to perform banking operations in roubles and foreign currency, to attract and place funds of legal entities and individuals, to open and service banking accounts and to make settlements. VUZ-Bank is an associate member of VISA International, an affiliate member of MasterCard and a member of the non-commercial organisation Urals Bank Union. VUZ-Bank has been a member of the Deposit Insurance System since 23 December 2004. As at 31 December 2009, VUZ-Bank had 19 offices and 571 employees.

VUZ-Bank provides corporate, SME and retail banking services (see "*Description of the Group—Banking Services and Activities*"). VUZ-Bank's equity was RUB 1 billion and loan portfolio was RUB 7.2 billion, as at 31 December 2009. VUZ-Bank is authorised to issue and service MasterCard and VISA plastic cards.

Express-Volga

The Bank acquired an initial stake of 57.92 per cent. of the share capital of Express-Volga in February 2004, acquiring further interests between 2004 and 2007 until a final acquisition of an issue of Express-Volga shares in June 2007 brought its ownership stake up to 98.75 per cent.

Express-Volga was incorporated on 6 September 1994 as a closed joint-stock company under the laws of the Russian Federation. Express-Volga's registered office is 166/168 Michurina Street, Saratov, 410002, Russian Federation. Express-Volga is operating under Banking Licence No. 3085 dated 2 October 2002 to perform banking operations in roubles and foreign currency, to attract and place funds of legal entities and individuals, to open and service banking accounts and to make settlements. It has been a member of the National Association of the Stock Exchange Participants ("**NAUFOR**") since September 1996. Express-Volga has been a member of the Deposit Insurance System since 16 December 2004. As at 31 December 2009, Express-Volga had four branches and 36 offices in 13 regions. As at 31 December 2009, Express-Volga had 1,329 employees

Express-Volga provides corporate, SME and retail banking services (see "*Description of the Group—Banking Services and Activities*"). Express-Volga also issues and services Eurocard/MasterCard, VISA, Union Card and Zolotaya Corona plastic cards.

Express-Volga is a market-leading bank within the Saratov region after Sberbank, and on the basis of the Group's analysis of information published by the CBR, ranks second in terms of the amount of customer retail deposits placed with banks in the region after Sberbank as at 31 December 2009. The Group's management believes that a notable feature of Express-Volga is the high level of confidence it enjoys among pensioners. Express-Volga's equity was RUB 1.3 billion and loan portfolio was RUB 7.7 billion, as at 31 December 2009.

NSB

In December 2006, the Group completed the acquisition of 100.0 per cent. of the share capital of CJSC Ivanovsky Oblastnoy Bank that it had started in August 2006 as part of its strategy of effecting regional expansion through the acquisition of regional banks. NSB is the successor of LLC Ivanovskiy Oblastnoy Bank (formerly known as LLC CB "Ivanovskie Sittsy") established on 11 March 1992 and registered by the CBR on 7 July 1992 with Banking Licence No. 1949 dated 2 September 2009 to perform banking operations in roubles and foreign currency, to attract and place funds of legal entities and individuals, to open and service banking accounts and to make settlements. On 19 August 2009, CJSC Ivanovsky Oblastnoy Bank changed its name to NSB.

NSB's registered address is 2 Palekhskaya Street, Ivanovo 153000, Russian Federation. NSB has been a member of the Deposit Insurance System since 2 December 2004. As at 31 December 2009, NSB had 65 employees. As at the date of this Base Prospectus, NSB has an office in Ivanovo and a representative office in Moscow.

NSB offers consumer finance services (see "*Description of the Group—Banking Services and Activities*"). NSB is an associate member of MasterCard under the Bank's sponsorship and has entered into a distribution agreement with MasterCard.

As at the date of this Base Prospectus, NSB is a relatively small bank with total assets of RUB 521.6 million and loan portfolio of RUB 305.8 million as at 31 December 2009, but the Group believes that its national roll-out and specific product offering, namely the Federal Programme of Lending to State Employees, which provides for lending to state employees and to pensioners who also have full or part-time jobs (- See "*Description of the Group—Banking Services and Activities—NSB—Federal Programme of Lending to State Employees*"), makes it distinct from the other banks operating in the Ivanovo region and gives it a strong platform on which to grow. NSB's equity was RUB 126.8 million and loan portfolio RUB 305.9 million, as at 31 December 2009.

Gazenergobank

On 13 November 2008 the Bank entered into a general agreement with the DIA and Gazenergobank for the fulfilment of a "plan of participation" by the DIA in respect of preventing the insolvency of Gazenergobank (more detailed information is available on www.asv.org.ru). As part of this plan, on 14 November 2008 the DIA and the Bank executed a loan agreement under which the DIA provided the Bank with RUB 2.5 billion for the "financial "sanation" of Gazenergobank. Within the framework of Gazenergobank's financial "sanation" which is expected to be completed by November 2013, on 22 January 2009 the Bank acquired 99.99 per cent. Gazenergobank's shares for RUB 150 million.

Gazenergobank was established and registered with the CBR on 19 May 1995 with Banking Licence No. 3252 dated 5 August 2002 to perform banking operations in roubles and foreign currency, to attract and place funds of legal entities and individuals, to open and service banking accounts and to make settlements. Gazenergobank holds licences from the FSFM for brokerage, dealer and depository activities. Gazenergobank's registered address is 4 Plekhanova Street, Kaluga 245030, Russian Federation. Gazenergobank has been a member of the Deposit Insurance System since 27 January 2005.

Gazenergobank offers corporate, SME and retail banking services. It issues and services MasterCard International, VISA, American Express, Union Card and STB cards.

According to the Group's market analysis, Gazenergobank is the largest private bank in the Kaluga region with 32 offices as at 31 December 2009. As at 31 December 2009, Gazenergobank had 395 employees. As at the same date, its market share in retail loans was 8.5% and in retail deposits 8.1% in the Kaluga region.

Gazenergobank's equity was RUB 617.8 million and loan portfolio was RUB 1.9 billion, as at 31 December 2009.

Bank24.ru

On 4 December 2008 the Bank entered into a general agreement with the DIA and Bank.24 for the fulfilment of a "plan of participation" by the DIA in respect of preventing the insolvency of Bank.24 (more detailed information is available on www.asv.org.ru). As part of this plan, on 5 December 2008 the DIA and the Bank executed a loan agreement under which the DIA provided the Bank with RUB 5 billion were provided by the DIA to the Bank for the financial "sanation" of Bank24.ru. Within the framework of Bank24.ru's financial "sanation" which is expected to be completed by December 2013, on 27 January 2009 the Bank acquired 99.53 per cent. of Bank24.ru's shares for RUB 300 million.

Bank24.ru was established on 19 November 1992 as OJSC Uralcontactbank and it currently operates on the basis of the Banking Licence No. 2227 issued by the CBR on 29 October 2003 to perform banking operations in roubles and foreign currency to attract and place funds of legal entities and individuals, to open and service banking accounts and to make settlements. The Bank was rebranded and changed its name to Bank24.ru in 2003.

Bank24.ru's registered address is 12 Kuybysheva Street, Ekaterinburg 620144, Russian Federation. Bank24.ru has been a member of the Deposit Insurance System since 24 February 2005. As at 31 December 2009, Bank24.ru had 610 employees.

According to the Group, based on its market analysis, it ranks seventh in Ekaterinburg in terms of net assets, with 14 offices as at 31 December 2009.

Bank24.ru is a universal bank servicing its clients in "24/7" mode and it mainly focuses on SME and retail banking customers. Bank24.ru has a unique business model offered through its advanced IT system, which allows it to service customers 24 hours a day seven days a week.

Bank24.ru's equity was RUB 738 million and loan portfolio was RUB 3.7 billion, as at 31 December 2009.

ICB

On 25 December 2009, the Bank acquired 96.87 per cent. of shares in ICB. The Bank acquired further shares in ICB on 21 April 2010 and 4 May 2010, raising its total shareholding to 97.1 per cent. In contrast with the Group's acquisition of Bank24.ru and Gazenergobank, the acquisition of ICB was not related to ICB's liquidity problems. The Group considered ICB's business model to be attractive due to its market position in Novosibirsk and because of its retail and, in particular, consumer-loan business.

The Bank's ownership in ICB is indirect and as of the date of this Base Prospectus, is as follows: NSB - 19.99 per cent.; Mrs. A. Filipovich - 19.5 per cent.; Mrs. I. Ryabova - 14.59 per cent.; Mrs. N. Stolpovskikh - 14.34 per cent.; Mrs. M. Bugakova - 14.34 per cent.; Mrs. A. Stolchneva - 14.34 per cent. and minority shareholders - 2.89 per cent. These individuals hold their shares pursuant to an option (the "**ICB Option**") agreement which gives the Bank the right to demand that the shares be transferred to it.

As at the date of this Information Memorandum, ICB is consolidated for the accounting purposes on the basis of the ICB Option. In August 2011, the Group expects to complete the consolidation and to become the owner of ICB, to change ICB's name to "Poydem!" and to transfer its head office to Moscow. In April 2010, the Group agreed with the CBR a possibility of using name "Poydem!" and in October 2010 the Group expects to transfer ICB's licence from Novosibirsk to Moscow.

ICB was established on 19 October 1993 as JSB "Gals-Bank". It changed its name to ICB in 1999. Initially, ICB was a captive bank mainly focused on financing projects of its parent group LAND, but since 2006 it developed a banking business unrelated to LAND.

ICB is regulated by the CBR and operates under the Banking Licence No. 2534 dated 9 October 2003 to perform banking operations in roubles and foreign currency to attract and place funds of legal entities and individuals, to open and service banking accounts and to make settlements.

ICB's registered address is 276 D. Kovalchuk Street, Novosibirsk 630049, Russian Federation. The bank has been a member of the Deposit Insurance System since 10 February 2005. As at 31 December 2009, ICB had 208 employees.

ICB offers retail banking services and encourages non-cash payments by issuing plastic cards as standard to its customers.

According to the Group's market analysis, ICB is the seventh largest bank in Novosibirsk in terms of net assets with ten offices in Novosibirsk and one office in Moscow, as at 31 December 2009.

ICB's equity was RUB 617.7 million and loan portfolio was RUB 1 billion, as at 31 December 2009.

For financial results of the Group's member banks see *"Operating and Financial Review—Segment Operations"*.

Other Associated Companies

Factoring Company "Life"

The Bank acquired Factoring Company "Life" on 31 May 2010 for RUB 100,000 and it is expected to be consolidated from the first half of 2010. The Group believes that if Factoring Company "Life" had been consolidated in the year ended 31 December 2009, it would have contributed approximately RUB 1 billion in assets and RUB 87 million in operating income (before provision for impairment) to the Group's Financial Statements.

In 2009, Factoring Company "Life" became the first company in the Russian Federation to attract state funding from OJSC Russian Development Bank under support of Vnesheconombank under the federal programme of support to SMEs via factoring. As at the date of this Base Prospectus, Factoring Company "Life" is the only factoring company in the Russian Federation, which specialises in express factoring for SMEs. According to "Rating agency "Expert-Rating", as at 31 December 2009, Factoring Company "Life" ranked seventh among the largest factoring companies in the Russian Federation and third (after Promsvyazbank and National Factoring Company Joint Stock Company) in terms of the number of SME customers (more than 400 customers as at 31 December 2009). Factoring Company "Life" plans to significantly increase its portfolio of factoring operations in the SME segment by means of increase of its customer base in 2010.

Probusiness Development

The Bank acquired 100 per cent. of Probusiness Development and its subsidiaries on 6 May 2010 for RUB 230.8 million. Probusiness Development was incorporated in February 2008. As at the date of this Base Prospectus its core activity is the development of commercial real estate projects.

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Consolidated Audited Financial Statements of the Group for the year ended 31 December 2008

Consolidated Audited Financial Statements of the Group for the year ended 31 December 2007

Audited financial statements of the Issuer for the year ended 31 December 2008

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Probusinessbank Group

Consolidated Financial Statements
for the Year Ended 31 December 2009

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Independent Auditors' Report

To the Board of Directors
Joint Stock Commercial Bank "Probusinessbank" (Open Joint Stock Company)

We have audited the accompanying consolidated financial statements of JSCB "Probusinessbank" and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance 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 principles used and the reasonableness of accounting estimates made by management, 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 opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
02 June 2010

Probusinessbank Group
Consolidated statement of comprehensive income for the year ended 31 December 2009

		2009 RUR'000	2008 RUR'000
Interest income	4	13,828,053	11,090,675
Interest expense	4	(6,825,319)	(4,690,535)
Net interest income		7,002,734	6,400,140
Fee and commission income	5	1,770,827	1,090,020
Fee and commission expense	6	(317,615)	(192,347)
Net fee and commission income		1,453,212	897,673
Net gain/(loss) on financial instruments at fair value through profit or loss	8	808,357	(259,987)
Net foreign exchange income/(loss)	9	1,094,858	(350,589)
Net gain on available-for-sale securities	10	44,208	122,680
Other operating income	7	706,097	233,344
Gain on acquisition of subsidiaries	44	173,296	1,388,827
Operating income		11,282,762	8,432,088
Impairment losses	11	(5,195,823)	(3,359,312)
Revaluation of investment property		(39,750)	-
General administrative expenses	12	(5,721,110)	(4,910,169)
Profit before taxes		326,079	162,607
Income tax (expense)/benefit	13	(180,713)	10,536
Profit		145,366	173,143
Other comprehensive income			
Revaluation reserve for available-for-sale securities:			
- Net change in fair value of available-for-sale securities, net of tax		89,129	(96,095)
Revaluation of property and equipment, net of tax		(77,716)	(266,965)
Other comprehensive income, net of tax		11,413	(363,060)
Total comprehensive income		156,779	(189,917)
Profit/(loss) attributable to:			
Equity holders of the Bank		141,936	175,882
Minority interest		3,430	(2,739)
Profit		145,366	173,143
Total comprehensive income attributable to:			
Equity holders of the Bank		153,349	(187,178)
Minority interest		3,430	(2,739)
Total comprehensive income		156,779	(189,917)
Basic and diluted earnings per share			
(expressed in Russian Roubles per share)	45	42.23	57.28

The consolidated financial statements as set out on pages 4 to 84 were approved by the Board of Directors on 02 June 2010.

A.V. Lomov
Deputy Chairman of the Management Board



L.E. Alkhovaya
Chief Accountant

	Notes	2009 RUR'000	2008 RUR'000
ASSETS			
Cash		4,589,153	3,874,716
Due from the Central Bank of the Russian Federation		5,799,081	9,408,842
Mandatory cash balances with the Central Bank of the Russian Federation		532,377	110,326
Placements with banks and other financial institutions	14	8,543,817	8,085,486
Financial instruments at fair value through profit or loss	15		
- Held by the Group		6,710,822	1,435,657
- Pledged under sale and repurchase agreements		-	160,726
Amounts receivable under reverse repurchase agreements	16	4,932,825	2,581,307
Loans to customers	17	42,522,184	43,511,314
Goodwill		252,676	252,676
Available-for-sale securities	18	385,070	1,259,374
Property, equipment and intangible assets	19	4,748,498	5,075,543
Investment property	20	788,780	-
Advances issued to property development companies	21	2,976,888	1,090,680
Current income tax asset		88,030	168,116
Deferred tax asset	13	339,341	40,180
Other assets	22	643,612	1,059,590
Total assets		83,853,154	78,114,533
LIABILITIES			
Financial instruments at fair value through profit or loss	15	1,856,304	182,253
Deposits and balances from banks and other financial institutions	23	2,303,289	8,486,328
Amounts payable under repurchase agreements	24	1,158,749	1,389,901
Current accounts and deposits from customers	25	53,412,255	41,834,003
Debt securities issued	26	5,015,742	6,624,649
Other borrowed funds	27	9,094,071	8,762,223
Subordinated debts	28	1,707,854	2,619,475
Other liabilities	29	542,170	780,536
Total liabilities		75,090,434	70,679,368
EQUITY			
Share capital	30	4,417,399	4,126,071
Share premium		1,237,031	1,375,351
Revaluation surplus for property and equipment		739,015	816,731
Revaluation reserve for available-for-sale securities		(6,966)	(96,095)
Additional paid-in capital		611,241	70,621
Retained earnings		1,736,721	1,123,258
Total equity attributable to equity holders of the Bank		8,734,441	7,415,937
Minority interest		28,279	19,228
Total equity		8,762,720	7,435,165
Total liabilities and equity		83,853,154	78,114,533

	Notes	2009 RUR'000	2008 RUR'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before taxes		326,079	162,607
Adjustments for:			
Net interest income		(7,002,734)	(6,400,140)
Provision for impairment losses		5,195,823	3,359,312
Gain on acquisition of subsidiaries		(173,296)	(1,388,827)
Unrealized gains on financial instruments held for trading		(91,931)	(1,583)
Depreciation/amortization of property and equipment and intangible assets		465,607	288,323
Gain on disposal of property and equipment and intangible assets		-	4,246
Changes other accruals		(128,876)	(334,109)
Revaluation of investment property		48,963	-
Unrealised foreign exchange (gain)/loss		(71,237)	727,237
		(1,431,602)	(3,582,934)
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of the Russian Federation		(411,487)	667,188
Financial instruments at fair value through profit or loss		(4,658,892)	1,319,211
Financial instruments available for sale		950,674	(866,943)
Amounts receivable under reverse repurchase agreements		(2,356,348)	(1,814,211)
Placements with banks and other financial institutions		2,695,512	(2,974,172)
Loans to customers		(1,892,229)	(1,332,665)
Other assets		394,674	(320,337)
Increase/(decrease) in operating liabilities:			
Deposits and balances from banks and other financial institutions		(6,179,643)	6,126,159
Net change of derivative financial instruments		1,585,788	(448,774)
Amounts payable under repurchase agreements		(231,061)	1,033,398
Current accounts and deposits from customers		9,879,348	3,079,194
Other liabilities		(104,956)	482,313
Cash flows from operating activities before interest and taxes paid		(1,760,222)	1,367,427
Interest received		12,404,093	11,394,464
Interest paid		(6,211,028)	(5,242,009)
Income tax paid		(399,934)	(265,473)
Net cash inflows from operating activities		4,032,909	7,254,409
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment and intangible assets		(538,519)	(617,953)
Acquisition of investment property		(801,130)	-
Advances issued to property development companies		(1,886,208)	(1,090,680)
Proceeds on disposal of property and equipment and intangible assets		74,900	171,979
Acquisition of subsidiary, net of cash received		(300,893)	(1,887,001)
Net cash outflows from investing activities		(3,451,850)	(3,423,655)

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Probusinessbank Group
Consolidated statement of cash flows for the year ended 31 December 2009

	Notes	2009 RUR'000	2008 RUR'000
CASH FLOWS FROM FINANCING ACTIVITIES:			
Share capital increase in the form of ordinary shares issued		291,328	79,433
Share premium		333,571	295,570
Dividends paid		(364)	(184)
Contributions from shareholders		540,620	-
Debt securities repaid		(1,539,676)	(7,035,669)
Change in subordinated debts		(905,851)	1,166,110
Change in other borrowed funds		(309,131)	7,086,524
Net cash (outflows)/inflows from financing activities		(1,589,503)	1,591,784
Effect of changes in foreign exchange rate on cash and cash equivalents		210,631	658,768
Net (decrease)/increase in cash and cash equivalents		(797,813)	6,081,306
Cash and cash equivalents at the beginning of the year	39	15,026,106	8,944,800
Cash and cash equivalents at the end of the year	39	14,228,293	15,026,106

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Attributable to equity holders of the Bank								
	Share capital	Share premium	Additional paid-in capital	Revaluation surplus for property and equipment	Revaluation reserve for available- for-sale securities	Retained earnings	Total	Minority interest	Total equity
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Balance as at 1 January 2008	4,046,638	1,079,781	70,621	1,145,460	-	885,790	7,228,290	12,977	7,241,267
Total comprehensive income									
Profit	-	-	-	-	-	175,882	175,882	(2,739)	173,143
Other comprehensive income									
Net unrealized losses on investments available- for-sale, net of deferred tax of RUR 24,024 thousand	-	-	-	-	(96,095)	-	(96,095)	-	(96,095)
Transfer of revaluation surplus for property and equipment to retained earnings on disposed building	-	-	-	(61,764)	-	61,764	-	-	-
Disposal of property and equipment, net of deferred tax of RUR 10,724 thousand	-	-	-	(42,898)	-	-	(42,898)	-	(42,898)
Effect of change in income tax rates	-	-	-	75,472	-	-	75,472	-	75,472
Revaluation of property and equipment, net of deferred tax of RUR 74,885 thousand	-	-	-	(299,539)	-	-	(299,539)	-	(299,539)
Total other comprehensive income	-	-	-	(328,729)	(96,095)	61,764	(363,060)	-	(363,060)
Total comprehensive income	-	-	-	(328,729)	(96,095)	237,646	(187,178)	(2,739)	(189,917)
Shares issued	79,433	295,570	-	-	-	-	375,003	-	375,003
Increase in minority interest due to purchase of a subsidiary	-	-	-	-	-	-	-	8,992	8,992
Dividends declared	-	-	-	-	-	(178)	(178)	(2)	(180)
Balance as at 31 December 2008	4,126,071	1,375,351	70,621	816,731	(96,095)	1,123,258	7,415,937	19,228	7,435,165

	Attributable to equity holders of the Bank								
	Share capital	Share premium	Additional paid-in capital	Revaluation surplus for property and equipment	Revaluation reserve for available- for-sale securities	Retained earnings	Total	Minority interest	Total equity
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Balance as at 1 January 2009	4,126,071	1,375,351	70,621	816,731	(96,095)	1,123,258	7,415,937	19,228	7,435,165
Total comprehensive income									
Profit	-	-	-	-	-	141,936	141,936	3,430	145,366
Other comprehensive income									
Net unrealized gains on investments available- for-sale, net of deferred tax of RUR 22,282 thousand	-	-	-	-	89,129	-	89,129	-	89,129
Revaluation of property and equipment, net of deferred tax of RUR 19,429 thousand	-	-	-	(77,716)	-	-	(77,716)	-	(77,716)
Total other comprehensive income	-	-	-	(77,716)	89,129	-	11,413	-	11,413
Total comprehensive income	-	-	-	(77,716)	89,129	141,936	153,349	3,430	156,779
Shares issued (Note 30)	291,328	333,571	-	-	-	-	624,899	-	624,899
Contribution from shareholders (Note 30)	-	-	540,620	-	-	-	540,620	-	540,620
Transfer of share premium to retained earnings (Note 30)	-	(471,891)	-	-	-	471,891	-	-	-
Increase in minority interest due to purchase of subsidiaries	-	-	-	-	-	-	-	5,617	5,617
Dividends declared	-	-	-	-	-	(364)	(364)	4	(360)
Balance as at 31 December 2009	4,417,399	1,237,031	611,241	739,015	(6,966)	1,736,721	8,734,441	28,279	8,762,720

1 Background

Principal activities

These consolidated financial statements include the financial statements of OJSC “Probusinessbank” (the Bank) and its subsidiaries (together referred to as the “Group”).

The Bank, the parent company of the Group, was established in the Russian Federation in 1993. In 1994 the Bank was reorganised into a commercial bank (Limited Liability Company) and in 1998 the Bank changed its legal form to an Open Joint-Stock Company. The Bank operates under general banking license № 2412 issued by the Central Bank of the Russian Federation (the “CBRF”) and provides a full range of banking services to corporate clients, including public, private, state-owned and other companies operating in various industries, as well as to individuals. In addition to the general banking license, the Bank holds licenses for depositary activities, securities management, broker, dealer activity, intermediary for dealing in futures and options in the stock exchange, non-governmental pension funds assets management, precious metal transactions, and a right to act as a guarantor in relations with customs authorities. The Bank is a member of the following financial associations and organizations: Moscow Interbank Currency Exchange, Moscow Stock Exchange, Non-for-profit Partnership RTS, Association of Russian Banks, Society for Worldwide Interbank Financial Telecommunication (“SWIFT”), International Retail Banking Council (“IRBC”), American Chamber of Commerce in Moscow. The Bank is also a member of Master Card and Europay International S.A. and an associate member of VISA International. The Bank is a member of the state deposit insurance system in the Russian Federation.

The registered address of the Bank is: 119285, Russian Federation, Moscow, Pudovkina st., 3. The majority of the Bank’s assets and liabilities are located in the Russian Federation. The average number of people employed by the Bank during the year was 3,094 (2008: 3,243).

The Bank is a parent company of the banking group which consists of the following companies consolidated for the purposes of these consolidated financial statements as at 31 December 2009 and 2008:

Name	Country of incorporation	Interest/voting rights, % as at 31 December 2009	Interest/voting rights, % as at 31 December 2008	Type of activity
OJSC VUZ-Bank	Russian Federation	100.00%	100.00%	Commercial Bank
CJSC CB Express-Volga	Russian Federation	98.75%	98.75%	Commercial Bank
CJSC National Bank of Savings (former – LLC Ivanovsky Oblastnoy Bank)	Russian Federation	100.00%	100.00%	Commercial Bank
OJSC Gazenergobank	Russian Federation	99.99%	99.99%	Commercial Bank
OJSC Bank 24. RU	Russian Federation	99.53%	99.53%	Commercial Bank
OJSC Investment City Bank	Russian Federation	96.86%	-	Commercial Bank

The average number of people employed by the Group during the year was 6,272 (2008: 6,314).

On 31 March 2003 the Bank acquired a 94.5% interest in OJSC VUZ-Bank. The Bank's acquisition of VUZ-Bank's additional share issue in June 2007 resulted in increasing the Bank's interest to 98.43%. In October 2007 the Bank's interest in the share capital of VUZ-Bank reached 100%.

VUZ-Bank was incorporated as a limited liability company under the legislation of the Russian Federation on 5 September 1991 and changed its legal form to an open joint-stock company on 6 September 1999. Its registered office is located at the following address: 31-b Malysheva st./11 Bankovsky per., Ekaterinburg, Russian Federation. VUZ-Bank's activities are regulated by the CBR and general banking licence No. 1557. VUZ-Bank is an associated member of Visa International Service Association, affiliate member of MasterCard International Incorporated and member of the Urals Bank Union. VUZ-Bank is a member of the state deposit insurance system since 23 December 2004. The average number of people employed by VUZ-Bank during the year was 571 (2008: 556).

On 29 December 2003 the Bank entered into an agreement with the shareholders of CJSC Express-Volga ("Express-Volga Bank") to acquire the majority interest in Express-Volga Bank. Starting from 6 February to 10 February 2004 the Bank has become a registered owner of 57.92% of the share capital of Express-Volga Bank and, additionally, on 19 April 2004 the Bank acquired another 1.03% of the bank's share capital. In May 2005 the Bank additionally acquired 27.33% of the share capital of Express-Volga Bank. In March 2007 the Bank additionally acquired 116,382 ordinary registered shares (12.03% of share capital) of Express-Volga Bank. The Bank's interest in the share capital of Express-Volga Bank amounted to 98.31%. The Bank's acquisition of additional issue of the Bank's ordinary registered shares in June 2007 resulted in the growth of its interest in Express-Volga's share capital to 98.75%.

Express-Volga Bank was incorporated as a closed joint-stock company under the legislation of the Russian Federation on 6 September 1994. Its registered office's address is: Russian Federation, Saratov, 166/168 Michurina st. Express-Volga Bank's activities are regulated by the CBR general banking license No. 3085 of 2 October 2002.

In addition to the license for banking operations in Russian Roubles and foreign currencies Express-Volga Bank has a license that allows it to perform depository activities. Express-Volga issues Union Card and Visa plastic cards and also services international plastic cards Eurocard/Mastercard, Visa, Cirrus Maestro, Visa-Electron Plus. Express-Volga is a member of the state deposit insurance system since 16 December 2004. The average number of people employed by Express-Volga Bank during the year was 1,329 (2008: 1,263).

On 1 December 2006 the Bank finalised acquisition of interest in the share capital of LLC CB Ivanovsky Oblastnoy Bank ("Ivanovsky Oblastnoy Bank"). The Bank's interest in the share capital of Ivanovsky Oblastnoy Bank is 100%.

In 2009 in accordance with the Order No. 107/1-P "About the state registration of the new name of CJSC "National Bank of Savings", LLC CB "Ivanovsky Oblastnoy Bank" was reorganized and renamed to CJSC "National Bank of Savings".

CJSC National Bank of Savings (LLC CB Ivanovsky Oblastnoy Bank) is the successor of LLC CB Ivanovskie Sittsy established by the decision of owners on 11 May 1992 and registered by the CBR on 7 July 1992, registration number 1949. In accordance with the CBR license National Bank of Savings has the right to carry out operations with legal entities and individuals in Russian Roubles and in foreign currencies. National Bank of Savings is a member of the state deposit insurance system since 2 December 2004. The registered address of the Bank is: 153000, Ivanovo, 2 Palekhskaya st. CJSC "National Bank of Savings" has 1 additional office in Ivanovo. The total number of people employed by the Bank during the year was 65 (2008: 38).

On 14 November 2008 the Bank signed documents of strategic partnership with OJSC "Gazenergobank". That resulted in change of the owner of OJSC Gazenergobank. The Bank became the owner of 19.83% of ordinary shares and 76.22% of ordinary shares of OJSC Gazenergobank were repurchased by the senior management of the Group. As a result the Group obtained full control over OJSC Gazenergobank, and its results were consolidated into the financial statements of the Group from that date.

On 22 January 2009 the all shares were transferred from senior management to the Bank and it became the owner of 99.99% of OJSC Gazenergobank shares.

OJSC Gazenergobank was incorporated as an open joint-stock company under the legislation of the Russian Federation on 19 May 1995 and is a member of the state deposit insurance system in the Russian Federation since 27 January 2005. The registered address of OJSC Gazenergobank is Russian Federation, Kaluga, 4 Plekhanova st.

OJSC Gazenergobank issues banking cards in the payment system of MasterCard International, maintenances MasterCard, Cirrus/Maestro, Visa (in ATMs), American Express and Diners Club banking cards. The Bank started personalization of its own banking cards in 2006 in Kaluga. Financial statements of OJSC Gazenergobank are included into the Group's consolidated financial statements starting from the date of acquisition (14 November 2008). The total number of people employed by the bank during the year was 395 (2008: 511).

On 5 December 2008 the Bank together with the government-sponsored Deposits Insurance Agency (DIS) and Bank24.ru signed a general agreement No. 2008-0301/3. According to the Agreement, OJSC Probusinessbank was committed to ensure the financial improvement of OJSC Bank24.ru. The Bank became the owner of 20% of ordinary shares and 79.53% of ordinary shares of OJSC Bank24.ru were repurchased by the top management of the Group. As a result the Group obtained full control over OJSC Bank24.ru.

On 27 January 2009 all shares were transferred from senior management to the Bank and it became the owner of 99.5341% of OJSC Bank24.ru shares.

OJSC Bank24.ru was established in 1992. The name of OJSC Bank24.ru till 2003 was "Uralcontactbank". In 2003 as a result of changes of owners and rebranding the Bank was renamed to Bank24.ru. The registered address of OJSC Bank24.ru is: Russian Federation, Ekaterinburg, 12 Kuibysheva st. Bank24.ru has a general banking license (No.2227 of 29 October 2003) to perform operations with Russian Roubles and foreign currency.

On 24 February 2005 OJSC Bank24.ru became a member of the state deposit insurance system in the Russian Federation.

Financial statements of OJSC Bank24.ru are included into the Group's consolidated financial statements starting from the date of acquisition (05 December 2008).

The total number of people employed by OJSC Bank24.ru during the year was 610 (2008: 703).

On 25 December 2009 CJSC National Bank of Savings purchased 19,99% of ordinary shares of OJSC Investment City Bank. 79.53% of ordinary shares of OJSC Investment City Bank were purchased by the senior management of the Group. As a result the Group obtained full control over OJSC Investment City Bank, and its results were consolidated into the financial statements of the Group from that date.

Investment City Bank ("ICB") was incorporated in 1993 as an opened joint-stock company under the legislation of the Russian Federation as OJSC CB Gals-Bank. In 1997 the bank was renamed to OJSC ICB. According to the decision of General Meeting of shareholders in 1999 the name of OJSC ICB was changed to the current one - OJSC Investment City Bank.

Registered address of OJSC Investment City Bank is: 630049, Russia, Novosibirsk, 276 D. Kovalchuyk street.

The total number of people employed by OJSC Investment City Bank during the year was 208 (2008: 321).

As at 31 December 2009 the Group's network includes 5 branches, 64 additional offices, 105 credit offices, 73 operational offices, 6 cash desks, 7 sales points and 1 representative office. One representative office of the Bank operates in Saratov. The Group has opened its lending and cash services offices and operation offices in Arkhangelsk, Belgorod, Bryansk, Velikie Luki, Vladivostok, Vladimir, Voronezh, Volgograd, Vologda, Vyborg, Derbent, Dzerzhinsk, Ekaterinburg, Yelet, Izhevsk, Kaliningrad, Kaluga, Kamensk-Uralskiy, Kamyshin, Kingisepp, Kirov, Kostroma, Krasnoyarsk, Kursk, Kurgan, Lipetsk, Magnitigorsk, Mourom, Nabregnye Chelny, Nizhny Novgorod, Nizhnevartovsk, Novosibirsk, Omsk, Orel, Orenburg, Petrozavodsk, Pskov, Rzhnev, Rybinsk, Ryazan, Rostov-on-Don, Samara, Saransk, Saratov, St. Petersburg, Smolensk, Sosnoviy Bor, Surgut, Syktyvkar, Taganrog, Tver, Tikhvin, Tula, Ukhta, Khanty-Mansiysk, Chita, Chelyabinsk, Cherepovets, Yaroslavl, Ivanovo, Irkutsk, Perm and Tyumen regions.

Shareholders

As at 31 December 2009 and 2008, the following shareholders owned the shares of the Bank:

	31 December 2009 %	31 December 2008 %
Shareholders of the first level		
LLC "Alivikt"	52.95	57.85
East Capital Financial Fund AB	19.93	12.52
Rekha Holdings Limited	7.22	7.89
BlueCrest Strategic Limited	6.35	8.68
LLC "Rodina"	5.46	5.97
Other	8.09	7.09
Total	100.00	100.00

	31 December 2009 %	31 December 2008 %
Ultimate shareholders of the Bank		
S.L. Leontiev	29.79	32.55
Funds advised by East Capital International AB	19.93	12.52
E.V. Bikmaev	11.72	12.80
A.D. Zheleznyak	11.43	12.50
Funds advised by RenFin Fund	7.22	7.89
Funds advised by BlueCrest Capital Management (UK) LLP	7.94	8.68
Funds advised by Argo Capital Management Ltd	6.51	7.10
E.V. Panteleev	5.46	5.96
Total	100.00	100.00

Russian business environment

The Russian Federation is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale securities are stated at fair value, and buildings are stated at revalued amounts.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"). Management has determined the Group's functional currency to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Group.

The RUR is also the Group's presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUR has been rounded to the nearest thousand.

Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- Loan impairment estimates - Note 17
- Building revaluation estimates - Note 19
- Investment property revaluation estimates - Note 20

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. The accounting policies have been consistently applied. Changes in accounting policies are described at the end of this Note.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-bank transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is allocated to cash-generating for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

Minority interest

Minority interest is that part of profit or loss, other comprehensive income and net assets, of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the Bank.

Minority interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Bank. Minority interest in profit or loss and other comprehensive income is separately disclosed in the consolidated statement of comprehensive income.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. As at 31 December 2009 the official CBR foreign exchange rates used for translation of balances in foreign currencies were 30.2442 RUR/USD and 43.3883 RUR/EUR (31 December 2008: 29.3804 RUR/USD and 41.4411 RUR/EUR).

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of the Group's assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

Cash and cash equivalents include cash and nostro accounts with the CBR, nostro accounts with OECD banks, as well as placements with OECD banks, except for security deposits for operations with plastic cards and Russian Government securities denominated in Russian Roubles at fair value through profit or loss which may be converted to cash within a short period of time. For the purposes of the consolidated statement of cash flows, the minimum reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- upon initial recognition, designated by the Group as at fair value through profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that:

- the Group intends to sell immediately or in the near term;
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available-for-sale; or
- the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group designates as available-for-sale; or
- meet the definition of loans and receivables.

Available-for-sale securities are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Management determines the appropriate classification of financial instruments at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial asset that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of the at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Recognition

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method;

- held-to-maturity investments which are measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties and own credit risk.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale securities is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale securities is recognized as earned in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within placements with banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Derivative financial instruments

The Group uses derivative financial instruments to manage currency risk and liquidity risk for the purposes of trading. Derivative financial instruments include forward and future contracts on operations with foreign exchange and securities.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Although the Group trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings which are stated at revalued amounts as described below.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Revaluation

Land and buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the land and buildings being revalued. A revaluation increase on an item of land and building is recognised as other comprehensive income directly in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on an item of land or buildings is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised directly in equity.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Equipment	4 to 5 years
Fixtures and fittings	4 to 5 years
Motor vehicles	4 years

Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Intangible assets	5 to 10 years

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale securities that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and can not be reversed.

Available-for-sale securities

Impairment losses on available-for-sale securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Share capital

Share capital and share premium

Share capital comprises the nominal amount of the Group's shares fully paid by the shareholders adjusted for the effect of hyperinflation.

Share premium is the amount by which contributions to share capital exceeds the nominal value of the shares issued adjusted for the effect of hyperinflation.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Changes in accounting policies

Starting from 1 January 2009 the Group adopted the revised version of IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). As a result the income statement is replaced by a statement of comprehensive income that also includes all non-owner changes in equity, such as the revaluation of available-for-sale securities and revaluation of property and equipment. The balance sheet is renamed to the statement of financial position and the cash flow statement is renamed to the statement of cash flows. According to the revised IAS 1, a statement of financial position at the beginning of the earliest comparative period is presented whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2009, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these pronouncements on its financial statements.

- Revised IAS 24 *Related Party Disclosures* (2009) (effective for annual periods beginning on or after 1 January 2011) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively.

- *IAS 27 Consolidated and Separate Financial Statements* (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 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 be measured at its fair value.
- *Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010) clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments.
- *Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective for annual periods beginning on or after 1 January 2010) 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.
- *IFRS 9 Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognizes that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements. The impact of these changes will be analyzed during the course of the project as further phases of the standard are issued.
- *IFRIC 17 Distributions of Non-cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009) addresses the accounting for non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised.

Various *Improvements to IFRSs* which result in accounting changes for presentation, recognition or measurement purposes will come into effect not earlier than 1 January 2010.

Comparative information

The following reclassification has been made in the statement of financial position as at 31 December 2008 to conform to the presentation as at 31 December 2009, as the current year presentation provides a better view of the Group's financial position.

Amounts advanced to property development companies of RUR 1,090,680 thousand were reclassified from loans to customers to advances issued to property development companies.

4 Net interest income

	2009 RUR'000	2008 RUR'000
Interest income		
Loans and advances to customers	12,898,946	10,566,758
Amounts receivable under reverse repurchase agreements	374,641	199,898
Financial instruments at fair value through profit or loss	313,415	83,132
Placements with banks and other financial institutions	155,517	198,711
Available for sale investments	85,534	42,176
	13,828,053	11,090,675
Interest expense		
Customer accounts	4,323,412	2,949,652
Other borrowed funds	1,181,391	216,247
Debt securities issued	560,349	972,052
Deposits and balances from banks and other financial institutions	381,233	313,006
Subordinated debts	210,947	161,936
Payables under repurchase agreements	167,987	77,642
	6,825,319	4,690,535

5 Fee and commission income

	2009 RUR'000	2008 RUR'000
Cash operations fees	647,752	242,072
Settlement fees	564,193	336,213
Guarantee issuance fees	174,683	103,269
Plastic card fees	172,563	152,179
Bank-customer services fees	73,374	6,605
Foreign exchange fees	64,470	46,189
Documentary operations fees	46,173	133,088
Securities fees	10,339	59,898
Other	17,280	10,507
	1,770,827	1,090,020

6 Fee and commission expense

	2009 RUR'000	2008 RUR'000
Commissions on short term borrowings	95,291	8,046
Documentary operations	70,409	82,649
Plastic card fees	58,608	45,728
Settlement fees	34,246	16,930
Cash operations fees	25,747	14,922
Foreign exchange fees	13,296	6,384
Securities fees	9,424	4,557
Fees for guarantees received	6,225	10,271
Other	4,369	2,860
	317,615	192,347

7 Other income

	2009 RUR'000	2008 RUR'000
Income from repurchase of own debt securities	525,266	171,597
Commissions on insurance contracts	80,678	3,294
Income on property lease	22,787	9,946
Fines/penalties received	9,057	13,712
Commissions on pension payments	8,658	-
Write-off of accounts payable	5,250	46
Agency fees	5,031	4,010
Profit from disposal of property and equipment	3,984	15,896
Consulting services	-	4,237
Other	45,386	10,606
	706,097	233,344

8 Net gain/(loss) on financial instruments at fair value through profit or loss

	2009 RUR'000	2008 RUR'000
Equity instruments	28,753	(387,978)
Debt instruments	779,604	127,991
	808,357	(259,987)

9 Net foreign exchange income/(loss)

	2009 RUR'000	2008 RUR'000
Gain/(loss) from revaluation of financial assets and liabilities	71,237	(727,237)
Gain on spot transactions and derivatives	1,023,621	376,648
	1,094,858	(350,589)

10 Net gain on available-for-sale securities

	2009 RUR'000	2008 RUR'000
Equity instruments	6,224	159,179
Debt instruments	37,984	(36,499)
	44,208	122,680

11 Impairment losses

	2009 RUR'000	2008 RUR'000
Charge for provision for impairment		
Loans to customers	4,830,027	3,008,430
Placements with banks and other financial institutions	90,000	-
Available-for-sale securities	8,473	23,342
Property and equipment and intangible assets	242,017	310,281
Financial guarantees	25,358	-
Other assets	-	18,921
	5,195,875	3,360,974
Reversal of provision for impairment		
Placements with banks and other financial institutions	-	(264)
Financial guarantees	-	(1,398)
Other assets	(52)	-
	(52)	(1,662)
Total impairment losses	5,195,823	3,359,312

12 General administrative expenses

	2009 RUR'000	2008 RUR'000
Salary and bonuses	2,529,878	2,043,705
Occupancy	483,867	432,867
Depreciation and amortization of property, equipment and intangible assets	465,607	288,323
Payroll related taxes	434,174	366,119
Advertising expenses	279,520	351,762
Taxes other than income	236,261	227,200
Telecommunication services	224,330	201,516
Property and equipment maintenance	169,441	160,620
IT, vehicle maintenance and information services	159,391	145,923
Deposit insurance system payments	130,091	119,882
Materials and office supplies	97,410	92,390
Business trip expenses	96,018	129,894
Security	75,624	42,844
Software acquisition and support	65,556	49,314
Professional services	47,459	58,771
Loss on disposal of premises	36,703	20,142
Insurance	29,930	38,163
Entertainment	12,594	24,421
Fines paid	5,245	5,312
Other	142,011	111,001
	5,721,110	4,910,169

13 Income tax (expense)/benefit

	2009 RUR'000	2008 RUR'000
Current tax expense		
Current year	(480,020)	(140,890)
	(480,020)	(140,890)
Deferred tax expense		
Origination and reversal of temporary differences	299,307	151,426
Total income tax (expense)/benefit	(180,713)	10,536

The applicable tax rate for current tax is 20% (2008: 24%). The Group applied 20% deferred tax rate (2008: 20%).

Reconciliation of effective tax rate:

	2009 RUR'000	%	2008 RUR'000	%
Profit before tax	326,079		162,607	
Income tax at the applicable tax rate	65,216	20%	39,026	24%
Non-deductible costs	129,007	40%	208,027	128%
Non-taxable income	(13,510)	(4%)	(333,302)	(205%)
Effect of change in income tax rates	-	-	75,713	47%
	180,713	56%	(10,536)	(6%)

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as of 31 December 2009 and 2008. These deferred tax assets have been recognised in these consolidated financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim the deductions in future periods.

These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

RUR'000	Balance 1 January 2009	Recognised in income	Recognised in equity	Acquired in business combination	Balance 31 December 2009
Placements with banks and other financial institutions	170	17,667	-	-	17,837
Financial instruments at fair value through profit or loss (assets)	(14,568)	24,245	-	(340)	9,337
Amounts receivable under reverse repurchase agreements	58	(440)	-	-	(382)
Loans to customers	81,739	245,415	-	2,032	329,186
Available-for-sale securities	33,457	(9,433)	(22,282)	-	1,742
Property and equipment and intangible assets	(318,654)	16,473	19,429	(1,054)	(283,806)
Investment property	-	9,793	-	-	9,793
Other assets	188,650	8,885	-	690	198,225
Financial instruments at fair value through profit or loss (liabilities)	36,451	(18,798)	-	-	17,653
Deposits and balances from banks and other financial institutions	2,722	(3,292)	-	-	(570)
Current accounts and deposits from customers	(1,626)	5,734	-	-	4,108
Amounts payable under repurchase agreements	18	(18)	-	-	-
Debt securities in issue	(18,542)	12,148	-	-	(6,394)
Subordinated debt	10,198	(12,253)	-	-	(2,055)
Other borrowed funds	(5,352)	(9,958)	-	-	(15,310)
Other liabilities	45,459	13,139	-	1,379	59,977
	40,180	299,307	(2,853)	2,707	339,341

RUR'000	Balance 1 January 2008	Recognised in income	Recognised in equity	Acquired in business combination	Balance 31 December 2008
Placements with banks and other financial institutions	-	170	-	-	170
Financial instruments at fair value through profit or loss (assets)	(3,301)	(16,137)	-	4,870	(14,568)
Amounts receivable under reverse repurchase agreements	-	58	-	-	58
Loans to customers	(138,746)	154,425	-	66,060	81,739
Available-for-sale securities	-	-	24,024	9,433	33,457
Property and equipment and intangible assets	(375,305)	(39,287)	161,081	(65,143)	(318,654)
Other assets	28,742	94,672	-	65,236	188,650
Financial instruments at fair value through profit or loss (liabilities)	-	36,451	-	-	36,451
Deposits and balances from banks and other financial institutions	-	2,720	-	2	2,722
Current accounts and deposits from customers	4,625	(6,111)	-	(140)	(1,626)
Amounts payable under repurchase agreements	-	18	-	-	18
Debt securities in issue	6,444	(25,106)	-	120	(18,542)
Subordinated debt	2,450	7,748	-	-	10,198
Other borrowed funds	-	(5,352)	-	-	(5,352)
Other liabilities	95,955	(52,843)	-	2,347	45,459
	(379,136)	151,426	185,105	82,785	40,180

Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income comprise:

RUR'000	2009			2008			
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Effect of change in income tax rate	Amount net-of-tax
Net change in fair value of available-for-sale securities	111,411	(22,282)	89,129	(120,119)	24,024	-	(96,095)
Revaluation of property and equipment	(97,145)	19,429	(77,716)	(428,046)	85,609	75,472	(266,965)
Other comprehensive income	14,266	(2,853)	11,413	(548,165)	109,633	75,472	(363,060)

14 Placements with banks and other financial institutions

	2009 RUR'000	2008 RUR'000
NOT IMPAIRED OR PAST DUE		
Nostro accounts		
Rated from AA- to AA+	23,393	4,218
Rated A- to A+	2,451,568	652,394
Rated BBB	424,141	2,478,140
Rated from BB- to BB+	260	293
Rated below B+	24,062	45,001
Not rated	1,363,863	1,041,704
Total nostro accounts	4,287,287	4,221,750
Loans and deposits		
Rated A- to A+	-	14,690
Rated BBB	1,263,521	1,074,441
Rated from BB- to BB+	301,668	-
Rated below B+	300,000	1,087,608
Not rated	2,391,341	1,686,997
Total loans and deposits	4,256,530	3,863,736
IMPAIRED OR PAST DUE		
Loans to Russian banks	90,851	851
Provision for impairment	(90,851)	(851)
Net impaired loans to Russian banks	-	-
	8,543,817	8,085,486

Impaired placements with banks and other financial institution comprise placements with banks and other financial institution overdue for more than 1 year of RUR 851 thousand (31 December 2008: RUR 851 thousand).

Concentration of placements with banks

As at 31 December 2009 and 2008 the Group had two counterparties, whose balances individually exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2009 and 2008 were RUR 3,479,104 thousand and RUR 3,217,910 thousand, respectively.

Analysis of movements in the impairment allowance

	2009 RUR'000	2008 RUR'000
Balance at the beginning of the year	851	1,115
Net charge for the year	90,000	-
Write-offs	-	(264)
Balance at the end of the year	90,851	851

15 Financial instruments at fair value through profit or loss

	2009 RUR'000	2008 RUR'000
ASSETS		
<i>Held by the Group</i>		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Russian Government Federal bonds	-	4,784
Total government and municipal bonds	-	4,784
- Debt securities of companies and banks		
GAZ CAPITAL S.A. 2015	607,196	-
Deutsche Bank AG London	494,437	-
VTB Capital 2011-2	382,977	411,664
AK BARS Luxemburg S.A. 2010	307,724	73,608
Sibacademfinance 2010-3	294,164	149,943
VTB Capital 2016	224,323	165,176
Kuznetski Capital S.A. 2011	214,432	61,123
TNK-BP Finance 2013	210,864	-
Moscow River BV 2010	180,232	-
Trans Capitalinvest Limited	156,327	70,719
Promsvyaz Finance 2012-2	135,506	-
OJSC Bank VTB - issue 6	126,698	-
Kuznetski Capital S.A. 2013	119,599	-
IIB Luxemburg S.A.	108,751	-
OJSC ACB ROSBANK	107,527	-
Promsvyaz Finance 2013	106,760	-
TransCredit Finance 2010	92,645	-
Kuznetski Capital S.A. 2010	79,823	-
AK BARS Luxemburg S.A. 2011	76,073	-
Promsvyaz Finance 2011	62,284	-
Alfa Bond Issuance PLC 2013	59,742	-
RSHB Capital S.A. 2013	48,424	-
LLC "VTB-Leasing Finance" - issue 3	45,652	-
TNK-BP Finance 2011	32,246	-
Eurochem Finance 2012	30,963	-
GBP Eurobond Finance	30,044	23,275
OJSC CB "Petrocommerce" - issue 7	25,480	-
OJSC "Promsvyazbank" - issue 5	25,042	-
OJSC "Magnitogorskiy metallurgy kombinat" BO-01	24,321	-
OJSC "Mosenergo" BO-2	24,001	-
SPV CREDIT FINANCE P.L.C. 2012	23,933	-
OJSC "AC BARS" Bank - issue 3	23,554	-
SPV Ukraine Issuance PLC	19,673	-
MDM International Funding	15,703	13,712

	2009 RUR'000	2008 RUR'000
Promsvyaz Finance 2010	15,639	
Evraz Group S.A. 2013	15,368	-
Raspadskaya S.L.	15,328	-
OJSC "Mechel" - issue 2	9,905	-
TransCredit Finance 2011	7,923	-
SPV Alfa MTN Issuance Limited	-	107,967
Petrocommerce Finance S.A. 2009-2	-	92,300
LLC RMK-Finance	-	29,214
OJSC LMZ "Svobodniy sokol" – issue 3	-	12,180
OJSC SNHZ Finance	-	10,195
Other	5,756	16,606
Total debt securities of companies and banks	4,587,039	1,237,682
Equity securities		
OJSC "GMK "Norilskiy Nikel"	473,311	-
OJSC "Gazprom"	465,964	-
Sberbank RF	340,293	-
OJSC NC Rosneft	327,665	-
OJSC Surgutneftegaz	237,005	-
OJSC Bank VTB	157,087	-
Closed Mixed Investment Fund "Strazhi Urala"	100,000	107,000
Other	1,565	8,873
Total equity securities	2,102,890	115,873
Derivative financial instruments		
Foreign currency contracts	20,893	77,318
Total derivative financial instruments	20,893	77,318
Pledged under repurchase agreements		
- Debt securities of Russian companies and banks pledged		
OJSC "Bank vneshnei trgovli" issue 4	-	81,846
OJSC "Petrokomerts bank" issue 2	-	25,801
CJSC "Russian Standard Bank" issue 7	-	24,120
LLC "Rusfinans bank" issue 4	-	18,349
LLC "Home Credit and Finance Bank" issue 2	-	10,610
Total debt securities of companies and banks pledged	-	160,726
Total financial instruments at fair value through profit or loss	6,710,822	1,596,383
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	(49,263)	(182,253)
Securities contracts	(39,000)	-
Liabilities for purchase of assets pledged under reverse repurchase agreements and sold by the Group (short position)	(1,768,041)	-
	(1,856,304)	(182,253)

In 2008 the Group reclassified certain debt securities held for trading with effect from 8 August 2008 into available-for-sale securities following amendments to IAS 39 *Financial instrument: Recognition and Measurement*. The Group determined that the Georgian conflict in August 2008 in the context of the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category.

RUR'000	31 December 2009		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Quoted securities reclassified to available-for-sale securities	348,955	348,955	417,487	417,487
	348,955	348,955	417,487	417,487

Included in the table below are amounts related to financial instruments held by the Group as at 31 December 2009.

	2009 RUR'000		2008 RUR'000	
	Recognised for reclassified assets	Would have been recognized if the reclassifications were not made	Recognized for reclassified assets	Would have been recognized if the reclassifications were not made
Interest income	66,699	66,699	27,409	27,409
Gains/(losses) arising from available-for-sale securities, net	5,397	81,197	(25,973)	(80,166)
Total recognized in profit or loss for the period (before tax)	72,096	147,896	1,436	(52,757)
Net change in fair value of available-for-sale securities	75,800	-	(54,193)	-
Total amount recognized within a consolidated statement of comprehensive income for the period (before tax)	147,896	147,896	(52,757)	(52,757)

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2009 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contracted exchange rates	
	2009 RUR'000	2008 RUR'000	2009 RUR	2008 RUR
Buy USD sell RUR				
Less than three months	2,125,169	783,575	30.3166	29.7018
Buy RUR sell USD				
Less than three months	2,339,000	3,639,501	30.0024	29.5346
Buy EUR sell RUR				
Less than three months	68,120	476,573	43.4178	41.8475
Buy CHF sell USD				
Less than three months	-	166,997		1.0847
Buy RUR sell CHF				
From three to six months	197,741	94,089	28.2490	22.811
Buy GBP sell USD				
Less than three months	-	2,995,926	-	1.4486
Buy EUR sell USD				
Less than three months	7,150,826	5,633,918	1.4373	1.4100
Buy USD sell EUR				
Less than three months	3,781,284	5,568,407	1.4354	1.3948
Buy USD sell GBP				
Less than three months	-	3,003,912	-	1.4421
Buy RUR sell EUR				
Less than three months	1,004,836	-	43.1269	-
Buy JPY sell USD				
Less than three months	492	-	92.2402	-
Total	16,667,468	22,362,898		

16 Amounts receivable under reverse repurchase agreements

	2009 RUR'000	2008 RUR'000
Amounts receivable under reverse repurchase agreements		
Other Russian Banks	4,932,825	2,581,307
Total amounts receivable under reverse repurchase agreements	4,932,825	2,581,307

Collateral

As of 31 December 2009 and 2008, amounts receivable under reverse repurchase agreements were collateralised by the following securities:

	2009 RUR'000	2008 RUR'000
Corporate shares		
Sberbank	1,402,450	364,315
OJSC "Surgutneftegaz"	1,183,054	720,616
OJSC "Gazprom"	763,663	514,908
OJSC GMK "Norilsk Nickel"	650,533	562,717
OJSC "NK Rosneft"	488,433	257,635
OJSC "VTB bank"	341,777	161,116
OJSC "Mashprodukcija"	26,714	-
OJSC "NC Lukoil"	14,239	-
	4,870,863	2,581,307
Corporate bonds		
OJSC ACB "MBRD"	22,294	-
OJSC Acron	19,854	-
OJSC "URSA Bank"	19,814	-
	61,962	-
	4,932,825	2,581,307

17 Loans to customers

	2009 RUR'000	2008 RUR'000
Loans to legal entities		
Loans to large corporates	23,480,848	20,416,238
Loans to small and medium size companies	1,975,717	1,855,650
Total loans to legal entities	25,456,565	22,271,888
Loans to individuals		
Consumer loans	18,142,833	16,745,141
Credit cards	1,727,708	1,100,268
Car loans	1,258,707	1,879,241
Other	4,544,673	5,753,321
Total loans to individuals	25,673,921	25,477,971
Gross loans to customers	51,130,486	47,749,859
Impairment allowance	(8,608,302)	(4,238,545)
Net loans to customers	42,522,184	43,511,314

During the year end 31 December 2009 the Group sold a number of loans to legal entities in the total gross amount of RUR 1,587,394 thousand as at the date of sale (including RUR 155,169 thousand of accrued interest and penalties) for the consideration of RUR 1,475,466 thousand.

Movements in the loan impairment allowance for the year ended 31 December 2009 are as follows:

	2009 RUR'000	2008 RUR'000
Balance at the beginning of the year	4,238,545	1,765,374
Net charge for the year	4,830,027	3,008,430
Loans written off during the year as uncollectible	(460,270)	(535,259)
Balance at the end of the year	8,608,302	4,238,545

As at 31 December 2009, interest accrued on impaired loans amount to RUR 510,758 thousand (31 December 2008: RUR 366,340 thousand).

The total amount of pledged loans is RUR 9,638,653 thousand (31 December 2008: RUR 9,108,488 thousand). The loans are pledged against Other borrowed funds.

Credit quality of the loans to legal entities portfolio

The following table provides information on the credit quality of the loans to legal entities portfolio as at 31 December 2009:

	Gross loans RUR'000	Provision for impairment RUR'000	Net loans RUR'000	Impairment to gross loans %
Loans to large corporates				
Loans without individual signs of impairment				
- Standard loans	17,698,002	(146,966)	17,551,036	0.83%
- Watch list loans	1,438,319	(20,535)	1,417,784	1.43%
Total loans for which no impairment has been identified	19,136,321	(167,501)	18,968,820	0.88%
Impaired loans:				
- not overdue	2,331,253	(815,460)	1,515,793	34.98%
- overdue less than 90 days	557,696	(219,078)	338,618	39.28%
- overdue more than 90 days and less than 1 year	1,137,380	(428,655)	708,725	37.69%
- overdue more than 1 year	318,198	(191,291)	126,907	60.12%
Total impaired loans	4,344,527	(1,654,484)	2,690,043	38.08%
Total loans to large corporates	23,480,848	(1,821,985)	21,658,863	7.76%
Loans to small and medium size companies				
Loans without individual signs of impairment				
- Standard loans	1,232,559	(46,375)	1,186,184	3.76%
- Watch list loans	88,301	(3,792)	84,509	4.29%
Total loans for which no impairment has been identified	1,320,860	(50,167)	1,270,693	3.80%
Impaired loans:				
- not overdue	50,565	(19,612)	30,953	38.79%
- overdue less than 90 days	38,487	(21,614)	16,873	56.16%
- overdue more than 90 days and less than 1 year	114,663	(82,434)	32,229	71.89%
- overdue more than 1 year	451,142	(374,024)	77,118	82.91%
Total impaired loans	654,857	(497,684)	157,173	76.00%
Total loans to small and medium size companies	1,975,717	(547,851)	1,427,866	27.73%
Total loans to legal entities	25,456,565	(2,369,836)	23,086,729	9.31%

The following table provides information on the credit quality of the loans to legal entities portfolio as at 31 December 2008:

	Gross loans RUR'000	Provision for impairment RUR'000	Net loans RUR'000	Impairment to gross loans %
Loans to large corporates				
Loans for which no impairment has been identified:				
- Standard loans	16,899,894	(190,365)	16,709,529	1.13%
- Watch list loans	1,704,781	(19,939)	1,684,842	1.17%
Total loans for which no impairment has been identified	18,604,675	(210,304)	18,394,371	1.13%
Impaired loans:				
- not overdue	1,202,530	(42,452)	1,160,078	3.53%
- overdue less than 90 days	439,390	(160,191)	279,199	36.46%
- overdue more than 90 days and less than 1 year	158,449	(127,194)	31,255	80.27%
- overdue more than 1 year	11,194	(11,194)	-	100%
Total impaired loans	1,811,563	(341,031)	1,470,532	18.83%
Total loans to large corporates	20,416,238	(551,335)	19,864,903	2.70%
Loans to small and medium size companies				
Loans for which no impairment has been identified:				
- Standard loans	1,148,580	(53,449)	1,095,131	4.65%
- Watch list loans	161,158	(22,054)	139,104	13.68%
Total loans for which no impairment has been identified	1,309,738	(75,503)	1,234,235	5.76%
Impaired loans:				
- not overdue	134,678	(58,451)	76,227	43.40%
- overdue less than 90 days	108,894	(51,205)	57,689	47.02%
- overdue more than 90 days and less than 1 year	60,922	(33,159)	27,763	54.43%
- overdue more than 1 year	241,418	(220,465)	20,953	91.32%
Total impaired loans	545,912	(363,280)	182,632	66.55%
Total loans to small and medium size companies	1,855,650	(438,783)	1,416,867	23.65%
Total loans to legal entities	22,271,888	(990,118)	21,281,770	4.45%

The Group has estimated loan impairment for loans to legal entities based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment have been identified.

In determining the impairment allowance for loans to legal entities, management made the following key assumptions:

- historic annual loss rate of 1.06% was applied to loans to large corporates and 4.65% to loans to small and medium size companies
- a discount of between 20% and 50% to the originally appraised value if the property pledged is sold
- a delay of 6 to 12 months in obtaining proceeds from the foreclosure of collateral.

The portfolio allowance reflects management's estimate of the losses in the portfolio as at 31 December 2009.

The Group estimates loan impairment for loans to small and medium size companies based on its past historical loss experience on these types of loans. Management estimated the loan impairment provision based on a historic loss migration pattern for the last 12 months adjusted to reflect current economic conditions.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment provision on loans to legal entities as of 31 December 2009 would be RUR 230,867 thousand lower/higher (31 December 2008: RUR 212,818 thousand).

During the year ended 31 December 2009 the Group renegotiated loans to legal entities that would otherwise be past due or impaired of RUR 998,376 thousand (31 December 2008: RUR 600,535 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans to legal entities for the year ended 31 December 2009 are as follows:

	Loans to large corporates RUR'000	Loans to small and medium size companies RUR'000	Total RUR'000
Loan impairment allowance as at 1 January	551,335	438,783	990,118
Loans written off as uncollectible	(19,166)	-	(19,166)
Loan impairment losses	1,289,816	109,068	1,398,884
Loan impairment allowance as at 31 December	1,821,985	547,851	2,369,836

Movements in the loan impairment allowance by classes of loans to legal entities for the year ended 31 December 2008 are as follows:

	Loans to large corporates RUR'000	Loans to small and medium size companies RUR'000	Total RUR'000
Loan impairment allowance as at 1 January	415,610	260,161	675,771
Loans written off as uncollectible	(1,573)	-	(1,573)
Loan impairment losses	137,298	178,622	315,920
Loan impairment allowance as at 31 December	551,335	438,783	990,118

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals collectively assessed for impairment as at 31 December 2009:

	Gross loans RUR'000	Provision for impairment RUR'000	Net loans RUR'000	Provision for impairment to gross loans %
Consumer loans				
- Not past due	11,809,680	(33,453)	11,776,227	0.28%
- Overdue less than 30 days	638,672	(15,488)	623,184	2.43%
- Overdue 30-89 days	430,845	(54,441)	376,404	12.64%
- Overdue 90-179 days	507,700	(138,963)	368,737	27.37%
- Overdue 180-360 days	1,476,700	(1,048,885)	427,815	71.03%
- Overdue more than 360 days	3,279,236	(2,946,077)	333,159	89.84%
Total consumer loans	18,142,833	(4,237,307)	13,905,526	23.36%
Credit cards				
- Not past due	953,321	(5,655)	947,666	0.59%
- Overdue less than 30 days	114,428	(3,207)	111,221	2.80%
- Overdue 30-89 days	75,423	(7,207)	68,216	9.56%
- Overdue 90-179 days	59,716	(12,437)	47,279	20.83%
- Overdue 180-360 days	153,229	(80,406)	72,823	52.47%
- Overdue more than 360 days	371,591	(268,905)	102,686	72.37%
Total credit cards	1,727,708	(377,817)	1,349,891	21.87%
Car loans				
- Not past due	755,288	(5,869)	749,419	0.78%
- Overdue less than 30 days	71,918	(2,430)	69,488	3.38%
- Overdue 30-89 days	24,909	(4,637)	20,272	18.62%
- Overdue 90-179 days	32,813	(13,884)	18,929	42.31%
- Overdue 180-360 days	91,576	(51,252)	40,324	55.97%
- Overdue more than 360 days	282,203	(251,743)	30,460	89.21%
Total car loans	1,258,707	(329,815)	928,892	26.20%
Other loans to individuals				
- Not past due	2,711,613	(31,365)	2,680,248	1.16%
- Overdue less than 30 days	230,137	(14,934)	215,203	6.49%
- Overdue 30-89 days	230,496	(71,545)	158,951	31.04%
- Overdue 90-179 days	193,391	(106,123)	87,268	54.87%
- Overdue 180 - 360 days	450,791	(341,449)	109,342	75.74%
- Overdue more than 360 days	728,245	(728,111)	134	99.98%
Total other loans to individuals	4,544,673	(1,293,527)	3,251,146	28.46%
Total loans to individuals	25,673,921	(6,238,466)	19,435,455	24.30%

The following table provides information on the credit quality of loans to individuals collectively assessed for impairment as at 31 December 2008:

	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Consumer loans				
- Not past due	12,497,545	(47,202)	12,450,343	0.38%
- Overdue less than 30 days	1,043,583	(71,511)	972,072	6.85%
- Overdue 30-89 days	747,474	(161,052)	586,422	21.55%
- Overdue 90-179 days	553,011	(184,670)	368,341	33.39%
- Overdue 180 - 360 days	962,086	(809,080)	153,006	84.10%
- Overdue more than 360 days	941,442	(843,552)	97,890	89.60%
Total consumer loans	16,745,141	(2,117,067)	14,628,074	12.64%
Credit cards				
- Not past due	802,398	(5,162)	797,236	0.64%
- Overdue less than 30 days	50,381	(4,676)	45,705	9.28%
- Overdue 30-89 days	77,911	(23,025)	54,886	29.55%
- Overdue 90-179 days	33,648	(15,599)	18,049	46.36%
- Overdue 180 - 360 days	63,893	(53,031)	10,862	83.00%
- Overdue more than 360 days	72,037	(62,674)	9,363	87.00%
Total credit cards	1,100,268	(164,167)	936,101	14.92%
Car loans				
- Not past due	1,402,687	(18,683)	1,384,004	1.33%
- Overdue less than 30 days	107,037	(7,164)	99,873	6.69%
- Overdue 30-89 days	80,154	(19,154)	61,000	23.90%
- Overdue 90-179 days	63,873	(26,035)	37,838	40.76%
- Overdue 180 - 360 days	63,127	(41,847)	21,280	66.29%
- Overdue more than 360 days	162,363	(116,757)	45,606	71.91%
Total car loans	1,879,241	(229,640)	1,649,601	12.22%
Other retail loans				
- Not past due	4,616,871	(55,435)	4,561,436	1.20%
- Overdue less than 30 days	354,366	(61,380)	292,986	17.32%
- Overdue 30-89 days	271,690	(149,858)	121,832	55.16%
- Overdue 90-179 days	167,191	(144,663)	22,528	86.53%
- Overdue 180 - 360 days	169,869	(152,883)	16,986	90.00%
- Overdue more than 360 days	173,334	(173,334)	-	100.00%
Total other retail loans	5,753,321	(737,553)	5,015,768	12.82%
Total retail loans	25,477,971	(3,248,427)	22,229,544	12.75%

The Group estimates loan impairment based on its past historical loss experience on these types of loans. The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months

- loans overdue more than 60 days and for which there were two or more payments of principal or interest within the last 60 days will continue to generate cashflows and have different credit quality than other overdue loans. Loss migration rates on such loans are estimated based on a separate historic loss migration pattern.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the loan impairment on loans to individuals as of 31 December 2009 would be RUR 583,064 thousand lower/higher (31 December 2008: RUR 666,886 thousand).

As at 31 December 2009 included in the loan portfolio are restructured loans to individuals that would otherwise be past due or impaired of RUR 1,077,767 thousand (31 December 2008: RUR 518,837 thousand).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2009 are as follows:

RUR'000	Consumer loans	Credit cards	Car loans	Other loans	Total
Loan impairment allowance as at 1 January	2,117,067	164,167	229,640	737,553	3,248,427
Loans written off as uncollectible	(301,705)	(28,731)	(20,932)	(89,736)	(441,104)
Loan impairment losses	2,421,945	242,381	121,107	645,710	3,431,143
Loan impairment allowance as at 31 December	4,237,307	377,817	329,815	1,293,527	6,238,466

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2008 are as follows:

RUR'000	Consumer loans	Credit cards	Car loans	Other loans	Total
Loan impairment allowance as at 1 January	672,644	85,935	143,859	187,165	1,089,603
Loans written off as uncollectible	(317,641)	(26,971)	(67,901)	(121,173)	(533,686)
Loan impairment losses	1,762,064	105,203	153,682	671,561	2,692,510
Loan impairment allowance as at 31 December	2,117,067	164,167	229,640	737,553	3,248,427

Analysis of collateral

The following table provides the analysis of loans to legal entities and loans to individuals portfolio, gross of impairment, by types of collateral as at 31 December 2009:

	2009 RUR'000	% of loan portfolio RUR'000	2008 RUR'000	% of loan portfolio RUR'000
Real estate	6,510,598	12.73%	5,775,305	12.10%
Guarantees	5,322,947	10.41%	5,201,625	10.89%
Motor vehicles	2,702,393	5.29%	2,872,037	6.01%
Other collateral	2,547,163	4.98%	2,593,933	5.43%
Traded securities	921,753	1.80%	293,126	0.61%
No collateral	33,125,632	64.79%	31,013,833	64.96%
Total	51,130,486	100.00%	47,749,859	100.00%

The amounts shown in the table above represent the gross values of the loans, and do not necessarily represent the fair value of the collateral.

Impaired or overdue loans to legal entities with a gross value of RUR 3,667,465 thousand (31 December 2008: RUR 1,221,144 thousand) are secured by collateral with a fair value of RUR 2,886,471 thousand (31 December 2008: RUR 1,644,520 thousand). For the remaining impaired loans of RUR 1,331,919 thousand (31 December 2008: RUR 1,136,331 thousand) there is no collateral or it is impracticable to determine fair value of collateral.

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by underlying vehicles. Credit card overdrafts and consumer loans are not secured.

During the year ended 31 December 2009 the Group obtained assets by taking control of collateral accepted as security for commercial loans in the total amount of RUR 233,980 thousand (31 December 2008: RUR 34,194 thousand).

Industry analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation who operate in the following economic sectors:

	2009 RUR'000	2008 RUR'000
Individuals	25,673,921	25,477,971
Trade	10,136,401	7,899,205
Manufacturing	3,625,345	3,594,029
Construction	2,830,667	2,078,368
Leasing	3,896,952	2,121,168
Agriculture	133,025	195,731
Heavy industry	64,831	38,606
State authorities	-	9,912
Other	4,769,344	6,334,869
	51,130,486	47,749,859
Impairment allowance	(8,608,302)	(4,238,545)
	42,522,184	43,511,314

Loan maturities

The maturity of the loan portfolio is presented in note 42, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Group, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the term based on contractual terms.

18 Available-for-sale securities

	2009 RUR'000	2008 RUR'000
ASSETS		
<i>Held by the Group</i>		
Debt and other fixed-income instruments		
Corporate bonds		
OJSC KB "Solidarnost" issue 2	308,877	413,665
LLC "Minplita-finance" issue 1	40,078	39,861
OJSC "Nomos Bank" issue 8	-	28,906
OJSC "Dalnevostochnaya generiruyushaya company"	-	27,049
LLC "Nitol Group" issue 2	-	10,811
Other	4,490	17,203
Total corporate bonds	353,445	537,495
Equity investments		
OJSC "Nizhnetagilski kotelno-radiatori zavod"	20,232	20,232
OJSC "Gazprom"	-	347,025
Other	11,393	14,856
Total equity investments	31,625	382,113
Pledged under repurchase agreements		
Corporate bonds		
Rosselhozbank issue 6	-	156,166
Total corporate bonds	-	156,166
Equity investments		
OJSC "Gazprom"	-	183,600
Total equity investments	-	183,600
Total financial instruments available-for-sale	385,070	1,259,374

As of 31 December 2009 the Group held non-quoted equity securities of RUR 20,351 thousand (31 December 2008: RUR 35,088 thousand).

Included in financial instruments available-for-sale are assets amounting to RUR 8,473 thousand which are impaired (31 December 2008: RUR 28,936 thousand) and for which an unrealised loss from revaluation of RUR 8,473 thousand (31 December 2008: RUR 23,342 thousand) has been recognized in profit and loss.

19 Property, equipment and intangible assets

RUR'000	Land and buildings	Equipment	Motor vehicles	Intangible assets	Construction in progress	Leasehold assets improvements	Total
Cost/revalued amount							
At 1 January 2009	3,987,804	1,060,610	131,287	246,612	157,688	-	5,584,001
Additions	38,877	230,343	20,564	194,689	56,114	-	540,587
Disposals	(48,914)	(54,416)	(18,346)	-	(9,548)	-	(131,224)
Transfers	(17,630)	(2,949)	-	-	(148,186)	168,765	-
Transfer to investment property (Note 20)	(27,400)	-	-	-	-	-	(27,400)
Acquired in business combination	-	45,387	860	585	-	-	46,832
Elimination of accumulated depreciation of revalued assets	(78,646)	-	-	-	-	-	(78,646)
Revaluation	(339,162)	-	-	-	-	-	(339,162)
At 31 December 2009	3,514,929	1,278,975	134,365	441,886	56,068	168,765	5,594,988
Depreciation and amortization							
At 1 January 2009	-	403,778	28,453	76,227	-	-	508,458
Depreciation and amortization charge	86,054	258,335	41,392	51,774	-	28,052	465,607
Disposals	(3,284)	(36,562)	(9,083)	-	-	-	(48,929)
Transfers	(4,124)	(14,303)	-	-	-	18,427	-
Elimination of accumulated depreciation of revalued assets	(78,646)	-	-	-	-	-	(78,646)
At 31 December 2009	-	611,248	60,762	128,001	-	46,479	846,490
Carrying value							
At 31 December 2009	3,514,929	667,727	73,603	313,885	56,068	122,286	4,748,498

RUR'000	Land and buildings	Equipment	Motor vehicles	Intangible assets	Construction in progress	Total
Cost/Revalued amount						
At 1 January 2008	2,547,965	755,968	70,748	173,028	1,145,303	4,693,012
Additions	163,829	290,660	41,694	70,608	51,162	617,953
Disposals	(146,267)	(36,275)	(32,387)	-	-	(214,929)
Transfers	1,146,468	(88,598)	-	-	(1,057,870)	-
Acquired in business combination	1,038,956	138,855	51,232	2,976	19,093	1,251,112
Elimination of accumulated depreciation of revalued assets	(78,442)	-	-	-	-	(78,442)
Revaluation	(684,705)	-	-	-	-	(684,705)
At 31 December 2008	3,987,804	1,060,610	131,287	246,612	157,688	5,584,001
Depreciation and amortization						
At 1 January 2008	-	277,743	17,603	41,935	-	337,281
Depreciation and amortization charge	68,694	173,175	12,162	34,292	-	288,323
Disposals	(5,841)	(31,551)	(1,312)	-	-	(38,704)
Transfers	15,589	(15,589)	-	-	-	-
Elimination of accumulated depreciation on revaluation	(78,442)	-	-	-	-	(78,442)
At 31 December 2008	-	403,778	28,453	76,227	-	508,458
Carrying value						
At 31 December 2008	3,987,804	656,832	102,834	170,385	157,688	5,075,543

Revalued assets

At 31 December 2009 buildings were revalued by Management based on the results of an independent appraisal.

The valuation was performed based on the market and income capitalization approaches.

The estimate of the market value is based on the direct comparison of the revalued object with other objects sold or offered for sale. The market value of premises is determined by the price which an independent party would pay for an object similar by its quality and use. The market value of premises was estimated based on information on sales of the comparable items that took place in the market.

The following key assumptions are used in applying the income capitalization approach:

- gross operating income was estimated based on the market rental rates of 3,800 – 88,100 RUR per square meter per annum depending on the characteristics of the revalued assets
- net operating income was adjusted by loss on vacant spaces (5 – 10% out of market rental rates) and by operational expenses (30 – 60 USD per square meter per annum)
- capitalisation rates used for estimation of fair value of buildings ranging from 12% to 14% depending on the type of property

The values assigned to the key assumptions represent Management's assessment of future business trends and are based on both external sources and internal sources of information.

Included in the above table is RUR 339,162 thousand (31 December 2008: RUR 684,705 thousand) representing the 2009 negative revaluation in respect of these buildings. Negative revaluation of RUR 97,145 thousand was recorded in consolidated equity (31 December 2008: RUR 374,424 thousand), and negative revaluation of RUR 242,017 thousand (31 December 2008: RUR 310,281 thousand) was recognized as an impairment charge in profit or loss due to the fair value falling below cost for certain buildings.

The carrying value of buildings as of 31 December 2009, if the buildings would not have been revalued, would be RUR 2,818,335 thousand (31 December 2008: RUR 2,947,157 thousand).

Analysis of movements in the impairment allowance

	2009 RUR'000	2008 RUR'000
Balance at the beginning of the year	310,281	-
Net charge for the year	242,017	310,281
Balance at the end of the year	552,298	310,281

20 Investment property

	2009	2008
	RUR'000	RUR'000
Fair value		
At 1 January	-	-
Transfers (Note 19)	27,400	-
Additions	801,130	-
Change in fair value	(39,750)	-
At 31 December	788,780	-

During 2009 buildings in the amount of RUR 27,400 thousand were transferred from property and equipment to investment property. During 2009 no rental income was recognized in relation to investment property.

Management valued investment properties based on the results of independent appraisals. The approach used for the revaluation was consistent with revaluation of buildings in own use (refer to Note 19).

21 Advances issued to property development companies

As of 31 December 2009 the Group had advanced funding of RUR 2,976,888 thousand to a group of property development companies (the "Development Companies"). These advances were made through a number of legal arrangements, including direct loans to the Development Companies and amounts advanced to other financial intermediaries that were subsequently advanced to the Development Companies.

No loan loss allowance on these advances has been recognized as the Group expects that the advances will be ultimately repaid through the sale proceeds of certain underlying construction projects and land which are owned by the Development Companies. Management have obtained an independent appraisal from a professional valuer for these underlying assets which indicates a fair value of RUR 6,090,250 thousand at 31 December 2009.

In the period from 1 January 2009 to 29 December 2009 the ultimate shareholder of the Development Companies was the main shareholder of the Group and as a result all transactions which took place within this period were considered by management of the Group as transactions with related parties. As of 29 December 2009 the main shareholder of the Group (the "Seller") sold its shares in the Development Companies to a party not related to the Group (the "Buyer"), in return for deferred consideration, under a sale agreement (the "Sale Agreement").

In conjunction with the Sale Agreement, on 30 December 2009 the Buyer issued an option agreement to the Group, which gave the Group the right but not the obligation to purchase the Development Companies from the Buyer. Under the terms of this agreement, on exercise of the option by the Group, the Buyer would be relieved of its obligations to the Seller in relation to making deferred payment for the Development Companies under the Sale Agreement.

Subsequently, on 6 May 2010, the Group exercised its option to purchase a 100% share in the Development Companies. The purpose of this acquisition is to enable the Group to realise the commercial development of the underlying construction projects.

The name of the parent company of the Development Companies, and the acquiree under this transaction, is Probusiness Development LLC.

The total amount of consideration in respect of the transaction is RUR 230,813 thousand. As a result of the acquisition the assets and third party liabilities of the Development Companies will be consolidated with those of the Group. Advances issued to the Development Companies will be derecognised on consolidation.

At the time of the approval of the financial statements, the initial accounting for the business combination is incomplete and therefore disclosures relating to the measurement and recognition of goodwill arising on acquisition, and the fair values of assets and liabilities acquired, have not been included in these financial statements.

22 Other assets

	2009 RUR'000	2008 RUR'000
Prepayments	445,489	447,601
Other receivables	101,362	50,211
Investment coins	47,483	-
Property received under pledge agreements	34,988	236,973
Taxes receivable, other than income tax	22,592	46,768
Investments in associates and unconsolidated subsidiaries	11,185	13,358
Settlements on transactions with securities	-	250,250
Receivables on construction in progress	-	33,968
Provision for impairment	(19,487)	(19,539)
Total other assets	643,612	1,059,590

As at 31 December 2009, included in other assets are overdue receivables of RUR 19,487 thousand (31 December 2008: RUR 19,539 thousand).

Associates and unconsolidated subsidiaries comprise:

Name	Country of incorporation	Main activity	% Controlled		2009	2008
			2009	2008	Carrying value RUR'000	Carrying value RUR'000
LLC "Insurance company Uveren.RU"	Russian Federation	Insurance	5%	5%	8,159	8,159
LLC "Factoring company Arterial Group"	Russian Federation	Factoring	50%	50%	2,542	2,542
LLC "Factoring company Debitorov.Net"	Russian Federation	Factoring	100%	-	100	-
LLC "Scratch Card"	Russian Federation	Other	100%	100%	100	100
CJSC "Intercard"	Russian Federation	Other	70%	70%	270	270
LLC "Modernization of Growth Consulting company"	Russian Federation	Other	100%	-	10	-
LLC "CHOP STRAZH-2002"	Russian Federation	Security	24%	24%	2	2
LLC "Stroycapital"	Russian Federation	Construction	19%	19%	2	2
LLC "Trajectory of Growth Consulting company"	Russian Federation	Other	-	24%	-	17
LLC "Business academy"	Russian Federation	Other	-	100%	-	2,266
					11,185	13,358

23 Deposits and balances from banks and other financial institutions

	2009 RUR'000	2008 RUR'000
Vostro accounts	335,152	1,032,876
Term deposits	1,968,137	7,453,452
	2,303,289	8,486,328

Concentration of deposits and balances from banks

As at 31 December 2009 and 2008 the Group has three and one counterparties, respectively, whose balances exceeded 10% of total deposits and balances from banks and other financial institutions. The gross value of these balances as of 31 December 2009 and 2008 are RUR 858,863 thousand and RUR 6,301,974 thousand, respectively.

24 Amounts payable under repurchase agreements

	2009 RUR'000	2008 RUR'000
Amounts payable to banks and other financial institutions	1,158,749	1,116,288
Amounts payable to the Central Bank of Russian Federation	-	273,613
	1,158,749	1,389,901

25 Current accounts and deposits from customers

	2009 RUR'000	2008 RUR'000
Current accounts and demand deposits		
- Individuals	3,332,480	2,255,759
- Corporate clients	10,868,712	8,417,206
Term deposits		
- Individuals	35,527,447	27,484,929
- Corporate clients	3,683,616	3,676,109
	53,412,255	41,834,003

26 Debt securities issued

	2009 RUR'000	2008 RUR'000
Discount bearing promissory notes	2,593,053	1,268,198
Loan participation notes	2,366,099	4,904,093
Zero-interest/non-discount bearing promissory notes	48,298	130,449
Interest-bearing promissory notes	8,292	81,218
Bonds	-	240,691
Total debt securities issued	5,015,742	6,624,649

Discount bearing promissory notes represent debt securities issued to legal entities with effective interest rates ranging from 3 to 22% (31 December 2008: from 3 to 20%) and maturity from 2010 to 2011 (31 December 2008: from 2009 to 2011).

As at 31 December 2009 and 2008, the Group had the following loan participation notes outstanding:

Principal amount as at 31 December 2009 '000	Principal amount as at 31 December 2008 '000	Interest rate %	Issue date	Maturity date	2009 RUR'000	2008 RUR'000
1,668,400 RUR	2,728,000 RUR	9.67	09.07.2007	08.07.2010	1,658,750	2,699,525
20,135 USD	69,070 USD	12.40	18.08.2008	17.08.2010	707,349	2,204,568
-	-				-	-
Total loan participation notes					2,366,099	4,904,093

27 Other borrowed funds

As at 31 December 2009 and 2008 other borrowed funds comprise:

	Original currency	Maturity date	2009		2008	
			Interest rate %	RUR'000	Interest rate %	RUR'000
State corporation "Deposit Insurance Agency"	RUR	2013	19.5	1,811,976	19.5	1,903,468
State corporation "Deposit Insurance Agency"	RUR	2013	19.5	3,586,228	19.5	3,768,584
Loans granted by Landesbank Berlin AG	EUR	2009	-	-	6.29	522
Loans granted by Landesbank Berlin AG	EUR	2010	2.09	81,772	6.29-6.54	116,115
Loans granted by Landesbank Berlin AG	EUR	2012	3.43	19,341	5.96	28,223
Loans granted by European Bank for Reconstruction and Development	USD	2009	-	-	5.46-6.40	143,009
Loans granted by European Bank for Reconstruction and Development	USD	2010	3.68-3.96	198,495	-	-
Loans granted by European Bank for Reconstruction and Development	USD	2011	4.86	205,377	7.11	301,777
Loans granted by Bankgesellschaft Berlin AG	USD	2010	5.69	34,617	5.69	67,278
Loans granted by Bankgesellschaft Berlin AG	EUR	2014	5.10	228,839	5.10	267,162
Loans granted by Bankgesellschaft Berlin AG	EUR	2010	4.30-4.65	8,927	4.30-4.65	25,576
Loans granted by Deere Credit	USD	2011	1.29	10,841	3.39	17,596
Loans granted by Deere Credit	EUR	2009	-	-	6.26	11,172
Loans granted by Bayerische Vereinsbank AG	CHF	2014	5.25	185,540	4.05	210,127
Loans granted by Bayerische Vereinsbank AG	EUR	2015-16	1.92-3.57	2,592,958	5.14-6.45	1,535,553
Loans granted by Landesbank Baden-Württemberg	EUR	2010-11	2.63-5.41	80,003	5.37-6.26	134,758
Loans granted by Blacksea bank for development and trade	USD	2009	-	-	6.79	151,525
Loans granted by Bre Bank	USD	2011	2.08	49,157	4.24	79,778
				9,094,071		8,762,223

28 Subordinated debts

Subordinated debts as at 31 December 2009 and 31 December 2008 comprise:

	Original Currency	Maturity date	2009		2008	
			Interest rate %	RUR'000	Interest rate %	RUR'000
AMBIKA Investments Limited	USD	2014	13.50	574,640	13.50	558,227
European Bank for Reconstruction and Development	USD	2011	6.88	418,888	11.42	400,685
European Bank for Reconstruction and Development	USD	2013	6.22	182,176	8.13	177,183
LLC "Collection agency "Life "	RUR	2012-2020	9.63	340,000	14.30	340,000
LLC "Collection agency "Life "	USD	2013	8.73	60,719	8.73	58,985
LLC "Amigo"	RUR	2011	9.63	100,431	14.30	100,625
LLC "Probusiness Holding"	RUR	2014	0.50	31,000	0.50	31,000
East Capital Financials Fund AB	RUR	2013	-	-	12.00	634,938
LLC "Omega OPT trading"	RUR	2012	-	-	10.00	50,300
LLC "Sorbeng NPK"	RUR	2012	-	-	10.00	40,240
LLC "Polimerplast Invest"	RUR	2018-19	-	-	10.00	150,903
LLC "Sibural-Invest"	RUR	2013	-	-	10.00	20,120
LLC "Intorg"	RUR	2016	-	-	8.00	56,269
Total subordinated debts				1,707,854		2,619,475

In case of bankruptcy or liquidation of the Group, the repayment of the subordinated debts shall be made after repayment in full of liabilities to all other creditors of the Group.

29 Other liabilities

	2009 RUR'000	2008 RUR'000
Payables to employees	215,247	201,464
Deferred fees for credit operations	77,349	-
Deferred fees for customer accounts maintenance	54,926	47,099
Taxes payable, other than income tax	52,151	45,804
Provisions for guarantees and other commitments	41,940	16,582
Liabilities on payments to the deposit insurance fund system	36,322	29,018
Property received under pledge agreements	28,007	202,779
Leasing obligations	10,585	26,920
Amounts payable under transactions with securities	116	149,989
Payables to Moscow region Pension Fund	-	30,434
Other	25,527	30,447
Total other liabilities	542,170	780,536

30 Share capital and share premium

Issued capital and share premium

The authorised, issued and outstanding share capital comprises 3,438,329 ordinary shares (2008: 3,147,001 ordinary shares). All shares have a nominal value of RUR 1,000. During 2009 291,328 ordinary shares were issued (2008: 79,433 ordinary shares) for total consideration of RUR 624,899 thousand (2008: RUR 375,003 thousand).

Contributions to share capital made prior to 1 January 2003 have been restated by the amount of RUR 979,070 thousand to account for changes in the general purchasing power of the Rouble in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies".

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Group.

In 2008 the Bank received a net loss under Russian accounting principles in the total amount of RUR 471,891 thousand. At the annual general meeting of the Group the shareholders decided to transfer part of share premium to reimburse the accumulated losses in the total amount of RUR 471,891 thousand.

During 2009 the main shareholder of the Group made an additional cash contribution to the Group. As a result of this transaction additional paid-in capital of the Group increased by RUR 540,620 thousand.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Group, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation, as of the reporting date, no reserves were available for distribution (2008: no reserves available).

31 Analysis by segment

The Group has six reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate business division (CBD) – services companies with income from US 5 million dollars to US 100 million dollars. This division implements the principle of business management by portfolios. The division is structured by client segments. Subdivisions specialize in maintenance of special groups of clients.
- Small and medium size business division (SMBD) is organized into four main subdivisions: Small-size business, Medium-size business and Leasing. The main activities of Small-size business subdivision are express loans selling and cash and settlement operations with entrepreneurs and small-size entities whose annual revenue do not exceed US 1.5 million dollars. The main activities of the Medium-size business subdivision are loan selling to entities of larger size with total number of employees about 50 and annual revenue about US 3 million dollars. Leasing subdivision maintains all types of clients: large companies, as well as small-size entities that are mainly customers in respect of express leasing and express auto leasing.
- Retail business division (RBD). The main activities of this division are all types of lending, investments, cash transfers, maintenance of safety deposit boxes, plastic cards and credit cards.
- Express loan division (ELD) is specialized in providing express loans to individuals in one hour.
- Bank 24.RU is offering twenty-four-hour banking services to small and medium size business and individuals.
- National Bank of Savings is providing loans to individuals of the budgetary sector of the economy.

Segment breakdown of assets and liabilities of the Group is set out below:

	2009	2008
	RUR'000	RUR'000
ASSETS		
Corporate business division	16,824,841	17,128,387
Retail business division	10,533,287	12,074,649
Small and medium size business division	4,674,261	6,921,570
Express loan division	3,961,177	3,304,033
Bank 24.RU	2,719,406	-
National Bank of Savings	274,365	-
Unallocated assets	44,865,817	38,685,894
Total assets	83,853,154	78,114,533
LIABILITIES		
Retail business division	31,050,906	23,592,304
Corporate business division	15,031,131	8,947,205
Bank 24.RU	6,158,328	-
Small and medium size business division	5,831,264	3,791,363
Express loan division	1,311,588	57,384
National Bank of Savings	-	-
Unallocated liabilities	15,707,217	34,291,112
Total liabilities	75,090,434	70,679,368

Segment information for the main reportable business segments of the Group for the year ended 31 December 2009 is set below:

	Retail business division	Corporate business division	Express loan division	Small and medium size business division	Bank 24.RU	National Bank of Savings	Unallocated	Total
Interest income	4 044 051	4,001,029	2,185,705	1,657,876	782,578	31,263	1,125,551	13,828,053
Interest expense	(3,124,618)	(1,231,026)	(79,918)	(124,591)	(589,904)	-	(1,675,262)	(6,825,319)
Net revenue from other segments	2,636,155	(1,618,069)	(801,618)	(259,318)	(122,000)	(24,266)	189,116	-
Net interest income before provision for impairment	3,555,588	1,151,934	1,304,169	1,273,967	70,674	6,997	(360,595)	7,002,734
Provision for impairment and loss from disposal of loans	(2,158,592)	(1,658,403)	(228,193)	(1,027,402)	121,821	(3,037)	-	(4,953,806)
Net interest income/(loss) after provision for impairment	1,396,996	(506,469)	1,075,976	246,565	192,495	3,960	(360,595)	2,048,928
Non-interest income	879,594	794,101	39,298	559,612	626,682	17,282	1,363,459	4,280,028
Negative revaluation of buildings	-	-	-	-	-	-	(242,017)	(242,017)
Revaluation of investment property	-	-	-	-	-	-	(39,750)	(39,750)
General administrative expenses	(1,627,621)	(592,689)	(885,568)	(917,883)	(699,000)	(67,390)	(930,959)	(5,721,110)
Segment result	648,969	(305,057)	229,706	(111,706)	120,177	(46,148)	(209,862)	326,079
Income tax expense								(180,713)
Net profit								145,366

Segment information for the main reportable business segments of the Group for the year ended 31 December 2008 is set below:

	Retail business division	Corporate business division	Express loan division	Small and medium size business division	Unallocated	Total
Interest income	3,833,927	3,142,298	1,782,712	1,630,482	701,256	11,090,675
Interest expense	(2,126,374)	(831,561)	(210)	(175,850)	(1,556,540)	(4,690,535)
Net revenue from other segments	530,686	(1,070,022)	(601,984)	(456,529)	1,597,849	-
Net interest income before provision for impairment	2,238,239	1,240,715	1,180,518	998,103	742,565	6,400,140
Provision for impairment and loss from disposal of loans	(1,569,537)	(130,625)	(986,149)	(219,559)	(143,161)	(3,049,031)
Net interest income/(loss) after provision for impairment	668,702	1,110,090	194,369	778,544	599,404	3,351,109
Non-interest income	483,304	599,133	(1,303)	350,840	599,974	2,031,948
Negative revaluation of buildings	-	-	-	-	(310,281)	(310,281)
General administrative expenses	(1,491,524)	(650,910)	(866,732)	(696,260)	(1,204,743)	(4,910,169)
Segment result	(339,518)	1,058,313	(673,666)	433,124	(315,646)	162,607
Income tax benefit						10,536
Net profit						173,143

The Group operates in the Russian Federation. There is no geographical allocation of revenue and assets due to the fact that the Group operates in one country.

32 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk.

Risk management policies and procedures

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Strategic Committee of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Risk Department of the Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operate within the established risk parameters. The Head of Risk Department of the Group is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the President of the Group.

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are set by the Strategic Committee of the Group. The Treasury Department and the Financial Markets Department manage market risks within these limits and the Risk Department monitors that the limits are complied.

The management of interest rates risk, a component of market risk, by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Group's net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments.

The Group 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 also reduce or create losses in the event that unexpected movements arise.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

An analysis of sensitivity of the Group's net profit for the period and equity to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2009 and 31 December 2008 is as follows:

	2009		2008	
	Net profit	Equity	Net profit	Equity
	RUR'000	RUR'000	RUR'000	RUR'000
100 bp parallel fall	(11,265)	(11,265)	(22,225)	(22,225)
100 bp parallel rise	11,265	11,265	22,225	22,225

An analysis of sensitivity of the net income for the year and equity as a result of changes in fair value of financial instruments at fair value through profit or loss and available-for-sale securities due to changes in the interest rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2009		2008	
	Net profit	Equity	Net profit	Equity
	RUR'000	RUR'000	RUR'000	RUR'000
100 bp parallel fall	73,140	73,801	16,424	17,712
100 bp parallel rise	(62,733)	(63,393)	(14,146)	(15,434)

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Group's exposure to currency risk at year end refer to Note 43.

An analysis of sensitivity of the Group's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 5% change in USD and Euro to Russian Rouble exchange rates is as follows:

	2009		2008	
	Net profit	Equity	Net profit	Equity
	RUR'000	RUR'000	RUR'000	RUR'000
5% appreciation of USD against RUR	309	309	(54,868)	(54,868)
5% depreciation of USD against RUR	(309)	(309)	54,868	54,868
5% appreciation of EUR against RUR	65	65	(3,442)	(3,442)
5% depreciation of EUR against RUR	(65)	(65)	3,442	3,442

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

An analysis of sensitivity of the Group's net income for the year and equity to changes in equity securities prices based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 5% change in all securities prices is as follows:

	2009		2008	
	Net profit	Equity	Net profit	Equity
	RUR'000	RUR'000	RUR'000	RUR'000
5% increase in securities prices	184,678	199,126	4,635	27,263
5% decrease in securities prices	(184,678)	(199,126)	(4,635)	(27,263)

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of the Risk Management Division, which actively monitors the Group's credit risk. The Group's credit policy is reviewed and approved by the Strategic Committee.

The Group's credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, SME and retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the Group's corporate loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The loan/credit application and the report are then independently reviewed by the Risk Department's Credit Risk Management Division and a second opinion is given accompanied by a check that credit policy requirements have been met. The Risk Management Division reviews the loan/credit application on the basis of submissions by the Loan Department. Individual transactions are also reviewed by the Group's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Risk Management Division.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or the Group's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan/credit applications are reviewed by experienced loan officers who complete personal interviews with the applicants. Scoring systems support but do not define credit decisions. Key element of risk management is loan officer's judgement on the ability and willingness of the customers to repay the loans.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

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

The Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 17 "Loans to customers".

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Group. It is unusual for financial institutions 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 Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Group's liquidity policy is reviewed and approved by the Strategic Committee.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Group are presented to senior management on a weekly basis. Decisions on the Group's liquidity management are made by Treasury Department within standards and rules set by the Strategic Committee of the Group.

The Group also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. The Group was in compliance with these ratios during the years ended 31 December 2009 and 31 December 2008.

The following tables show the undiscounted cash flows on the Group's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The total gross amount (inflow)/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment. The Group's expected cash flows on these financial liabilities and unrecognized loan commitments may vary significantly from this analysis.

The gross undiscounted cash flows of the Group as at 31 December 2009 were as follows:

RUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	1 year to 3 years	Over 3 years	Total gross amount outflow	Carrying amount
Liabilities								
Financial instruments at fair value through profit or loss	1,806,477	39,000	10,827	-	-	-	1,856,304	1,856,304
Deposits and balances from banks and other financial institutions	1,033,071	426,187	4	90,244	831,857	-	2,381,363	2,303,289
Amounts payable under repurchase agreements	1,160,953	-	-	-	-	-	1,160,953	1,158,749
Current accounts and deposits from customers	18,254,236	8,672,642	6,286,357	14,250,765	9,335,264	590,285	57,389,549	53,412,255
Debt securities issued	524,602	1,191,729	613,559	3,376,764	61,155	-	5,767,809	5,015,742
Other borrowed funds	9,498	180,599	1,048,413	1,259,600	4,352,892	5,070,456	11,921,458	9,094,071
Subordinated debts	7,267	21,815	49,230	78,311	921,046	1,287,303	2,364,972	1,707,854
Other liabilities	25,956	130,408	10,800	361,046	13,960	-	542,170	542,170
Total liabilities	22,822,060	10,662,380	8,019,190	19,416,730	15,516,174	6,948,044	83,384,578	75,090,434
Credit related commitments	1,235,155	875,367	82,462	153,796	303,327	125,847	2,775,954	2,775,954

The gross undiscounted cash flows of the Group as at 31 December 2008 were as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	1 year to 3 years	Over 3 years	Total gross amount outflow	Carrying amount
Liabilities								
Financial instruments at fair value through profit or loss	147,935	-	34,318	-	-	-	182,253	182,253
Deposits and balances from banks and other financial institutions	5,660,143	252,687	1,607,757	174,683	289,577	722,519	8,707,366	8,486,328
Amounts payable under repurchase agreements	1,395,359	-	-	-	-	-	1,395,359	1,389,901
Current accounts and deposits from customers	13,258,646	4,576,825	6,303,838	9,657,980	10,245,968	2,569,628	46,612,885	41,834,003
Debt securities issued	502,930	291,360	932,828	508,068	5,292,177	-	7,527,363	6,624,649
Other borrowed funds	140,291	128,563	366,589	1,159,721	7,472,744	4,489,877	13,757,785	8,762,223
Subordinated debts	2,589	23,911	49,502	76,837	805,619	2,393,289	3,351,747	2,619,475
Other liabilities	60,836	221,230	209,949	261,138	27,383	-	780,536	780,536
Total	21,168,729	5,494,576	9,504,781	11,838,427	24,133,468	10,175,313	82,315,294	70,679,368
Credit related commitments	1,090,348	62,626	182,502	245,534	101,773	396,340	2,079,123	2,079,123

33 Capital management

The CBR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBR, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2009, this minimum level is 10%. The Bank is in compliance with the statutory capital ratio during the years ended 31 December 2009 and 2008.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basle Accord, as at 31 December:

	2009 RUR'000	2008 RUR'000
Tier 1 capital		
Share capital	4,417,399	4,126,071
Share premium	1,237,031	1,375,351
Retained earnings	1,736,721	1,123,258
Minority interest	28,279	19,228
Goodwill	(252,676)	(252,676)
Total tier 1 capital	7,166,754	6,391,232
Tier 2 capital		
Revaluation reserve for property and equipment	739,015	816,731
Revaluation reserve of available-for-sale securities	(6,966)	(96,095)
Additional paid-in capital	611,241	70,621
Subordinated debts	897,685	2,031,200
Total tier 2 capital	2,240,975	2,822,457
Total capital	9,407,729	9,213,689
Risk-weighted assets	76,081,180	68,307,146
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	12.37%	13.49%
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	9.42%	9.36%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

In March 2009 the Group breached the capital adequacy ratio determined by the CBR to assess financial standing for the purposes of participation in the state deposit insurance system, which was waived by the CBR for the entire 2010 and serves as guideline and is not mandatory in 2010.

On 7 April 2009 the Bank repaid a subordinated loan of RUR 624,899 thousand to East Capital Financials Fund AB. Subsequent to the repayment, East Capital Financials Fund AB used these funds to purchase ordinary shares of the Bank. As a result, share capital of the Bank was increased by RUR 624,899 thousand and the Group's capital adequacy ratio became within the appropriate range.

34 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2009 RUR'000	2008 RUR'000
Contracted amount		
Guarantees issued and similar commitments	7,190,543	2,649,187
Letters of credit and other contingencies	1,058,514	2,685,911
Unused loan commitments	2,775,954	2,079,123
	11,025,011	7,414,221

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

35 Operating leases

Leases as lessee

Non-cancelable operating lease rentals are payable as follows:

	2009 RUR'000	2008 RUR'000
Less than 1 year	383,043	392,344
Between 1 and 5 years	700,027	1,027,048
More than 5 years	68,490	130,824
	1,151,560	1,550,216

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of 3 to 5 years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During 2009 RUR 483,867 thousand is recognised as an expense in profit or loss in respect of operating leases (2008: RUR 432,867 thousand).

36 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group's property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

37 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

38 Related party transactions

Control relationships

The ultimate shareholders of the Group are disclosed in Note 1.

Transactions with key management personnel

Total remuneration included in personnel expenses (refer to note 12):

	2009 RUR'000	2008 RUR'000
Total remuneration and other non-cash benefits	186,616	196,223

The outstanding balances and average interest rates as of 31 December for transactions with key management personnel are as follows:

	2009 RUR'000	Average interest rate, %	2008 RUR'000	Average interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	74,417	15%	77,694	15.28%
Off balance sheet guarantees	1,360	-	1,323	-
LIABILITIES				
Current accounts and deposits from customers	38,428	-	58,074	9.66%

Amounts included in profit or loss in relation to transactions with key management personnel for the year ended 31 December 2009 are as follows:

	2009 RUR'000	2008 RUR'000
Profit or loss		
Interest income	7,786	10,635
Interest expense	3,233	5,197

Transactions with other related parties

Other related parties include associates, companies under common control and entities with significant influence over the Group. The outstanding balances and the related average interest rates as of 31 December 2009 and related profit or loss amounts of transactions for the year ended 31 December 2009 with other related parties are as follows.

	Entities with significant influence over the Group		Associates and companies under common control		Total
	RUR'000	Average interest rate	RUR'000	Average interest rate	RUR'000
Consolidated statement of financial position					
ASSETS					
Loans and advances to customers					
Principal balance with interest	639	20.81%	347,465	11.97%	348,104
Provision for impairment	(1)		(26,193)		(26,194)
LIABILITIES					
Current accounts and deposits from customers	7,731	5.04%	193,829	10.09%	201,560
Subordinated debt	-	-	31,000	0.50%	31,000
Profit or loss					
Interest income	127	-	302,827	-	302,954
Interest expense	428	-	14,615	-	15,043
Fee and commission income	6	-	8,494	-	8,500

The outstanding balances and the related average interest rates as of 31 December 2008 and related profit or loss amounts of transactions for the year ended 31 December 2008 with other related parties are as follows.

	Entities with significant influence over the Group		Associates and companies under common control		Total
	RUR'000	Average interest rate	RUR'000	Average interest rate	RUR'000
Consolidated statement of financial position					
ASSETS					
Loans and advances to customers					
Principal balance with interest	-	-	1,830,269	13.27%	1,830,269
Provision for impairment	-	-	(27,680)	-	(27,680)
LIABILITIES					
Current accounts and deposits from customers	525	-	207,452	6.35%	207,977
Debt securities issued	-	-	423,043	9.72%	423,043
Subordinated debt	-	-	429,985	13.00%	429,985
Profit or loss					
Interest income	-	-	267,361	-	267,361
Interest expense	-	-	22,590	-	22,590
Fee and commission income	-	-	2,748	-	2,748

Further information on related party transactions during the year is disclosed in Note 20.

39 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flows are composed of the following items:

	2009 RUR'000	2008 RUR'000
Cash	4,589,153	3,874,716
Due from the Central Bank of the Russian Federation – nostro accounts	5,799,081	9,408,842
Placements with OECD banks	1,365,117	709,867
Nostro accounts of OECD banks	2,474,942	1,032,681
	14,228,293	15,026,106

40 Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The estimated fair values of cash, mandatory cash balances with the Central Bank of the Russian Federation, and placements with banks and other financial institutions are their carrying values.

The estimated fair value of financial instruments at fair value through profit or loss and quoted available-for-sale securities are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The Management of the Group believes fair values of all financial instruments, except as described below, approximate their carrying values.

	2009 RUR'000	2009 RUR'000	2008 RUR'000	2008 RUR'000
	Carrying value	Fair value	Carrying value	Fair value
ASSETS				
Loans to customers	42,522,184	41,578,120	43,511,314	43,358,012
LIABILITIES				
Deposits and balances from banks and other financial institutions	2,303,289	2,332,917	8,486,328	8,477,995
Current accounts and deposits from customers	53,412,255	53,600,181	41,834,003	41,414,724
Debt securities issued	5,015,742	5,001,452	6,624,649	6,583,711
Other borrowed funds	9,094,071	9,086,041	8,762,223	7,275,678
Subordinated debts	1,707,854	1,887,082	2,619,475	2,555,389

The following table shows an analysis of financial instruments measured at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2009:

	Quoted market prices RUR'000	Valuation techniques based on market observable inputs RUR'000	Total RUR'000
Financial assets			
Financial instruments at fair value through profit or loss	6,689,929	20,893	6,710,822
Available-for-sale securities	364,719	-	364,719
Financial liabilities			
Financial instruments at fair value through profit or loss	1,768,041	88,263	1,856,304

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2008:

	Quoted market prices RUR'000	Valuation techniques based on market observable inputs RUR'000	Total RUR'000
Financial assets			
Financial instruments at fair value through profit or loss	1,519,065	77,318	1,596,383
Available-for-sale securities	1,224,286	-	1,224,286
Financial liabilities			
Financial instruments at fair value through profit or loss	-	182,253	182,253

As at 31 December 2009 and 31 December 2008, the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

41 Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2009 and 2008. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value RUR'000	2009 Average effective interest rate	Value RUR'000	2008 Average effective interest rate
Interest bearing assets				
Placements with banks and other financial institutions				
<i>Loans and deposits</i>				
- RUR	801,815	8.84%	940,278	10.27%
- USD	3,280,478	2.90%	2,923,458	3.41%
- other currencies	174,237	3.98%	-	-
Financial instruments at fair value through profit or loss				
- RUR	417,938	12.93%	161,929	9.92%
- USD	1,686,494	8.40%	403,456	7.91%
- other currencies	2,482,607	8.85%	837,807	4.68%
Amounts receivable under reverse repurchase agreements				
- RUR	4,932,825	12.81%	2,581,307	14.49%
Loans to customers				
- RUR	36,995,116	33.80%	39,461,924	27.40%
- USD	4,732,382	17.30%	3,588,122	17.97%
- other currencies	794,686	20.4%	461,268	13.51%
Available-for-sale securities				
- RUR	353,445	15.49%	693,661	12.45%
Advances issued to property development companies				
- RUR	2,976,888	14.30%	1,090,680	13.87%

	Value RUR'000	2009 Average effective interest rate	Value RUR'000	2008 Average effective interest rate
Interest bearing liabilities				
Deposits and balances from banks and other financial institutions				
<i>Term deposits</i>				
- RUR	1,413,959	11.10%	6,569,708	12.05%
- USD	461,202	4.42%	702,770	6.96%
- other currencies	92,976	5.53%	180,974	7.65%
Amounts payable under repurchase agreements				
- RUR	1,158,749	6.85%	1,389,901	12.95%
Current accounts and deposits from customers				
<i>Term deposits of legal entities</i>				
- RUR	3,073,701	13.29%	2,778,918	8.47%
- USD	393,509	3.35%	761,333	7.18%
- other currencies	216,406	6.70%	135,858	7.36%
<i>Term deposits of individuals</i>				
- RUR	26,996,079	13.91%	19,648,214	12.52%
- USD	3,735,064	8.44%	3,752,268	10.44%
- other currencies	4,796,304	7.89%	4,084,447	10.36%
Debt securities issued				
- RUR	3,665,054	12.12%	4,400,828	9.51%
- USD	1,116,693	10.73%	2,215,522	12.48%
- other currencies	233,995	4.86%	8,299	8.08%
Other borrowed funds				
- RUR	5,398,206	19.50%	5,672,052	19.50%
- USD	498,486	4.18%	760,963	6.29%
- other currencies	3,197,379	3.01%	2,329,208	5.72%
Subordinated debts				
- RUR	471,431	9.03%	1,368,126	11.86%
- USD	1,236,423	9.94%	1,195,080	11.77%
- EUR	-	-	56,269	8.00%

42 Maturity analysis

The following table show assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2009, with the exception of financial instruments at fair value through profit or loss and available-for-sale securities, which are shown in the category “Less than 1 month or on demand” based on the fact that the Group’s management believes that all of these trading securities could be liquidated within one month in the normal course of business.

	Less than 1 month RUR'000	1 to 3 months RUR'000	3 to 6 months RUR'000	6 months to 1 year RUR'000	1 to 3 years RUR'000	More than 3 years RUR'000	No maturity RUR'000	Overdue RUR'000	Total RUR'000
ASSETS									
Cash	4,589,153	-	-	-	-	-	-	-	4,589,153
Due from the Central Bank of the Russian Federation	5,799,081	-	-	-	-	-	-	-	5,799,081
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	-	-	532,377	-	532,377
Placements with banks and other financial institutions	6,283,246	2,210,571	50,000	-	-	-	-	-	8,543,817
Financial instruments at fair value through profit or loss	6,710,822	-	-	-	-	-	-	-	6,710,822
Amounts receivable under reverse repurchase agreements	4,906,111	-	-	-	26,714	-	-	-	4,932,825
Loans to customers	2,981,270	4,151,093	5,309,506	6,113,423	13,818,888	6,175,647	-	3,972,357	42,522,184
Goodwill	-	-	-	-	252,676	-	-	-	252,676
Available-for-sale securities	385,070	-	-	-	-	-	-	-	385,070
Property, equipment and intangible assets	-	-	-	-	-	-	4,748,498	-	4,748,498
Investment property	-	-	-	-	788,780	-	-	-	788,780
Advances issued to property development companies	-	-	-	-	-	2,976,888	-	-	2,976,888
Current income tax asset	-	88,030	-	-	-	-	-	-	88,030
Deferred tax asset	-	-	-	-	339,341	-	-	-	339,341
Other assets	429,516	39,063	6,009	122,367	4,092	23,023	19,542	-	643,612
Total assets	32,084,269	6,488,757	5,365,515	6,235,790	15,230,491	9,175,558	5,300,417	3,972,357	83,853,154

	Less than 1 month RUR'000	1 to 3 months RUR'000	3 to 6 months RUR'000	6 months to 1 year RUR'000	1 to 3 years RUR'000	More than 3 years RUR'000	No maturity RUR'000	Overdue RUR'000	Total RUR'000
LIABILITIES									
Financial instruments at fair value through profit or loss	1,806,477	39,000	10,827	-	-	-	-	-	1,856,304
Deposits and balances from banks and other financial institutions	1,029,693	421,552	4	90,244	761,796	-	-	-	2,303,289
Amounts payable under repurchase agreements	1,158,749	-	-	-	-	-	-	-	1,158,749
Current accounts and deposits from customers	17,931,510	7,672,600	5,447,173	13,267,179	8,570,998	522,795	-	-	53,412,255
Debt securities issued	438,541	1,111,606	565,284	2,841,768	58,543	-	-	-	5,015,742
Other borrowed funds	-	83,686	632,519	779,161	3,035,265	4,563,440	-	-	9,094,071
Subordinated debts	-	-	-	-	669,319	1,038,535	-	-	1,707,854
Other liabilities	25,956	130,408	10,800	361,046	13,960	-	-	-	542,170
Total liabilities	22,390,926	9,458,852	6,666,607	17,339,398	13,109,881	6,124,770	-	-	75,090,434
Net position as at 31 December 2009	9,693,343	(2,970,095)	(1,301,092)	(11,103,608)	2,120,610	3,050,788	5,300,417	3,972,357	8,762,720
Net position as at 31 December 2008	10,085,507	1,141,874	(1,504,707)	(3,733,893)	(5,953,089)	(1,590,743)	5,536,831	3,453,385	7,435,165

Due to the fact that substantially all the financial instruments are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

The amounts in this table represent the carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

The following table show assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2008, with the exception of financial instruments at fair value through profit or loss and available-for-sale securities, which are shown in the category “Less than 1 month or on demand” based on the fact that the Group’s management believes that all of these trading securities could be liquidated within one month in the normal course of business.

	Less than 1 month RUR'000	1 to 3 months RUR'000	3 to 6 months RUR'000	6 months to 1 year RUR'000	1 to 3 years RUR'000	More than 3 years RUR'000	No maturity RUR'000	Overdue RUR'000	Total RUR'000
ASSETS									
Cash	3,874,716	-	-	-	-	-	-	-	3,874,716
Due from the Central Bank of the Russian Federation	9,408,842	-	-	-	-	-	-	-	9,408,842
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	-	-	110,326	-	110,326
Placements with banks and other financial institutions	5,745,227	1,560,259	500,000	-	280,000	-	-	-	8,085,486
Financial instruments at fair value through profit or loss	1,596,383	-	-	-	-	-	-	-	1,596,383
Amounts receivable under reverse repurchase agreements	2,581,307	-	-	-	-	-	-	-	2,581,307
Loans to customers	5,882,188	3,769,371	6,024,200	5,957,433	10,728,044	7,696,693	-	3,453,385	43,511,314
Goodwill	-	-	-	-	-	-	252,676	-	252,676
Available-for-sale securities	1,259,374	-	-	-	-	-	-	-	1,259,374
Property, equipment and intangible assets	-	-	-	-	-	-	5,075,543	-	5,075,543
Advances issued to property development companies	-	330,530	201,501	176,737	381,912	-	-	-	1,090,680
Current income tax asset	-	168,116	-	-	-	-	-	-	168,116
Deferred tax asset	-	40,180	-	-	-	-	-	-	40,180
Other assets	537,748	60,168	5,321	307,950	41,865	8,252	98,286	-	1,059,590
Total assets	30,885,785	5,928,624	6,731,022	6,442,120	11,431,821	7,704,945	5,536,831	3,453,385	78,114,533

	Less than 1 month RUR'000	1 to 3 months RUR'000	3 to 6 months RUR'000	6 months to 1 year RUR'000	1 to 3 years RUR'000	More than 3 years RUR'000	No maturity RUR'000	Overdue RUR'000	Total RUR'000
LIABILITIES									
Financial instruments at fair value through profit or loss	147,935	-	34,318	-	-	-	-	-	182,253
Deposits and balances from banks and other financial institutions	5,656,105	250,062	1,575,362	167,860	276,484	560,455	-	-	8,486,328
Amounts payable under repurchase agreements	1,389,901	-	-	-	-	-	-	-	1,389,901
Current accounts and deposits from customers	12,926,332	4,017,703	5,530,710	9,236,137	7,978,149	2,144,972	-	-	41,834,003
Debt securities issued	499,688	286,322	679,727	237,898	4,921,014	-	-	-	6,624,649
Other borrowed funds	119,481	11,433	205,663	272,980	3,680,569	4,472,097	-	-	8,762,223
Subordinated debts	-	-	-	-	501,311	2,118,164	-	-	2,619,475
Other liabilities	60,836	221,230	209,949	261,138	27,383	-	-	-	780,536
Total liabilities	20,800,278	4,786,750	8,235,729	10,176,013	17,384,910	9,295,688	-	-	70,679,368
Net position as at 31 December 2008	10,085,507	1,141,874	(1,504,707)	(3,733,893)	(5,953,089)	(1,590,743)	5,536,831	3,453,385	7,435,165
Net position as at 31 December 2007	2,455,277	896,077	337,024	(7,346,264)	(99,283)	4,108,697	5,246,773	1,642,966	7,241,267

43 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2009:

	RUR RUR'000	USD RUR'000	EUR RUR'000	Other currencies RUR'000	Total RUR'000
ASSETS					
Cash	2,585,588	646,991	1,354,935	1,639	4,589,153
Due from the Central Bank of the Russian Federation	5,799,011	30	40	-	5,799,081
Mandatory cash balances with the Central Bank of the Russian Federation	532,377	-	-	-	532,377
Placements with banks and other financial institutions	1,295,207	4,914,512	2,314,158	19,940	8,543,817
Financial instruments at fair value through profit or loss	2,525,799	1,689,321	2,281,269	214,433	6,710,822
Amounts receivable under reverse repurchase agreements	4,932,825	-	-	-	4,932,825
Loans to customers	36,995,116	4,732,382	597,978	196,708	42,522,184
Goodwill	252,676	-	-	-	252,676
Available-for-sale securities	385,070	-	-	-	385,070
Property, equipment and intangible assets	4,748,498	-	-	-	4,748,498
Investment property	788,780	-	-	-	788,780
Advances issued to property development companies	2,976,888	-	-	-	2,976,888
Current income tax asset	88,030	-	-	-	88,030
Deferred tax asset	339,341	-	-	-	339,341
Other assets	575,825	52,298	14,994	495	643,612
Total assets	64,821,031	12,035,534	6,563,374	433,215	83,853,154
LIABILITIES					
Financial instruments at fair value through profit or loss	1,807,824	16,750	20,903	10,827	1,856,304
Deposits and balances from banks and other financial institutions	1,422,580	718,798	159,994	1,917	2,303,289
Amounts payable under repurchase agreements	1,158,749	-	-	-	1,158,749
Current accounts and deposits from customers	42,792,538	4,853,416	5,574,486	191,815	53,412,255
Debt securities issued	3,665,054	1,116,693	227,165	6,830	5,015,742
Other borrowed funds	5,398,206	498,486	3,011,839	185,540	9,094,071
Subordinated debts	471,431	1,236,423	-	-	1,707,854
Other liabilities	538,601	3,371	198	-	542,170
Total liabilities	57,254,983	8,443,937	8,994,585	396,929	75,090,434
Net on balance sheet position as of 31 December 2009	7,566,048	3,591,597	(2,431,211)	36,286	8,762,720
Net off balance sheet position as of 31 December 2009	1,348,288	(3,583,865)	2,432,826	(197,249)	-
Net on and off balance sheet positions as of 31 December 2009	8,914,336	7,732	1,615	(160,963)	8,762,720
Net on and off balance sheet positions as of 31 December 2008	8,792,437	(1,371,694)	(86,054)	100,476	7,435,165

The following table shows the currency structure of assets and liabilities at 31 December 2008:

	RUR	USD	EUR	Other	Total
	RUR'000	RUR'000	RUR'000	currencies	RUR'000
				RUR'000	
ASSETS					
Cash	2,707,191	566,622	599,808	1,095	3,874,716
Due from the Central Bank of the Russian Federation	2,128,462	2,556,094	4,724,286	-	9,408,842
Mandatory cash balances with the Central Bank of the Russian Federation	110,326	-	-	-	110,326
Placements with banks and other financial institutions	1,298,638	6,187,389	591,375	8,084	8,085,486
Financial instruments at fair value through profit or loss	355,120	403,456	816,034	21,773	1,596,383
Amounts receivable under reverse repurchase agreements	2,581,307	-	-	-	2,581,307
Loans to customers	39,461,924	3,588,122	269,055	192,213	43,511,314
Goodwill	252,676	-	-	-	252,676
Available-for-sale securities	1,259,374	-	-	-	1,259,374
Property, equipment and intangible assets	5,075,543	-	-	-	5,075,543
Advances issued to property development companies	1,090,680	-	-	-	1,090,680
Current income tax asset	168,116	-	-	-	168,116
Deferred tax asset	40,180	-	-	-	40,180
Other assets	951,687	47,132	12,921	47,850	1,059,590
Total assets	57,481,224	13,348,815	7,013,479	271,015	78,114,533
LIABILITIES					
Financial instruments at fair value through profit or loss	36,083	75,481	70,524	165	182,253
Deposits and balances from banks and other financial institutions	6,582,742	1,462,280	441,306	-	8,486,328
Amounts payable under repurchase agreements	1,389,901	-	-	-	1,389,901
Current accounts and deposits from customers	30,878,271	5,928,250	5,003,629	23,853	41,834,003
Debt securities issued	4,400,828	2,215,522	5,801	2,498	6,624,649
Other borrowed funds	5,672,052	760,963	2,120,263	208,945	8,762,223
Subordinated debts	1,424,394	1,195,081	-	-	2,619,475
Other liabilities	777,958	2,484	94	-	780,536
Total liabilities	51,162,229	11,640,061	7,641,617	235,461	70,679,368
Net on balance sheet position as of 31 December 2008	6,318,995	1,708,754	(628,138)	35,554	7,435,165
Net off balance sheet position as of 31 December 2008	2,473,442	(3,080,448)	542,084	64,922	-
Net on and off balance sheet positions as of 31 December 2008	8,792,437	(1,371,694)	(86,054)	100,476	7,435,165
Net on and off balance sheet positions as of 31 December 2007	7,060,598	172,349	(46,599)	54,919	7,241,267

44 Acquisitions of subsidiaries

On 25 December 2009 the Group acquired Joint stock company “Investment City Bank” (JSC “ICB”). The fair values of JSC “ICB’s” identifiable assets and liabilities at the date of acquisition were as follows:

	Fair value of assets and liabilities RUR'000
ASSETS	
Cash	48,891
Due from the Central Bank of the Russian Federation	123,973
Mandatory cash balances with the Central Bank of the Russian Federation	10,564
Placements with banks and other financial institutions	1,067,680
Loans to customers	750,834
Property and equipment and intangible assets	46,832
Deferred tax asset	2,707
Other assets	24,428
LIABILITIES	
Deposits and balances from banks and other financial institutions	(959)
Current accounts and deposits from customers	(1,411,300)
Debt securities issued	-
Other liabilities	(10,980)
Net identifiable assets acquired	652,670
Cash consideration paid	(473,757)
Minority interest	(5,617)
Gain on acquisition	173,296

The acquisitions of the above bank resulted in a gain due to the fact that the bank was in a distressed situation at the time the transaction took place.

The following amounts were recognized in the consolidated financial statements in the period from the acquisition date to December 31, 2009 in respect of the above bank:

	JSC “ICB”
Total revenue	11,283
Net profit	21,570

The financial statements of the acquired bank were prepared in accordance with Russian Accounting Principles and management therefore consider it is impracticable to determine the previous carrying amounts of assets and liabilities at the acquisition date, or the net income of the Group for the current reporting period if the acquisitions had occurred at the beginning of the reporting period.

45 Earnings per share

	2009	2008
Earnings per share		
Basic earnings per share (in Russian Roubles)	42.23	57.28

Basic earnings per share

The calculation of basic earnings per share as at 31 December 2009 is based on the profit attributable to ordinary shareholders of RUR 141,936 thousand (31 December 2008: RUR 175,882 thousand), and a weighted average number of ordinary shares outstanding of 3,360,908 (2008: 3,070,615) calculated as follows.

	2009 RUR'000	2008 RUR'000
Net profit	145,366	173,143
Minority interest	(3,430)	2,739
Net profit attributable to ordinary shareholders	141,936	175,882
	2009	2008
Issued ordinary shares at 1 January	3,147,001	3,067,568
Effect of shares issued during the year	213,907	3,047
Weighted average number of ordinary shares for the year ended 31 December	3,360,908	3,070,615

46 Events subsequent to the balance sheet date

On 9 April 2010 the Board of Directors of the Group approved the decision to make an additional issue of 577,977 ordinary shares with a nominal value of RUR 1,000 per share.

Probusinessbank Group

Consolidated Financial Statements
for the year ended 31 December 2008

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Independent Auditors' Report

To Shareholders and Board of Directors
Joint Stock Commercial Bank "Probusinessbank" (Open Joint Stock Company)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of JSCB "Probusinessbank" (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of 31 December 2008, and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 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 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

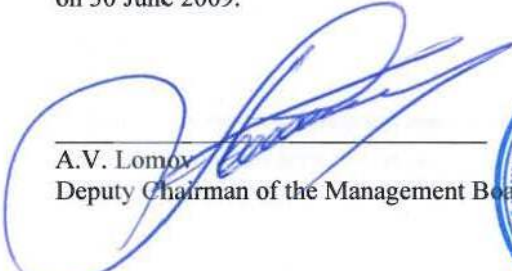
ZAO KPMG

30 June 2009

Probusinessbank Group
Consolidated Income Statement for the year ended 31 December 2008

	Notes	2008 RUR'000	2007 RUR'000
Interest income	4	11,090,675	7,124,519
Interest expense	4	(4,690,535)	(3,158,136)
Net interest income		6,400,140	3,966,383
Fee and commission income	5	1,090,020	873,396
Fee and commission expense	6	(192,347)	(183,463)
Net fee and commission income		897,673	689,933
Net (loss)/gain on financial instruments at fair value through profit or loss	8	(259,987)	136,448
Net foreign exchange (loss)/income	9	(350,589)	334,718
Net gain on available-for-sale securities	10	122,680	9,892
Other income	7	233,344	104,488
Gain on acquisition of subsidiaries	43	1,388,827	-
		8,432,088	5,241,862
Provision for impairment	11	(3,359,312)	(780,882)
General administrative expenses	12	(4,910,169)	(3,786,179)
Income before taxes		162,607	674,801
Income tax benefit/(expense)	13	10,536	(132,301)
Net income		173,143	542,500
Attributable to:			
Equity holders of the parent		175,882	539,818
Minority interest		(2,739)	2,682

The consolidated financial statements as set out on pages 4 to 82 were approved by the Board of Directors on 30 June 2009.

 A.V. Lomov Deputy Chairman of the Management Board		 N.F. Vinogradova Deputy Chief Accountant

	Notes	2008 RUR'000	2007 RUR'000
ASSETS			
Cash		3,874,716	2,672,275
Due from the Central Bank of the Russian Federation		9,408,842	5,355,562
Mandatory cash balances with the Central Bank of the Russian Federation		110,326	760,946
Placements with banks and other financial institutions	14	8,085,486	3,473,463
Financial instruments at fair value through profit or loss			
- Held by the Group	15	1,435,657	1,832,745
- Pledged under sale and repurchase agreements	15	160,726	448,636
Amounts receivable under reverse repurchase agreements	16	2,581,307	767,095
Loans to customers	17	44,601,994	36,727,593
Goodwill		252,676	252,676
Available-for-sale securities	18	1,259,374	16,600
Property and equipment and intangible assets	19	5,075,543	4,355,731
Current income tax asset		168,116	7,573
Deferred tax asset	28	40,180	-
Other assets	20	1,059,590	377,417
Total assets		78,114,533	57,048,312
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial instruments at fair value through profit or loss	15	182,253	448,774
Deposits and balances from banks and other financial institutions	21	8,486,328	1,947,227
Amounts payable under repurchase agreements	22	1,389,901	356,502
Customer accounts	23	41,834,003	29,122,436
Debt securities issued	24	6,624,649	12,857,432
Other borrowed funds	25	8,762,223	3,138,513
Subordinated debts	26	2,619,475	998,220
Current income tax liability		-	36,628
Deferred tax liability	28	-	379,136
Other liabilities	27	780,536	522,177
Total liabilities		70,679,368	49,807,045
Shareholders' equity			
Share capital	29	4,126,071	4,046,638
Share premium		1,375,351	1,079,781
Revaluation reserve for property and equipment		816,731	1,145,460
Revaluation reserve for available-for-sale securities		(96,095)	-
Additional paid-in capital		70,621	70,621
Retained earnings		1,123,258	885,790
Total equity attributable to equity holders of the parent		7,415,937	7,228,290
Minority interest		19,228	12,977
Total shareholders' equity		7,435,165	7,241,267
Total liabilities and shareholders' equity		78,114,533	57,048,312
Commitments and contingencies	33-36		

Probusinessbank Group
Consolidated Statement of Cash Flows for the year ended 31 December 2008

Notes	2008 RUR'000	2007 RUR'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before taxes	162,607	674,801
Adjustments for:		
Provision for impairment	3,359,312	787,357
Gain on acquisition of subsidiaries	(1,388,827)	-
Unrealised gain from revaluation of financial instruments at fair value through profit or loss	(1,583)	(13,815)
Depreciation/amortization of property, equipment and intangible assets	288,323	185,275
Net loss/(gain) on disposal of property, equipment and intangible assets	4,246	(4,301)
Changes in net interest accruals	(581,794)	(151,094)
Net change in fair value of derivative financial instruments	(448,774)	405,221
Net foreign exchange loss/(income)	727,237	(304,981)
Cash flow from operating activities before changes in operating assets and liabilities	2,120,747	1,578,463
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets		
Minimum reserve deposit with the Central Bank of the Russian Federation	667,188	(641,586)
Financial instruments at fair value through profit or loss	1,319,211	109,503
Available-for-sale securities	(866,943)	-
Amounts receivable under reverse repurchase agreements	(1,814,211)	-
Placements with banks and other financial institutions	(2,974,172)	27,579
Loans to customers	(2,423,345)	(16,800,780)
Other assets	(320,337)	88,608
Increase in operating liabilities:		
Deposits and balances from banks and other financial institutions	6,126,159	1,133,864
Amounts payable under repurchase agreements	1,033,398	-
Customer accounts	3,079,194	10,189,608
Other liabilities	482,313	394,537
Cash flows from operating activities before taxes paid	6,429,202	(3,920,204)
Income tax paid	(265,473)	(223,241)
Net cash flows from operating activities	6,163,729	(4,143,445)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, equipment and intangible assets	(617,953)	(1,716,775)
Proceeds on sale of property and equipment and intangible assets	171,979	239,933
Acquisition of subsidiaries, net of cash recieved	(1,887,001)	(76,351)
Net cash flows from investing activities	(2,332,975)	(1,553,193)

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Probusinessbank Group
Consolidated Statement of Cash Flows for the year ended 31 December 2008

	Notes	2008 RUR'000	2007 RUR'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Share capital increase in the form of ordinary shares		79,433	-
Share premium		295,570	-
Dividends paid		(180)	(178)
Debt securities (repaid)/issued		(7,035,669)	7,495,718
Increase in subordinated debts		1,166,110	169,330
Increase in other borrowed funds		7,086,520	1,577,338
Net cash flows from financing activities		1,591,784	9,242,208
Effect of changes in foreign exchange rates on cash and cash equivalents		658,768	(16,560)
Net increase in cash and cash equivalents		6,081,306	3,529,010
Cash and cash equivalents at the beginning of the year	38	8,944,800	5,415,790
Cash and cash equivalents at the end of the year	38	15,026,106	8,944,800

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Probusinessbank Group
Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2008

	Attributable to equity holders of the parent								
	Share capital	Share premium	Additional paid-in capital	Revaluation reserve for property and equipment	Revaluation reserve for available-for- sale securities	Retained earnings	Total	Minority interest	Total equity
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Balance at 1 January 2007	2,324,808	2,801,611	86,281	577,332	-	330,490	6,120,522	85,898	6,206,420
Net income for the year	-	-	-	-	-	539,818	539,818	2,682	542,500
Revaluation of property and equipment, net of deferred tax of RUR 190,718 thousand	-	-	-	568,128	-	-	568,128	-	568,128
Total income							1,107,946	2,682	1,110,628
Shares issued	1,721,830	(1,721,830)	-	-	-	-	-	-	-
Redemption of subordinated debt	-	-	(15,660)	-	-	15,660	-	-	-
Decrease in minority interests due to purchase of a subsidiary	-	-	-	-	-	-	-	(75,601)	(75,601)
Dividends declared	-	-	-	-	-	(178)	(178)	(2)	(180)
Balance at 31 December 2007	4,046,638	1,079,781	70,621	1,145,460	-	885,790	7,228,290	12,977	7,241,267
Net income for the period	-	-	-	-	-	175,882	175,882	(2,739)	173,143
Net unrealized losses on investments available-for-sale, net of deferred tax of RUR 24,024 thousand	-	-	-	-	(96,095)	-	(96,095)	-	(96,095)
Transfer of revaluation reserve for property and equipment to retained earnings on disposed building	-	-	-	(61,764)	-	61,764	-	-	-
Disposal of property and equipment, net of deferred tax of RUR 10,724 thousand	-	-	-	(42,898)	-	-	(42,898)	-	(42,898)
Effect of change in income tax rates	-	-	-	75,472	-	-	75,472	-	75,472
Revaluation of property and equipment, net of deferred tax of RUR 74,885 thousand	-	-	-	(299,539)	-	-	(299,539)	-	(299,539)
Total loss							(187,178)	(2,739)	(189,917)
Shares issued	79,433	295,570	-	-	-	-	375,003	-	375,003
Increase in minority interest due to purchase of a subsidiary	-	-	-	-	-	-	-	8,992	8,992
Dividends declared	-	-	-	-	-	(178)	(178)	(2)	(180)
Balance at 31 December 2008	4,126,071	1,375,351	70,621	816,731	(96,095)	1,123,258	7,415,937	19,228	7,435,165

The consolidated statement of changes in shareholders' equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1 Background

Principal activities

These consolidated financial statements include the financial statements of “Probusinessbank” (the “Bank”) and its subsidiaries (together referred to as the “Group”).

The Bank, the parent company of the Group, was established in the Russian Federation in 1993. In 1994 the Bank was reorganised into a commercial bank (Limited Liability Company) and in 1998 the Bank changed its legal form to an Open Joint-Stock Company. The Bank operates under general banking license № 2412 issued by the Central Bank of the Russian Federation (the “CBRF”) and provides a full range of banking services to corporate clients, including public, private, state-owned and other companies operating in various industries, as well as to individuals. In addition to the general banking license, the Bank holds licenses for depositary activities, securities management, broker, dealer activity, intermediary for dealing in futures and options in the stock exchange, non-governmental pension funds assets management, leasing in the Russian Federation, precious metal transactions, and a right to act as a guarantor in relations with customs authorities. The Bank is a member of the following financial associations and organizations: Moscow Interbank Currency Exchange, Moscow Stock Exchange, Non-for-profit Partnership RTS, Association of Russian Banks, Society for Worldwide Interbank Financial Telecommunication (“SWIFT”), International Retail Banking Council (“IRBC”), American Chamber of Commerce in Moscow. The Bank is also a member of Master Card and Europay International S.A. and an associate member of VISA International. The Bank is a member of the state deposit insurance system in the Russian Federation.

The registered address of the Bank is: 119285, Russian Federation, Moscow, Pudovkina st., 3. The majority of the Bank’s assets and liabilities are located in the Russian Federation. The average number of people employed by the Bank during the year was 3,243 (2007: 3,041).

The Bank is a parent company of the banking group which consists of the following companies consolidated for the purposes of these consolidated financial statements as at 31 December 2008 and 2007:

Name	Country of incorporation	Interest/voting rights, % as at 31 December 2008	Interest/voting rights, % as at 31 December 2007	Type of activity
OJSC VUZ-Bank	Russian Federation	100.00%	100.00%	Commercial Bank
CJSC CB Express-Volga	Russian Federation	98.75%	98.75%	Commercial Bank
LLC CB Ivanovsky Oblastnoy Bank	Russian Federation	100.00%	100.00%	Commercial Bank
OJSC Gazenergobank	Russian Federation	99.99%	-	Commercial Bank
OJSC Bank 24. RU	Russian Federation	99.53%	-	Commercial Bank

The average number of people employed by the Group during the year was 6,314 (2007: 4,768).

On 31 March 2003 the Bank acquired a 94.5% interest in OJSC VUZ-Bank. The Bank’s acquisition of VUZ-Bank’s additional share issue in June 2007 resulted in increasing the Bank’s interest to 98.43%. In October 2007 the Bank’s interest in the share capital of VUZ-Bank reached 100%.

VUZ-Bank was incorporated as a limited liability company under the legislation of the Russian Federation on 5 September 1991 and changed its legal form to an open joint-stock company on 6 September 1999. Its registered office is located at the following address: 31-b Malysheva st./11 Bankovsky per., Ekaterinburg, Russian Federation. VUZ-Bank's activities are regulated by the CBR and general banking licence No. 1557. VUZ-Bank is an associated member of Visa International Service Association, affiliate member of MasterCard International Incorporated and member of the Urals Bank Union. VUZ-Bank is a member of the state deposit insurance system since 23 December 2004. Financial statements of VUZ-Bank are included into the Group's consolidated financial statements starting from the date of acquisition (31 March 2003). The average number of people employed by VUZ-Bank during the year was 556 (2007: 478).

On 29 December 2003 the Bank entered into an agreement with the shareholders of CJSC Express-Volga ("Express-Volga Bank") to acquire the majority interest in Express-Volga Bank. Starting from 6 February to 10 February 2004 the Bank has become a registered owner of 57.92% of the share capital of Express-Volga Bank and, additionally, on 19 April 2004 the Bank acquired another 1.03% of the bank's share capital. In May 2005 the Bank additionally acquired 27.33% of the share capital of Express-Volga Bank. In March 2007 the Bank additionally acquired 116,382 ordinary registered shares (12.03% of share capital) of Express-Volga Bank. The Bank's interest in the share capital of Express-Volga Bank amounted to 98.31%. The Bank's acquisition of additional issue of the Bank's ordinary registered shares in June 2007 resulted in the growth of its interest in Express-Volga's share capital to 98.75%. Additional paid-in capital amounted to RUR 300,000 thousand.

Express-Volga Bank was incorporated as a closed joint-stock company under the legislation of the Russian Federation on 6 September 1994. Its registered office's address is: Russian Federation, Saratov, 166/168 Michurina st. Express-Volga Bank's activities are regulated by the CBR general banking license No. 3085 of 2 October 2002.

In addition to the license for banking operations in Russian Roubles and foreign currencies Express-Volga Bank has a license that allows it to perform depository activities. Express-Volga issues Union Card and Visa plastic cards and also services international plastic cards Eurocard/Mastercard, Visa, Cirrus Maestro, Visa-Electron Plus. Express-Volga is a member of the state deposit insurance system since 16 December 2004. Financial statements of Express-Volga Bank are included into the Group's consolidated financial statements starting from the date of acquisition (29 December 2003). The average number of people employed by Express-Volga Bank during the year was 1,263 (2007: 1,140).

On 1 December 2006 the Bank finalised acquisition of interest in the share capital of LLC CB Ivanovsky Oblastnoy Bank ("Ivanovsky Oblastnoy Bank"). The Bank's interest in the share capital of Ivanovsky Oblastnoy Bank is 100%. In February 2007 share capital of Ivanovsky Oblastnoy Bank increased as a result of additional contribution performed by the Bank (Protocol No. 23 of 22 December 2006). The Bank's interest in the share capital of Ivanovsky Oblastnoy Bank remained the same.

Ivanovsky Oblastnoy Bank is the successor of LLC CB "Ivanovskie Sittsy" established by the decision of owners on 11 May 1992 and registered by the CBR on 7 July 1992, registration number 1949. In accordance with the CBR license Ivanovsky Oblastnoy Bank has the right to carry out operations with legal entities and individuals in Russian Roubles and in foreign currencies. Ivanovsky Oblastnoy Bank is a member of the state deposit insurance system since 2 December 2004. The registered address of the Bank is: 153000, Ivanovo, 2 Palekhskaya st. Ivanovsky Oblastnoy Bank has 1 additional office in Ivanovo.

Financial statements of Ivanovsky Oblastnoy Bank are included into the Group's consolidated financial statements starting from the date of acquisition (1 December 2006). The total number of people employed by the Bank during the year was 38 (2007: 109).

On 14 November 2008 the Bank signed documents of strategic partnership with OAO "Gazenergobank". That resulted in change of the owner of OAO "Gazenergobank". The Bank became the owner of 19.83% of ordinary shares and 76.22% of ordinary shares of OAO "Gazenergobank" were repurchased by the top management of the Group. As a result the Group obtained full control over OAO "Gazenergobank", and its results were consolidated into the financial statements of the Group from that date.

On 22 January 2009 the all shares were transferred from top management to the Bank and it became the owner of 99.99% of OAO "Gazenergobank" shares.

OAO "Gazenergobank" was incorporated as an open joint-stock company under the legislation of the Russian Federation on 19 May 1995 and is a member of the state deposit insurance system in the Russian Federation since 27 January 2005. The registered address of OAO "Gazenergobank" is Russian Federation, Kaluga, 4 Plekhanova st.

OAO "Gazenergobank" issues banking cards in the payment system of MasterCard International, maintenances MasterCard, Cirrus/Maestro, Visa (in ATMs), American Express and Diners Club banking cards. The Bank started personalization of its own banking cards in 2006 in Kaluga. Financial statements of Ivanovsky OAO "Gazenergobank" are included into the Group's consolidated financial statements starting from the date of acquisition (14 November 2008). The total number of people employed by the bank during the year was 511 (2007: 501).

On 5 December 2008 the Bank together with the government-sponsored deposits insurance agency (DIS) and Bank24.ru signed a general agreement No. 2008-0301/3. According to the Agreement, "Probusinessbank" was committed to ensure the financial improvement of OAO "Bank24.ru". The Bank became the owner of 20% of ordinary shares and 79,53% of ordinary shares of Bank24.ru were repurchased by the top management of the Group. As a result the Group obtained full control over OAO "Bank24.ru".

On 27 January 2009 all shares were transferred from top management to the Bank and it became the owner of 99.5341% of OAO "Bank24.ru" shares.

OAO "Bank24.ru" was established in 1992. The name of OAO "Bank24.ru" till 2003 was "Uralcontactbank". In 2003 as a result of changes of owners and rebranding the Bank was renamed to Bank24.ru. The registered address of OAO "Bank24.ru" is: Russian Federation, Ekaterinburg, 12 Kuibysheva st. Bank24.ru has a general banking license (No.2227 of 29 October 2003) to perform operations with Russian Roubles and foreign currency.

On 24 February 2005 OAO "Bank24.ru" became a member of the state deposit insurance system in the Russian Federation.

Financial statements of OAO "Bank24.ru" are included into the Group's consolidated financial statements starting from the date of acquisition (05 December 2008).

The total number of people employed by OAO "Bank24.ru" during the year was 703 (2007: 606).

As at 31 December 2008 the Group's network includes 1 branch in Vologda, 7 additional offices in Moscow and 123 separate subdivisions throughout the country. One representative office of the Bank operates in Saratov. The Bank has opened its lending and cash services offices and operation offices in Belgorod, Bryansk, Velikie Luki, Vladivostok, Vladimir, Voronezh, Volgograd, Vologda, Vyborg, Derbent, Dzerzhinsk, Izhevsk, Kaliningrad, Kaluga, Kamensk-Uralskiy, Kamyshevskiy, Kirov, Kostroma, Krasnoyarsk, Kursk, Kurgan, Lipetsk, Magnitogorsk, Nizhny Novgorod, Nizhnevartovsk, Novosibirsk, Omsk, Orel, Orenburg, Pskov, Ryazan, Rostov-on-Don, Samara, Saransk, Saratov, St. Petersburg, Smolensk, Sosnoviy Bor, Surgut, Syktyvkar, Taganrog, Tver, Tula, Khanty-Mansiysk, Chita, Chelyabinsk, Cherepovets, as well as Yaroslavl and in Irkutsk, Perm and Tyumen regions.

Shareholders

As at 31 December 2008 and 2007, the following shareholders owned the shares of the Bank:

	31 December 2008 %	31 December 2007 %
Shareholders of the first level		
LLC "Alivikt"	57.85	59.35
East Capital Financial Fund AB	12.52	10.25
BlueCrest Strategic Limited	8.68	-
Rekha Holdings Limited	7.89	8.09
Argo Capital Management	7.09	-
LLC "Rodina"	5.97	6.12
Other	-	16.19
Total	100.00	100.00

	31 December 2008 %	31 December 2007 %
Ultimate shareholders of the Bank		
S.L. Leontiev	32.55	33.39
E.V. Bikmaev	12.80	13.14
East Capital Explorer Financial Institutions Fund AB	12.52	10.25
A.D. Zheleznyak	12.50	12.82
BlueCrest Strategic Limited	8.68	-
Rekha Holding Limited	7.89	8.09
Argo Capital Management	7.09	-
E.V. Panteleev	5.97	6.12
Other	-	16.19
Total	100.00	100.00

Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and investments available-for-sale are stated at fair value, and buildings are stated at revalued amounts.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”). Management has determined the Group’s functional currency to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Group. The RUR is also the Group’s presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUR has been rounded to the nearest thousand.

Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- Loan impairment estimates - Note 17
- Building revaluation estimates - Note 19

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. The accounting policies have been consistently applied. Changes in accounting policies described at the end of this Note.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-bank transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognised immediately in the consolidated income statement.

Minority interest

Minority interest is that part of the profit or loss and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent company.

Minority interest is presented in the consolidated balance sheet within equity, separately from the equity attributable to equity holders of the parent company. Minority interest in the profit or loss of the Group is separately disclosed in the consolidated income statement.

Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value and whose appraised value is denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the consolidated income statement. As at 31 December 2008 the official CBR foreign exchange rates used for translation of balances in foreign currencies were 29.3804 RUR/USD and 41.4411 RUR/EUR (31 December 2007: 24.5462 RUR/USD and 35.9332 RUR/EUR).

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of the Group's assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

Cash and cash equivalents include cash and nostro accounts with the CBR, nostro accounts with OECD banks, as well as placements with OECD banks, except for security deposits for operations with plastic cards, Russian Government securities denominated in Russian Roubles at fair value through profit or loss which may be converted to cash within a short period of time. For the purposes of the consolidated statement of cash flows, the minimum reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments(except for derivative financial instruments that are designated and effective hedging instruments); or,
- upon initial recognition, designated by the Group as at fair value through profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that:

- the Group intends to sell immediately or in the near term;

- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available-for-sale; or
- the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group designates as available-for-sale; or
- meet the definition of loans and receivables.

Available-for-sale securities are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Management determines the appropriate classification of financial instruments at the time of initial recognition.

Recognition

Financial assets and liabilities are recognized in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method;
- held-to-maturity investments which are measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in the consolidated income statement. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the consolidated income statement;
- a gain or loss on an available-for-sale financial asset is recognized directly in equity through the consolidated statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in the consolidated income statement. Interest in relation to an available-for-sale financial asset is recognized as earned in the consolidated income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the consolidated income statement when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the balance sheet and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognized in the consolidated income statement over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognized in the consolidated income statement over the term of the reverse repo agreement using the effective interest rate method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Derivative financial instruments

The Group uses derivative financial instruments to manage currency risk and liquidity risk for the purposes of trading. Derivative financial instruments include forward and future contracts on operations with foreign exchange and securities.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in the consolidated income statement.

Although the Group trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Property and equipment

Owned assets

Property and equipment and intangible assets are stated at cost less accumulated depreciation and impairment losses, except for buildings.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Revaluation

Land and buildings of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the land and buildings being revalued. A revaluation increase on an item of land and building is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the consolidated income statement, in which case it is recognised in the consolidated income statement. A revaluation decrease on an item of land or buildings is recognised in the consolidated income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

Depreciation

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Equipment	4 to 5 years
Fixtures and fittings	4 to 5 years
Motor vehicles	4 years

Intangible assets

Intangible assets, which are acquired by the Group, are stated in the consolidated financial statements at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Intangible assets	5 to 10 years

Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans, other receivables and unquoted available-for-sale debt securities ("loans and receivables"). The Group reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in the consolidated income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when the Group's management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in the consolidated income statement and can not be reversed.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in the consolidated income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included within other liabilities.

Share capital

Share capital and share premium

Share premium comprises the nominal amount of the Group's shares fully paid by the shareholders adjusted for the effect of hyperinflation.

Share premium is the amount by which contributions to share capital exceeds the nominal value of the shares issued adjusted for the effect of hyperinflation.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

With the exception of financial assets held for trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in the consolidated income statement using the effective interest rate method. Interest income on financial assets held for trading and on other financial instruments at fair value through profit or loss comprises coupon interest only.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss, respectively.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

Dividend income is recognised in the consolidated income statement on the date that the dividend is declared.

Comparative information

Certain reclassifications have been made to the financial statements as at 31 December 2007 and for the year then ended to conform to the presentation as at 31 December 2008 and for the year then ended as the current year presentation provides better view of the Group's financial position.

	As previously reported RUR'000	Effect of reclassifications RUR'000	As adjusted RUR'000
Consolidated Balance Sheet as at 31 December 2007			
ASSETS			
Cash and balances with the Central Bank of the Russian Federation	8,788,783	(8,788,783)	-
Cash	-	2,672,275	2,672,275
Due from the Central Bank of the Russian Federation	-	5,355,562	5,355,562
Mandatory cash balances with the Central Bank of the Russian Federation	-	760,946	760,946
Placements with banks and other financial institutions	4,240,558	(767,095)	3,473,463
Amounts receivable under reverse repurchase agreements	-	767,095	767,095
Financial instruments at fair value through profit or loss	2,280,332	1,049	2,281,381
Available-for-sale securities	-	16,600	16,600
Other assets	395,066	(17,649)	377,417

	As previously reported RUR'000	Effect of reclassifications RUR'000	As adjusted RUR'000
LIABILITIES			
Deposits and balances from banks and other financial institutions	2,303,729	(356,502)	1,947,227
Amounts payable under repurchase agreements	-	356,502	356,502
Consolidated Income statement for 2007			
Net gain on financial assets and liabilities at fair value through profit or loss	213,155	(76,707)	136,448
Net gain on available-for-sale securities	-	9,892	9,892
Other income	37,673	66,815	104,448
Provisions for impairment losses on interest bearing assets	769,377	(769,377)	-
Other provisions	11,505	(11,505)	-
Provision for impairment	-	780,882	780,882

Changes in accounting policies

In October 2008 the IASB issued “Reclassification of Financial Assets” (Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”).

The amendment to IAS 39 permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, would have met the definition of loans and receivables at initial recognition, and the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in ‘rare circumstances’.

The amendment also permits an entity to transfer a non-derivative financial asset from the available-for-sale category to the loans and receivables category provided the non-derivative financial asset would have met the definition of loans and receivables and the entity has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

The amendment to IFRS 7 introduces additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendment to IAS 39. The amendments are effective retrospectively from 1 July 2008.

Pursuant to these amendments, the Group reclassified certain non-derivative financial assets out of trading assets and into available-for-sale assets. For details on the impact of these reclassifications, refer Note 15 of the financial statements.

Early adoption of Standards and interpretations

In preparing these consolidated financial statements the Group has early adopted IFRS 8 “Operating Segments”, which is effective for annual periods beginning on or after 1 January 2009, before its effective date.

New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these new standards on its financial statements.

- Revised IAS 1 "Presentation of Financial Statements" (2007) which becomes mandatory for the Bank's 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.
- Revised IFRS 3 "Business Combinations" (2008) and amended IAS 27 (2008) "Consolidated and Separate Financial Statements", which come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity.

Various "Improvements to IFRSs" have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009.

4 Net interest income and expense

	2008 RUR'000	2007 RUR'000
Interest income		
Loans to customers	10,566,758	6,711,796
Amounts receivable under reverse repurchase agreements	199,898	131,245
Placements with banks and other financial institutions	198,711	147,540
Financial instruments at fair value through profit or loss	83,132	133,938
Available for sale investments	42,176	-
	11,090,675	7,124,519
Interest expense		
Customer accounts	2,949,652	1,578,449
Debt securities issued	972,052	916 676
Deposits and balances from banks and other financial institutions	313,006	296,837
Other borrowed funds	216,247	199,537
Subordinated debts	161,936	126,689
Payables under repurchase agreements	77,642	39,948
	4,690,535	3 158 136

5 Fee and commission income

	2008 RUR'000	2007 RUR'000
Settlement fees	336,213	274,717
Cash operations fees	242,072	164,777
Plastic card fees	152,179	123,164
Documentary operations fees	133,088	104,802
Guarantee issuance fees	103,269	94,329
Securities fees	59,898	50,952
Foreign exchange fees	46,189	29,225
Bank-customer services fees	6,605	10,162
Other	10,507	21,268
	1,090,020	873,396

6 Fee and commission expense

	2008 RUR'000	2007 RUR'000
Documentary operations	82,649	64,400
Plastic card fees	45,728	24,486
Settlement fees	16,930	6,955
Cash operations fees	14,922	13,776
Fees for guarantees received	10,271	1,132
Commissions on short term borrowings	8,046	-
Foreign exchange fees	6,384	6,338
Securities fees	4,557	1,332
Other	2,860	65,044
	192,347	183,463

7 Other income

	2008 RUR'000	2007 RUR'000
Income from repurchase of own debt securities	171,597	66,815
Profit from disposal of property and equipment	15,896	4,301
Fines/penalties received	13,712	592
Income on property lease	9,946	13,772
Consulting services	4,237	1,860
Agency fees	4,010	-
Commissions on insurance contracts	3,294	5,526
Write-off of accounts payable	46	2,797
Reimbursement of legal costs and enforcement orders	-	3,386
Other	10,606	5,439
	233,344	104,488

8 Net (loss)/gain on financial instruments at fair value through profit or loss

	2008 RUR'000	2007 RUR'000
Equity instruments	(387,978)	126,193
Debt instruments	127,991	10,255
	(259,987)	136,448

9 Net foreign exchange (loss)/income

	2008 RUR'000	2007 RUR'000
(Loss)/gain from revaluation of financial assets and liabilities	(727,237)	288,421
Gain on spot transactions and derivatives	376,648	46,297
	(350,589)	334,718

10 Net gain on available-for-sale securities

	2008 RUR'000	2007 RUR'000
Equity instruments	159,179	10,007
Debt instruments	(36,499)	(115)
	122,680	9,892

11 Provision for impairment

	2008 RUR'000	2007 RUR'000
Charge for provision for impairment		
Loans to customers	3,008,430	769,385
Available-for-sale securities	23,342	-
Property and equipment and intangible assets	310,281	-
Financial guarantees	-	17,980
Other assets	18,921	-
	3,360,974	787,365
Reversal of provision for impairment		
Placements with banks and other financial institutions	(264)	(8)
Available-for-sale securities	-	(6,442)
Financial guarantees	(1,398)	-
Other assets	-	(33)
	(1,662)	(6,483)
Net provision for impairment	3,359,312	780,882

12 General administrative expenses

	2008 RUR'000	2007 RUR'000
Salary and bonuses	2,043,705	1,896,850
Occupancy	432,867	307,622
Payroll related taxes	366,119	262,615
Advertising expenses	351,762	179,559
Depreciation and amortization of property, equipment and intangible assets	288,323	185,275
Taxes other than income	227,200	122,754
Information services	201,516	166,946
IT, vehicle maintenance and information services	160,620	112,770
Property and equipment maintenance	145,923	68,112
Business trip expenses	129,894	105,862
Deposit insurance system payments	119,882	69,539
Materials and office supplies	92,390	67,174
Professional services	58,771	81,633
Software acquisition and support	49,314	23,737
Security	42,844	22,460
Insurance	38,163	12,199
Entertainment	24,421	20,526
Disposal of premises	20,142	4,214
Fines paid	5,312	1,398
Other	111,001	74,934
	4,910,169	3,786,179

13 Income tax benefit/(expense)

	2008 RUR'000	2007 RUR'000
Current tax expense		
Current year	(140,890)	(132,301)
	(140,890)	(132,301)
Deferred tax expense		
Origination and reversal of temporary differences	151,426	-
	151,426	-
Total income tax benefit/(expense) in the consolidated income statement	10,536	(132,301)

The Group's applicable tax rate for current tax is 24% (31 December 2007: 24%). During November 2008 the Government of the Russian Federation changed the income tax rate, effective 1 January 2009 from 24% to 20%. Accordingly as at 31 December 2008 the rate of tax applicable for deferred taxes was 20% (31 December 2007: 24%).

Reconciliation of effective tax rate:

	2008 RUR'000	%	2007 RUR'000	%
Income before tax	162,607		674,801	
Income tax at the applicable tax rate	39,026	24%	161,952	24%
Non-deductible costs	208,027	128%	91,397	14%
Non-taxable income	(333,302)	(205%)	-	-
Effect of change in income tax rates	75,713	47%	-	-
Change in unrecognized deferred tax assets	-	-	(121,048)	(18%)
	(10,536)	(6%)	132,301	20%

14 Placements with banks and other financial institutions

	2008 RUR'000	2007 RUR'000
NOT IMPAIRED OR PAST DUE		
Nostro accounts		
Rated from AA- to AA+	4,218	20,197
Rated A- to A+	652,394	1,102,394
Rated BBB	2,478,140	22,387
Rated from BB- to BB+	293	1,691
Rated below B+	45,001	254
Not rated	1,041,704	694,577
Total nostro accounts	4,221,750	1,841,500
Loans and deposits		
Rated A- to A+	14,690	-
Rated BBB	1,074,441	490,925
Rated from BB- to BB+	-	368,193
Rated below B+	1,087,608	245,462
Not rated	1,686,997	527,383
Total loans and deposits	3,863,736	1,631,963
IMPAIRED OR PAST DUE		
Loans to Russian banks	851	1,115
Provision for impairment	(851)	(1,115)
Net impaired loans to Russian banks	-	-
	8,085,486	3,473,463

Impaired placements with banks and other financial institution comprise placements with banks and other financial institution overdue for more than 1 year of RUR 851 thousand (31 December 2007: RUR 1,115 thousand).

Concentration of placements with banks and other financial institutions

As at 31 December 2008 and 2007 the Group had two counterparties, whose balances individually exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2008 and 2007 were RUR 3,217,910 thousand and RUR 1,258,429 thousand, respectively.

Analysis of movements in the provision for impairment

	2008 RUR'000	2007 RUR'000
Balance at the beginning of the year	1,115	1,123
Write-offs	(264)	(8)
Balance at the end of the year	851	1,115

15 Financial instruments at fair value through profit or loss

	2008 RUR'000	2007 RUR'000
ASSETS		
<i>Held by the Group</i>		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Russian Government Federal bonds	4,784	-
Domestic State Foreign Currency Loan Bonds	-	1,276,852
Voronezh Government bonds	-	29,460
Total government and municipal bonds	4,784	1,306,312
- Debt securities of companies and banks		
VTB Capital	411,664	-
VTB Capital 2016	165,176	-
Sibacademfinance	149,943	-
SPV Alfa MTN Issuance Limited	107,967	-
Petrocommerce Finance S.A. 2009-2	92,300	-
AK BARS Luxemburg S.A. 2010	73,608	-
Trans Capitalinvest Limited	70,719	-
Kuznetski Capital S.A.	61,123	-
LLC RMK-Finance	29,214	-
GBP Eurobond Finance	23,275	-
MDM International Funding	13,712	-
OJSC LMZ "Svobodniy sokol" – issue 3	12,180	-
OJSC SNHZ Finance	10,195	-
OJSC "Solidarnost" – issue 1	-	302,807
LLC "Technonicol-Finance" – issue 2	-	39,863
OJSC "Solidarnost" – issue 2	-	23,985
OJSC "ASPEK" – issue 1	-	14,969
Other	16,606	2,007
Total debt securities of companies and banks	1,237,682	383,631

	2008 RUR'000	2007 RUR'000
Equity securities		
Closed Mixed Investment Fund "Strazhi Urala"	107,000	107,350
Other	8,873	623
Total equity securities	115,873	107,973
Derivative financial instruments		
Securities contracts	-	7,510
Foreign currency contracts	77,318	27,319
Total derivative financial instruments	77,318	34,829
Pledged under direct repurchase agreements		
- Debt securities of Russian companies and banks pledged		
OJSC "Bankvneshneitorgovli" issue 4	81,846	-
OJSC "Petrokomerts bank" issue 2	25,801	-
CJSC "Russian Standard Bank" issue 7	24,120	-
LLC "Rusfinans bank" issue 4	18,349	-
LLC "Home Credit and Finance Bank" issue 2	10,610	-
Total debt securities of companies and banks pledged	160,726	-
- Equity securities of Russian companies pledged		
OJSC MMC Norilsk Nickel	-	448,636
Total equity securities of Russian companies pledged	-	448,636
Total financial instruments at fair value through profit or loss	1,596,383	2,281,381
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	(182,253)	-
Liabilities for purchase of assets pledged under reverse repurchase agreements and sold by the Group (short position)	-	(448,774)
	(182,253)	(448,774)

Reclassifications out of financial assets at fair value through profit or loss

Pursuant to the amendments to IAS 39 and IFRS 7 (described in Note 3), the Group reclassified certain quoted securities to available-for-sale assets. The Group identified securities eligible under the amendments, for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For those quoted securities identified for reclassification, the Group determined that the Georgian conflict in August 2008 in the context of the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category.

Under IAS 39 as amended, the reclassifications were made with effect from 8 August 2008 at fair value at that date. The table below sets out the quoted securities reclassified and their carrying and fair values:

RUR'000	8 August 2008		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Quoted securities reclassified to available-for-sale assets	515,311	515,311	417,487	417,487
	515,311	515,311	417,487	417,487

The table below sets out the amounts actually recognised in profit or loss and equity during 2008 in respect of quoted securities reclassified out of financial assets at fair value through profit or loss:

RUR'000	Profit or loss	Equity
Period before reclassification		
Quoted securities reclassified to available-for-sale assets:		
Net income	4,782	4,782
	4,782	4,782
Period after reclassification		
Quoted securities reclassified to available-for-sale assets:		
Interest income	20,701	20,701
Net change in fair value	(24,066)	(78,259)
Realized gains less losses arising from investment securities available-for-sale	19	19
	(3,346)	(57,539)

The table below sets out the amounts that would have been recognised in consolidated income statement in the period following reclassification during 2008 if the reclassifications had not been made:

RUR'000	Profit or loss
Quoted securities reclassified to available-for-sale assets:	
Interest income	20,701
Net change in fair value	(78,259)
Realized gains less losses arising from investment securities available-for-sale	19
	(57,539)

At 8 August 2008 the effective interest rates on quoted securities reclassified to available-for-sale assets ranged from 8.59% to 20.76% with expected recoverable cash flows of RUR 744,374 thousand.

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of the Group's forward exchange contracts outstanding at 31 December 2008 and 31 December 2007 with details of the contracted exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the balance sheet date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognised in the consolidated income statement and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contracted exchange rates	
	2008 RUR'000	2007 RUR'000	2008 RUR	2007 RUR
Buy USD sell RUR				
Less than three months	783,575	10,468,955	29.7018	25.1536
From three to six months	-	1,178,217	-	25.6528
Buy RUR sell USD				
Less than three months	3,639,501	2,821,260	29.5346	24.5327
From three to six months		387,350	-	25.8233
Buy EUR sell RUR				
Less than three months	476,573	1,006,130	41.8475	35.9100
Buy CHF sell USD				
Less than three months	166,997	193,619	1.0847	1.1520
Buy RUR sell CHF				
From three to six months	94,089	90,121	22.811	21.8489
Buy GBP sell USD				
Less than three months	2,995,926	78,418	1.4486	1.9914
Buy EUR sell USD				
Less than three months	5,633,918	4,114,351	1.4100	1.4524
Buy USD sell EUR				
Less than three months	5,568,407	2,716,446	1.3948	1.4596
Buy USD sell GBP				
Less than three months	3,003,912	78,213	1.4421	1.9915
Buy CAD sell AUD				
Less than three months	-	6,452	-	0.8601
Buy AUD sell CAD				
Less than three months	-	6,457	-	0.8601
Buy AUD sell USD				
Less than three months	-	8,610	-	0.8751
Buy EUR sell GBP				
Less than three months	-	50,306	-	0.7314
Buy NZD sell USD				
Less than three months	-	3,788	-	0.7688

	Notional amount		Weighted average contracted exchange rates	
	2008 RUR'000	2007 RUR'000	2008 RUR	2007 RUR
Buy USD sell NZD				
Less than three months	-	3,774	-	0.7688
Buy USD sell AUD				
Less than three months	-	8,593	-	0.8752
Buy JPY sell USD				
Less than three months	-	49,690	-	113.7394
Buy USD sell JPY				
Less than three months	-	49,095	-	113.7330
Buy JPY sell EUR				
Less than three months	-	25,326	-	165.6308
Buy EUR sell JPY				
Less than three months	-	25,153	-	165.6257
Buy USD sell CHF				
Less than three months	-	49,095	-	1.1432
Buy GBP sell EUR				
Less than three months	-	50,188	-	0.7315
Total	22,362,898	23,469,607		

16 Amounts receivable under reverse repurchase agreements

	2008 RUR'000	2007 RUR'000
Amounts receivable under reverse repurchase agreements		
Other Russian Banks	2,581,307	767,095
Total amounts receivable under reverse repurchase agreements	2,581,307	767,095

Collateral

As of 31 December 2008 and 2007, amounts receivable under reverse repurchase agreements were collateralised by the following securities:

	2008 RUR'000	2007 RUR'000
Corporate shares		
OJSC "Surgutneftegaz"	720,616	-
OJSC GMK "Norilsk Nickel"	562,717	767,095
OJSC "Gazprom"	514,908	-
Sberbank	364,315	-
OJSC "NK Rosneft"	257,635	-
OJSC "VTB bank"	161,116	-
	2,581,307	767,095

17 Loans to customers

	2008 RUR'000	2007 RUR'000
Commercial loans		
Loans to large corporates	21,506,918	16,442,362
Loans to small and medium size companies	1,855,650	2,582,856
Total commercial loans	23,362,568	19,025,218
Retail loans		
Consumer loans	18,624,382	15,789,620
Credit cards	1,100,268	533,901
Other	5,753,321	3,144,228
Total retail loans	25,477,971	19,467,749
Gross loans to customers	48,840,539	38,492,967
Provision for impairment	(4,238,545)	(1,765,374)
Net loans to customers	44,601,994	36,727,593

Movements in the provision for impairment for the year ended 31 December 2008 are as follows:

	2008 RUR'000	2007 RUR'000
Balance at the beginning of the year	1,765,374	1,178,884
Net charge for the year	3,008,430	769,385
Loans written off during the year as uncollectible	(535,259)	(182,895)
Balance at the end of the year	4,238,545	1,765,374

As at 31 December 2008, interest accrued on impaired loans amounted to RUR 366,340 thousand (31 December 2007: RUR 177,006 thousand).

The total amount of pledged loans is RUR 2,076,468 thousand (31 December 2007: Nil). The loans are pledged against Other borrowed funds.

Credit quality of commercial loan portfolio

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2008:

	Gross loans RUR'000	Provision for impairment RUR'000	Net loans RUR'000	Provision for impairment to gross loans %
Loans to large corporates				
Loans for which no impairment has been identified:				
- Standard loans	17,990,574	(190,365)	17,800,209	1.06%
- Watch list loans	1,704,781	(19,939)	1,684,842	1.17%
Total loans for which no impairment has been identified	19,695,355	(210,304)	19,485,051	1.07%
Impaired loans:				
- not overdue	1,202,530	(42,452)	1,160,078	3.53%
- overdue less than 90 days	439,390	(160,191)	279,199	36.46%
- overdue more than 90 days and less than 1 year	158,449	(127,193)	31,256	80.27%
- overdue more than 1 year	11,194	(11,194)	-	100%
Total impaired loans	1,811,563	(341,031)	1,470,532	18.83%
Total loans to large corporates	21,506,918	(551,335)	20,955,583	2.56%
Loans to small and medium size companies				
Loans for which no impairment has been identified:				
- Standard loans	1,148,580	(53,449)	1,095,131	4.65%
- Watch list loans	161,158	(22,054)	139,104	13.68%
Total loans for which no impairment has been identified	1,309,738	(75,503)	1,234,235	5.76%
Impaired loans:				
- not overdue	134,678	(58,451)	76,227	43.40%
- overdue less than 90 days	108,894	(51,205)	57,689	47.02%
- overdue more than 90 days and less than 1 year	60,922	(33,159)	27,763	54.43%
- overdue more than 1 year	241,418	(220,465)	20,953	91.32%
Total impaired loans	545,912	(363,280)	182,632	66.55%
Total loans to small and medium size companies	1,855,650	(438,783)	1,416,867	23.65%
Total commercial loans	23,362,568	(990,118)	22,372,450	4.24%

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2007:

	Gross loans RUR'000	Provision for impairment RUR'000	Net loans RUR'000	Provision for impairment to gross loans %
Loans to large corporates				
Loans for which no impairment has been identified:				
- Standard loans	15,022,334	(72,107)	14,950,227	0.48%
- Watch list loans	188,771	(5,127)	183,644	2.72%
Total loans for which no impairment has been identified	15,211,105	(77,234)	15,133,871	0.51%
Impaired loans:				
- not overdue	1,035,334	(188,456)	846,878	18.20%
- overdue less than 90 days	130,521	(85,825)	44,696	65.76%
- overdue more than 90 days and less than 1 year	61,139	(59,917)	1,222	98.00%
- overdue more than 1 year	4,263	(4,178)	85	98.00%
Total impaired loans	1,231,257	(338,376)	892,881	27.48%
Total loans to large corporate clients	16,442,362	(415,610)	16,026,752	2.53%
Loans to small and medium size companies				
Loans for which no impairment has been identified:				
- Standard loans	2,118,774	(13,684)	2,105,090	0.65%
- Watch list loans	132,030	(853)	131,177	0.65%
Total loans for which no impairment has been identified	2,250,804	(14,537)	2,236,267	0.65%
Impaired loans:				
- not overdue	85,657	(34,508)	51,149	40.29%
- overdue less than 90 days	55,245	(23,788)	31,457	43.06%
- overdue more than 90 days and less than 1 year	97,299	(95,354)	1,945	98.00%
- overdue more than 1 year	93,851	(91,974)	1,877	98.00%
Total impaired loans	332,052	(245,624)	86,428	73.97%
Total loans to small and medium size companies	2,582,856	(260,161)	2,322,695	10.07%
Total commercial loans	19,025,218	(675,771)	18,349,447	3.55%

The Group has estimated loan impairment for commercial loans based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

The portfolio allowance reflects management's estimate of the losses in the portfolio as at 31 December 2008.

The Group estimates loan impairment for loans to small and medium size companies based on its past historical loss experience on these types of loans. Management estimated loan impairment provision based on historic loss migration pattern for the last 12 months adjusted to reflect current economic conditions.

Changes in these estimates could effect the provision for impairment. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the provision for impairment on commercial loans as of 31 December 2008 would be RUR 223,725 thousand lower/higher (31 December 2007: RUR 183,495 thousand).

During the year ended 31 December 2008 the Group renegotiated commercial loans that would otherwise be past due or impaired of RUR 600,535 thousand (31 December 2007: RUR 84,157 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

Analysis of movements in the provision for impairment

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2008 are as follows:

	Loans to large corporates RUR'000	Loans to small and medium size companies RUR'000	Total RUR'000
Provision for impairment as at 1 January	415,610	260,161	675,771
Loan impairment losses during the year	137,298	178,622	315,920
Loans written off during the year as uncollectible	(1,573)	-	(1,573)
Loan impairment allowance as at 31 December	551,335	438,783	990,118

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2007 are as follows:

	Loans to large corporates RUR'000	Loans to small and medium size companies RUR'000	Total RUR'000
Provision for impairment as at 1 January	277,536	173,732	451,268
Loan impairment losses during the year	138,074	86,429	224,503
Loan impairment allowance as at 31 December	415,610	260,161	675,771

Credit quality of retail loan portfolio

The following table provides information on the credit quality of retail loan portfolios as at 31 December 2008:

	Gross loans RUR'000	Provision for impairment RUR'000	Net loans RUR'000	Provision for impairment to gross loans %
Consumer loans				
- Not past due	13,900,232	(65,885)	13,834,347	0.47%
- Overdue less than 30 days	1,150,620	(78,675)	1,071,945	6.84%
- Overdue 30-89 days	827,628	(180,206)	647,422	21.77%
- Overdue 90-179 days	616,884	(210,705)	406,179	34.16%
- Overdue 180 - 360 days	1,025,213	(850,927)	174,286	83.00%
- Overdue more than 360 days	1,103,805	(960,309)	143,496	87.00%
Total consumer loans	18,624,382	(2,346,707)	16,277,675	12.60%
Credit cards				
- Not past due	802,398	(5,162)	797,236	0.64%
- Overdue less than 30 days	50,381	(4,676)	45,705	9.28%
- Overdue 30-89 days	77,911	(23,025)	54,886	29.55%
- Overdue 90-179 days	33,648	(15,599)	18,049	46.36%
- Overdue 180 - 360 days	63,893	(53,031)	10,862	83.00%
- Overdue more than 360 days	72,037	(62,674)	9,363	87.00%
Total credit card	1,100,268	(164,167)	936,101	14.92%
Other retail loans				
- Not past due	4,616,871	(55,435)	4,561,436	1.20%
- Overdue less than 30 days	354,366	(61,380)	292,986	17.32%
- Overdue 30-89 days	271,690	(149,858)	121,832	55.16%
- Overdue 90-179 days	167,191	(144,663)	22,528	86.53%
- Overdue 180 - 360 days	169,869	(152,883)	16,986	90.00%
- Overdue more than 360 days	173,334	(173,334)	-	100.00%
Total other retail loans	5,753,321	(737,553)	5,015,768	12.82%
Total retail loans	25,477,971	(3,248,427)	22,229,544	12.75%

The following table provides information on the credit quality of retail loan portfolios as at 31 December 2007:

	Gross loans	Provision for	Net loans	Provision for
	RUR'000	impairment	RUR'000	impairment to
		RUR'000		gross loans
				%
Retail loans collectively assessed for impairment				
Consumer loans				
- Not past due	13,637,653	(53,529)	13,584,124	0.39%
- Overdue less than 30 days	536,869	(30,399)	506,470	5.66%
- Overdue 30-89 days	490,742	(88,486)	402,256	18.03%
- Overdue 90-179 days	350,813	(99,228)	251,585	28.29%
- Overdue 180 - 360 days	375,651	(258,196)	117,455	68.73%
- Overdue more than 360 days	397,892	(286,665)	111,227	72.05%
Total consumer loans	15,789,620	(816,503)	14,973,117	5.17%
Credit cards				
- Not past due	366,073	(2,653)	363,420	0.72%
- Overdue less than 30 days	24,861	(2,599)	22,262	10.45%
- Overdue 30-89 days	49,133	(16,355)	32,778	33.29%
- Overdue 90-179 days	22,910	(11,963)	10,947	52.22%
- Overdue 180 - 360 days	24,162	(17,290)	6,872	71.56%
- Overdue more than 360 days	46,762	(35,075)	11,687	75.01%
Total credit card	533,901	(85,935)	447,966	16.10%
Other retail loans				
- Not past due	2,890,363	(21,447)	2,868,916	0.74%
- Overdue less than 30 days	38,201	(4,089)	34,112	10.70%
- Overdue 30-89 days	28,675	(9,775)	18,900	34.09%
- Overdue 90-179 days	24,580	(13,144)	11,436	53.47%
- Overdue 180 - 360 days	40,801	(31,341)	9,460	76.81%
- Overdue more than 360 days	121,608	(107,369)	14,239	88.29%
Total other retail loans	3,144,228	(187,165)	2,957,063	5.95%
Total retail loans	19,467,749	(1,089,603)	18,378,146	5.60%

The Group estimates loan impairment based on its past historical loss experience on these types of loans. Management estimated loan impairment provision for loans to individuals based on migration analysis taking into account the last 12 months adjusted to reflect current economic conditions.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the loan impairment on retail loans as of 31 December 2008 would be RUR 666,886 thousand lower/higher (2007: RUR 551,345 thousand).

Analysis of movements in the provision for impairment

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2008 are as follows:

	Consumer loans	Credit cards	Other loans	Total
	RUR'000	RUR'000	RUR'000	RUR'000
Provision for impairment as at 1 January	816,503	85,935	187,165	1,089,603
Impairment losses during the year	1,915,746	105,203	671,561	2,692,510
Loans written off during the year as uncollectible	(385,542)	(26,971)	(121,173)	(533,686)
Provision for impairment as at 31 December	2,346,707	164,167	737,553	3,248,427

Movements in the provision for impairment by classes of retail loans for the year ended 31 December 2007 are as follows:

	Consumer loans	Credit cards	Other loans	Total
	RUR'000	RUR'000	RUR'000	RUR'000
Provision for impairment as at 1 January	545,245	57,386	124,985	727,616
Impairment losses during the year	408,311	42,974	93,597	544,882
Loans written off during the year as uncollectible	(137,053)	(14,425)	(31,417)	(182,895)
Provision for impairment as at 31 December	816,503	85,935	187,165	1,089,603

Analysis of collateral

The following table provides the analysis of commercial and retail loan portfolios by types of collateral as at 31 December 2008:

	2008	% of loan portfolio	2007	% of loan portfolio
	RUR'000	RUR'000	RUR'000	RUR'000
Real estate	6,270,521	12,84%	3,864,563	10,04%
Guarantees	5,201,625	10,65%	2,199,289	5,71%
Motor vehicles	2,872,037	5,88%	5,830,258	15,15%
Other collateral	2,593,933	5,31%	6,111,452	15,88%
Traded securities	293,126	0,60%	946,742	2,46%
No collateral	31,609,297	64,72%	19,540,663	50,76%
Total	48,840,539	100,00%	38,492,967	100,00%

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Impaired or overdue commercial loans with a gross value of RUR 1,221,144 thousand are secured by collateral with a fair value of RUR 1,644,520 thousand. For the remaining impaired loans of RUR 1,136,331 thousand there is no collateral or it is impracticable to determine fair value of collateral.

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by underlying vehicles. Credit card overdrafts and consumer loans are not secured.

During the year ended 31 December 2008 the Group obtained assets by taking control of collateral accepted as security for commercial loans in the total amount of RUR 34,194 thousand (31 December 2007: RUR 29,331 thousand).

Industry analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	2008 RUR'000	2007 RUR'000
Individuals	25,477,971	19,467,749
Trade	7,899,205	10,187,891
Manufacturing	3,594,029	1,870,473
Construction	3,169,048	2,512,162
Leasing	2,121,168	1,101,642
Agriculture	195,731	472,559
Heavy industry	38,606	117,663
State authorities	9,912	-
Transport and communication	-	717,158
Other	6,334,869	2,045,670
	48,840,539	38,492,967
Impairment allowance	(4,238,545)	(1,765,374)
	44,601,994	36,727,593

Loan maturities

The maturity of the Group's loan portfolio is presented in Note 41, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short-term nature of the loans issued by the Group, it is likely that many of the Group's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

18 Available-for-sale securities

	2008 RUR'000	2007 RUR'000
ASSETS		
<i>Held by the Group</i>		
Debt and other fixed-income instruments		
Corporate bonds		
OJSC KB "Solidarnost" issue 2	413,665	-
LLC "Minplita-finance" issue 1	39,861	-
OJSC "Nomos Bank" issue 8	28,906	-
OJSC "Dalnevostochnaya generiruyushaya company"	27,049	-
LLC "Nitol Group" issue 2	10,811	-
Other	17,203	-
Total corporate bonds	537,495	-
Equity investments		
OJSC "Gazprom"	347,025	-
OJSC "Nizhnetagilski kotelno-radiatorni zavod"	20,232	-
Other	14,856	-
Total equity investments	382,113	-
Pledged under reverse repurchase agreements		
Corporate bonds		
Rosselhozbank issue 6	156,166	-
Total corporate bonds	156,166	-
Equity investments		
OJSC "Gazprom"	183,600	-
Other	-	16,600
Total equity investments	183,600	16,600
Total financial instruments available-for-sale	1,259,374	16,600

As of 31 December 2008 the Group had non-quoted equity securities of RUR 35,088 thousand (31 December 2007: RUR 16,600 thousand).

Included in financial instruments available-for-sale are assets amounting to RUR 28,936 thousand which are impaired and for which an unrealised loss from revaluation of RUR 24,066 thousand has been recognized in profit and loss.

19 Property and equipment and intangible assets

RUR'000	Land and buildings	Equipment	Motor vehicles	Intangible assets	Construction in progress	Total
Cost/Revalued amount						
At 1 January 2008	2,547,965	755,968	70,748	173,028	1,145,303	4,693,012
Additions	163,829	290,660	41,694	70,608	51,162	617,953
Disposals	(146,267)	(36,275)	(32,387)	-	-	(214,929)
Transfers	1,146,468	(88,598)	-	-	(1,057,870)	-
Acquired in business combination	1,038,956	138,855	51,232	2,976	19,093	1,251,112
Elimination of accumulated depreciation of revalued assets	(78,442)	-	-	-	-	(78,442)
Revaluation	(684,705)	-	-	-	-	(684,705)
At 31 December 2008	3,987,804	1,060,610	131,287	246,612	157,688	5,584,001
Depreciation and amortization						
At 1 January 2008	-	277,743	17,603	41,935	-	337,281
Depreciation charge	68,694	173,175	12,162	34,292	-	288,323
Disposals	(5,841)	(31,551)	(1,312)	-	-	(38,704)
Transfers	15,589	(15,589)	-	-	-	-
Elimination of accumulated depreciation on revaluation	(78,442)	-	-	-	-	(78,442)
At 31 December 2008	-	403,778	28,453	76,227	-	508,458
Carrying value						
At 31 December 2008	3,987,804	656,832	102,834	170,385	157,688	5,075,543

RUR'000	Land and buildings	Equipment	Motor vehicles	Intangible assets	Construction in progress	Total
Cost/Revalued amount						
At 1 January 2007	1,467,928	482,071	49,549	79,173	484,841	2,563,562
Additions	633,073	402,489	34,192	93,855	553,166	1,716,775
Disposals	(3,790)	(128,592)	(12,993)	-	(184,706)	(330,081)
Revaluation surplus	450,754	-	-	-	292,002	742,756
At 31 December 2007	2,547,965	755,968	70,748	173,028	1,145,303	4,693,012
Depreciation and amortization						
At 1 January 2007	12,767	264,801	18,234	21,717	-	317,519
Depreciation charge	62,754	92,662	9,641	20,218	-	185,275
Disposals	(156)	(79,720)	(10,272)	-	-	(90,148)
Elimination of accumulated depreciation on revaluation	(75,365)	-	-	-	-	(75,365)
At 31 December 2007	-	277,743	17,603	41,935	-	337,281
Carrying value						
At 31 December 2007	2,547,965	478,225	53,145	131,093	1,145,303	4,355,731

Revalued assets

As at 31 December 2008 buildings were revalued by Management based on the results of an independent appraisal.

The estimate of the market value is based on the direct comparison of the revalued object with other objects sold or offered for sale. The market value of premises is determined by the price which an independent party would pay for an object similar by its quality and use. The market value of premises was estimated based on information on sales of the comparable items that took place in the market.

The values assigned to the key assumptions represent Management's assessment of future business trends and are based on both external sources and internal sources of information.

Included in the above table is RUR 684,705 thousand representing the 2008 negative revaluation in respect of these buildings. Negative revaluation of RUR 374,424 thousand was recorded in consolidated equity, and negative revaluation of RUR 310,281 thousand was recognized as an impairment charge in the consolidated income statement due to the fair value falling below cost for certain buildings.

The carrying value of buildings as of 31 December 2008, if the buildings would not have been revalued, would be RUR 2,947,157 thousand (31 December 2007: RUR 1,028,670 thousand).

Analysis of movements in the impairment allowance

	2008	2007
	RUR'000	RUR'000
Balance at the beginning of the year	-	-
Net charge for the year	310,281	-
Balance at the end of the year	310,281	-

20 Other assets

	2008 RUR'000	2007 RUR'000
Prepayments	447,601	260,866
Settlements on transactions with securities	250,250	-
Property received under pledge agreements	236,973	29,331
Taxes receivable, other than income tax	46,768	48,459
Receivables on construction in progress	33,968	33,968
Other receivables	50,211	3,885
Investments in associates and unconsolidated subsidiaries	13,358	1,526
Provision for impairment	(19,539)	(618)
	1,059,590	377,417

Associates and unconsolidated subsidiaries comprise:

Name	Country of incorporation	Main activity	% Controlled		2008 Carrying value RUR'000	2007 Carrying value RUR'000
			2008	2007		
LLC "Insurance company Uveren.RU"	Russian Federation	Insurance	5%	-	8,159	-
LLC "Factoring company Arterial Group"	Russian Federation	Factoring	50%	25%	2,542	1,252
LLC "Scratch Card"	Russian Federation	Other	100%	-	100	-
CJSC "InterCARD"	Russian Federation	Other	70%	70%	270	270
LLC "CHOP STRAZH-2002"	Russian Federation	Security	24%	24%	2	2
LLC "Stroycapital"	Russian Federation	Construction	19%	19%	2	2
LLC "Trajectory of Growth Consulting company"	Russian Federation	Other	24%	-	17	-
LLC "Business academy"	Russian Federation	Other	100%	-	2,266	-
					13,358	1,526

Analysis of movements in the provision for impairment

	2008 RUR'000	2007 RUR'000
Balance at the beginning of the year	618	651
Net charge for the year	18,921	-
Write-offs	-	(33)
Balance at the end of the year	19,539	618

Overdue receivables are included in other assets as at 31 December 2008 in the total amount of RUR 19,539 thousand (31 December 2007: RUR 618 thousand).

21 Deposits and balances from banks and other financial institutions

	2008 RUR'000	2007 RUR'000
Vostro accounts	1,032,876	374,923
Term deposits	7,453,452	1,572,304
	8,486,328	1,947,227

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2008 and 2007 the Group had one and no counterparties, respectively, whose balances individually exceeded 10% of total deposits and balances from banks and other financial institutions. The gross value of these balances as of 31 December 2008 were RUR 6,301,974 thousand.

22 Amounts payable under repurchase agreements

	2008 RUR'000	2007 RUR'000
Amounts payable to banks and other financial institutions	1,116,288	356,502
Amounts payable to the Central Bank of Russian Federation	273,613	-
	1,389,901	356,502

23 Customer accounts

	2008 RUR'000	2007 RUR'000
Current accounts and demand deposits		
- Individuals	2,255,759	1,580,033
- Corporate clients	8,417,206	8,517,225
Term deposits		
- Individuals	27,484,929	14,255,525
- Corporate clients	3,676,109	4,769,653
	41,834,003	29,122,436

24 Debt securities issued

	2008 RUR '000	2007 RUR '000
Loan participation notes	4,904,093	9,731,181
Discount bearing promissory notes	1,268,198	2,506,118
Bonds	240,691	413,110
Zero-interest/non-discount bearing promissory notes	130,449	207,023
Interest-bearing promissory notes	81,218	-
Total debt securities issued	6,624,649	12,857,432

As at 31 December 2008 and 2007, the Group had the following loan participation notes outstanding:

Principal amount as at 31 December 2008 '000	Principal amount as at 31 December 2007 '000	Interest rate %	Issue date	Maturity date	2008 RUR'000	2007 RUR'000
2,728,000 RUR	3,000,000 RUR	9.70	09.07.2007	08.07.2010	2,699,525	3,076,884
69,070 USD	-	12.52	18.08.2008	17.08.2010	2,204,568	-
-	21,000 RUR	8.28	20.09.2006	19.03.2008	-	21,638
-	58,500 USD	9.04	16.11.2006	15.05.2008	-	1,435,953
-	200,000 USD	8.74	23.03.2007	22.09.2009	-	4,909,240
-	8,000 EUR	7.78	20.09.2006	19.03.2008	-	287,466
Total loan participation notes					4,904,093	9,731,181

25 Other borrowed funds

As at 31 December 2008 and 2007 other borrowed funds comprise:

	Original currency	Maturity date	2008		2007	
			Interest rate %	RUR'000	Interest rate %	RUR'000
State corporation "Deposit Insurance Agency"	RUR	2013	6.5	1,903,468	-	-
State corporation "Deposit Insurance Agency"	RUR	2013	6.5	3,768,584	-	-
Loans granted by Landesbank Berlin AG	USD	2008	-	-	7.51	1,235,719
Loans granted by Landesbank Berlin AG	EUR	2009	6.29	522	-	-
Loans granted by Landesbank Berlin AG	EUR	2010	6.29-6.54	116,115	-	-
Loans granted by Landesbank Berlin AG	EUR	2012	5.96	28,223	-	-
Loans granted by European Bank for Reconstruction and Development	EUR	2008	-	-	6.63	36,674
Loans granted by European Bank for Reconstruction and Development	USD	2011	7.11	301,777	7.74-9.42	632,320
Loans granted by European Bank for Reconstruction and Development	USD	2009	5.46-6.40	143,009	-	-
Loans granted by Bankgesellschaft Berlin AG	USD	2010	5.69	67,278	5.68	84,313
Loans granted by Bankgesellschaft Berlin AG	EUR	2014	5.10	267,162	4.31-5.09	310,700
Loans granted by Bankgesellschaft Berlin AG	EUR	2010	4.30-4.65	25,576	-	-
Loans granted by Deere Credit	USD	2011	3.39	17,596	5.47-8.98	203,645
Loans granted by Deere Credit	EUR	2009	6.26	11,172	5.74	63,178
Loans granted by Bayerische Vereinsbank AG	CHF	2008	-	-	3.86	175,439
Loans granted by Bayerische Vereinsbank AG	CHF	2014	4.05	210,127	-	-
Loans granted by Bayerische Vereinsbank AG	EUR	2010-16	5.14-6.45	1,535,553	-	-
Loans granted by Landesbank Baden-Wuerttemberg	EUR	2010-11	5.37-6.26	134,758	5.37-5.62	171,235
Loans granted by Blacksea bank for development and trade	USD	2008	-	-	8.77	131,746
Loans granted by Blacksea bank for development and trade	USD	2009	6.79	151,525	-	-
Loans granted by Bre Bank	USD	2011	4.24	79,778	6.46	93,544
				8,762,223		3,138,513

26 Subordinated debts

Subordinated debts as at 31 December 2008 and 31 December 2007 comprise:

	Currency	Maturity date	Interest rate %	2008 RUR'000	2007 RUR'000
Subordinated debt from European Bank for Reconstruction and Development	USD	2011	11.42	400,685	327,103
Subordinated debt from European Bank for Reconstruction and Development	USD	2013	8.13	177,183	148,173
Subordinated debt from LLC "Collection agency "Life"	RUR	2012-2020	14.30	340,000	342,664
Subordinated debt from LLC "Collection agency "Life"	USD	2013	8.73	58,985	49,280
Subordinated debt from LLC "Amigo"	RUR	2011	14.30	100,625	100,000
Subordinated debt from AMBIKA Investments Limited	USD	2014	13.50	558,227	-
Subordinated debt from East Capital	RUR	2013	12.00	634,938	-
Subordinated debt from LLC "Probusiness Holding"	RUR	2014	0.50	31,000	31,000
Subordinated debt from LLC "Omega OPT trading"	RUR	2012	10.00	50,300	-
Subordinated debt from LLC "Sorbeng NPK"	RUR	2012	10.00	40,240	-
Subordinated debt from LLC "Polimerplast Invest"	RUR	2018-19	10.00	150,903	-
Subordinated debt from LLC "Sibural-Invest"	RUR	2013	10.00	20,120	-
Subordinated debt from LLC "Intorg"	EUR	2016	8.00	56,269	-
Total subordinated debts				2,619,475	998,220

In case of bankruptcy or liquidation of the Group, the repayment of the subordinated debts shall be made after repayment in full of liabilities to all other creditors of the Group.

27 Other liabilities

Other liabilities comprise:

	2008 RUR'000	2007 RUR'000
Property received under pledge agreements	202,779	-
Payables to employees	201 464	393,743
Amounts payable under transactions with securities	149,989	-
Deferred fees for customer accounts maintenance	47,099	-
Taxes payable, other than income tax	45,804	16,903
Payables to Moscow region Pension Fund	30,434	-
Liabilities on payments to the deposit insurance fund system	29,018	17,546
Leasing obligations	26,920	23,447
Provisions for guarantees and other commitments	16,582	17,980
Transit accounts for settlements with customers on dividends and coupon income received	-	45,413
Other	30,447	7,145
Total other liabilities	780,536	522,177

28 Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as of 31 December 2008 and 2007. These deferred tax assets have been recognised in these consolidated financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim the deductions in future periods. These future tax benefits have not been recognised due to uncertainties concerning their realisation.

These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

RUR'000	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Placements with banks and other financial institutions	170	-	-	-	170	-
Financial instruments at fair value through profit or loss (assets)	-	-	(14,568)	(3,301)	(14,568)	(3,301)
Amounts receivable under reverse repurchase agreements	58	-	-	-	58	-
Loans to customers	81,739	-	-	(138,746)	81,739	(138,746)
Available-for-sale securities	33,457	-	-	-	33,457	-
Property and equipment and intangible assets	-	-	(318,654)	(375,305)	(318,654)	(375,305)
Other assets	188,650	28,742	-	-	188,650	28,742
Financial instruments at fair value through profit or loss (liabilities)	36,451	-	-	-	36,451	-
Deposits and balances from banks and other financial institutions	2,722	-	-	-	2,722	-

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
RUR'000						
Current accounts and deposits from customers	-	4,625	(1,626)	-	(1,626)	4,625
Amounts payable under repurchase agreements	18	-	-	-	18	-
Debt securities in issue	-	6,444	(18,542)	-	(18,542)	6,444
Subordinated debt	10,198	2,450	-	-	10,198	2,450
Other borrowed funds	-	-	(5,352)	-	(5,352)	-
Other liabilities	45,459	95,955	-	-	45,459	95,955
Total deferred tax asset/(liability)	398,922	138,216	(358,742)	(517,352)	40,180	(379,136)

The tax rate applicable for deferred taxes was 20% (2007: 24%).

Movement in temporary differences during the year ended 31 December 2008

	Balance 1 January 2008	Recognised in income	Recognised in equity	Acquired in business combination	Balance 31 December 2008
RUR'000					
Placements with banks and other financial institutions	-	170	-	-	170
Financial instruments at fair value through profit or loss (assets)	(3,301)	(16,137)	-	4,870	(14,568)
Amounts receivable under reverse repurchase agreements	-	58	-	-	58
Loans to customers	(138,746)	154,425	-	66,060	81,739
Available-for-sale securities	-	-	24,024	9,433	33,457
Property and equipment and intangible assets	(375,305)	(39,287)	161,081	(65,143)	(318,654)
Other assets	28,742	94,672	-	65,236	188,650
Financial instruments at fair value through profit or loss (liabilities)	-	36,451	-	-	36,451
Deposits and balances from banks and other financial institutions	-	2,720	-	2	2,722
Current accounts and deposits from customers	4,625	(6,111)	-	(140)	(1,626)
Amounts payable under repurchase agreements	-	18	-	-	18
Debt securities in issue	6,444	(25,106)	-	120	(18,542)
Subordinated debt	2,450	7,748	-	-	10,198
Other borrowed funds	-	(5,352)	-	-	(5,352)
Other liabilities	95,955	(52,843)	-	2,347	45,459
	(379,136)	151,426	185,105	82,785	40,180

29 Share capital and share premium

Issued capital and share premium

The authorised, issued and outstanding share capital comprises 4,126,071 ordinary shares (2007: 4,046,638 ordinary shares). All shares have a nominal value of RUR 1,000. During 2008 79,433 ordinary shares were issued for total consideration of RUR 375,003 thousand.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Group.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Group, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation, as of the balance sheet date, no reserves were available for distribution (2007: no reserves available).

30 Analysis by segment

The Group's primary format for reporting segment information is by business segments. The Group identified these segments to be the Group's primary format due to the fact that the Group's activities analysis is performed by these segments for the purposes of management accounting and reporting to the Board of Directors of the Group.

The Group is organized into four main business segments:

- Corporate business division (CBD) – services companies with income from US 5 million dollars to US 100 million dollars. This division implements the principle of business management by portfolios. The division is structured by client segments. Subdivisions specialize in maintenance of special groups of clients.
- Small and medium size business division (SMBD) is organized into four main subdivisions: Small-size business, Medium-size business, Leasing and Agricultural dealers. The main activities of Small-size business subdivision are express loans selling and cash and settlement operations with entrepreneurs and small-size entities whose annual revenue do not exceed US 1.5 million dollars. The main activities of the Medium-size business subdivision are loan selling to entities of larger size with total number of employees about 50 and annual revenue about US 3 million dollars. Leasing subdivision maintains all types of clients: large companies, as well as small-size entities who are mainly customers in respect of express leasing and express auto leasing. Agricultural dealers subdivision finances dealers – farm machinery importers.
- Retail business division (RBD). The main activities of this division are all types of lending, investments, transfers, maintenance of safety deposit boxes, plastic cards and credit cards.
- Express loan division (ELD) is specialized in providing express loans to individuals in one hour.

Segment breakdown of assets and liabilities of the Group is set out below:

	2008 RUR'000	2007 RUR'000
ASSETS		
Retail business division	12,348,427	11,392,461
Corporate business division	17,412,874	15,780,006
Express loan division	3,414,008	4,368,841
Small and medium size business division	6,010,732	5,186,285
Unallocated assets	38,928,492	20,320,719
Total assets	78,114,533	57,048,312
LIABILITIES		
Retail business division	23,592,304	14,777,296
Corporate business division	10,347,205	10,459,675
Express loan division	57,384	51,151
Small and medium size business division	2,391,363	4,995,152
Unallocated liabilities	34,291,112	19,523,771
Total liabilities	70,679,368	49,807,045

Segment information for the main reportable business segments of the Group for the year ended 31 December 2008 is set below:

	Retail business division	Corporate business division	Express loan division	Small and medium size business division	Unallocated	Total
Interest income	3,625,821	3,567,503	1,596,204	1,599,891	701,256	11,090,675
Interest expense	(2,126,374)	(831,561)	(210)	(175,850)	(1,556,540)	(4,690,535)
Net revenue from other segments	(440,022)	(456,529)	530,686	(601,984)	967,849	-
Net interest income before provision for impairment	1,059,425	2,279,413	2,126,680	822,057	112,565	6,400,140
Provision for impairment and loss from disposal of loans	(1,310,418)	(137,298)	(607,972)	(850,183)	(102,559)	(3,008,430)
Net interest income/(loss) after provision for impairment	(250,993)	2,142,115	1,518,708	(28,126)	10,006	3,391,710
Non-interest income	483,304	599,133	(1,303)	350,840	559,373	1,991,347
Negative revaluation of buildings	-	-	-	-	(310,281)	(310,281)
General administrative expenses	(1,491,524)	(650,910)	(866,732)	(696,260)	(1,204,743)	(4,910,169)
Segment result	(1,259,213)	2,090,338	650,673	(373,546)	(945,645)	162,607
Income tax benefit						10,536
Net income after taxes						173,143

Segment information for the main reportable business segments of the Group for the year ended 31 December 2007 is set below:

	Retail business division	Corporate business division	Express loan division	Small and medium size business division	Unallocated	Total
Interest income	2,204,933	2,063,889	1,050,108	904,215	901,374	7,124,519
Interest expense	(1,082,707)	(475,067)	(44)	(92,725)	(1,507,593)	(3,158,136)
Net revenue from other segments	102,026	(661,167)	(420,792)	(211,796)	1,191,729	-
Net interest income before provision for impairment	1,224,252	927,655	629,272	599,694	585,510	3,966,383
Provision for impairment and loss from disposal of loans	(323,561)	(138,074)	(127,724)	(180,026)	-	(769,385)
Net interest income after provision for impairment	900,691	789,581	501,548	419,668	585,510	3,196,998
Non-interest income	317,987	534,409	174	321,727	89,685	1,263,982
General administrative expenses	(884,736)	(424,307)	(750,355)	(576,634)	(1,150,147)	(3,786,179)
Segment result	333,942	899,683	(248,633)	164,761	(474,952)	674,801
Income tax expense						(132,301)
Net income after taxes						542,500

31 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk.

Risk management policies and procedures

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board of the Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operate within the established risk parameters. The Head of Risk Department of the Group is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the President of the Group and indirectly to the Board of Directors.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the President of Group. Market risk limits are approved by ALCO based on recommendations of the Risk Department's Market Risk Management Division.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board.

The management of interest rates risk, component of market risk, by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Group's net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments.

The Group 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 also reduce or create losses in the event that unexpected movements arise.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

An analysis of sensitivity of the Bank's net income for the period and equity to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2008 and 31 December 2007 is as follows:

	2008		2007	
	Net income	Equity	Net income	Equity
	RUR'000	RUR'000	RUR'000	RUR'000
100 bp parallel fall	(22,225)	(22,225)	55,849	55,849
100 bp parallel rise	22,225	22,225	(55,849)	(55,849)

An analysis of sensitivity of the net income for the year and equity as a result of changes in fair value of financial instruments at fair value through profit or loss and investments available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2008 and 2007 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2008		2007	
	Net income	Equity	Net income	Equity
	RUR'000	RUR'000	RUR'000	RUR'000
100 bp parallel fall	16,424	17,712	28,627	28,627
100 bp parallel rise	(14,146)	(15,434)	(28,627)	(28,627)

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Group's exposure to currency risk at year end refer to Note 42.

An analysis of sensitivity of the Group's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2008 and 2007 and a simplified scenario of a 5% change in USD and Euro to Russian Rouble exchange rates is as follows:

	2008		2007	
	Net income	Equity	Net income	Equity
	RUR'000	RUR'000	RUR'000	RUR'000
5% appreciation of USD against RUR	(54,868)	(54,868)	6,549	6,549
5% depreciation of USD against RUR	54,868	54,868	(6,549)	(6,549)
5% appreciation of EUR against RUR	(3,442)	(3,442)	(1,771)	(1,771)
5% depreciation of EUR against RUR	3,442	3,442	1,771	1,771

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

An analysis of sensitivity of the Group's net income for the year and equity to changes in equity securities prices based on positions existing as at 31 December 2008 and 2007 and a simplified scenario of a 5% change in all securities prices is as follows:

	2008		2007	
	Net income	Equity	Net income	Equity
	RUR'000	RUR'000	RUR'000	RUR'000
5% increase in securities prices	4,635	27,263	17,072	17,733
5% decrease in securities prices	(4,635)	(27,263)	(17,072)	(17,733)

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Group's credit risk. The Group's credit policy is reviewed and approved by the Management Board.

The Group's credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, SME and retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the Group's corporate loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The loan/credit application and the report are then independently reviewed by the Risk Department's Credit Risk Management Division and a second opinion is given accompanied by a check that credit policy requirements have been met. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Group's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or the Group's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan/credit applications are reviewed by the Group's Retail Lending Division through the use of scoring models and application data verification procedures developed together with the Risk Department.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

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

The Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 17 "Loans to customers".

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Group. It is unusual for financial institutions 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 Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Group's liquidity policy is reviewed and approved by the Management Board.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Group are presented to senior management on a weekly basis. Decisions on the Group's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

The Group also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. The Group was in compliance with these ratios during the years ended 31 December 2007 and 31 December 2008.

The following tables show the undiscounted cash flows on the Group's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The total gross amount (inflow)/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment. The Group's expected cash flows on these financial liabilities and unrecognized loan commitments may vary significantly from this analysis.

The gross undiscounted cash flows of the Group as at 31 December 2008 were as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	1 year to 3 years	Over 3 years	Total gross amount outflow	Carrying amount
Non-derivative liabilities								
Financial instruments at fair value through profit or loss	147,935	-	34,318	-	-	-	182,253	182,253
Deposits and balances from banks and other financial institutions	5,660,143	252,687	1,607,757	174,683	289,577	722,519	8,707,366	8,486,328
Amounts payable under repurchase agreements	1,395,359	-	-	-	-	-	1,395,359	1,389,901
Customer accounts	13,258,646	4,576,825	6,303,838	9,657,980	10,245,968	2,569,628	46,612,885	41,834,003
Debt securities issued	502,930	291,360	932,828	508,068	5,292,177	-	7,527,363	6,624,649
Other borrowed funds	140,291	128,563	366,589	1,159,721	7,472,744	4,489,877	13,757,785	8,762,223
Subordinated debts	2,589	23,911	49,502	76,837	805,619	2,393,289	3,351,747	2,619,475
Other liabilities	60,836	221,230	209,949	261,138	27,383	-	780,536	780,536
Total	21,168,729	5,494,576	9,504,781	11,838,427	24,133,468	10,175,313	82,315,294	70,679,368
Credit related commitments	1,090,348	62,626	182,502	245,534	101,773	396,340	2,079,123	2,079,123

The gross undiscounted cash flows of the Group as at 31 December 2007 were as follows:

RUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	1 year to 3 years	Over 3 years	Total gross amount outflow	Carrying amount
Financial liabilities at fair value through profit or loss	-	448,774	-	-	-	-	448,774	448,774
Deposits and balances from banks and other financial institutions	596,604	632,119	156,258	10,057	91,853	694,643	2,181,534	1,947,227
Amounts payable under repurchase agreements	356,502	-	-	-	-	-	356,502	356,502
Customer accounts	12,389,509	3,112,847	2,692,530	5,774,866	7,378,047	295,129	31,642,928	29,122,436
Debt securities issued	672,678	885,986	2,001,034	6,359,746	4,520,495	-	14,439,939	12,857,432
Other borrowed funds	205,912	141,379	253,326	1,490,047	172,929	1,306,944	3,570,537	3,138,513
Subordinated debts	57,637	188	-	-	-	1,410,860	1,468,685	998,220
Current income tax liability	-	36,628	-	-	-	-	36,628	36,628
Deferred tax liabilities	-	379,136	-	-	-	-	379,136	379,136
Other liabilities	93,426	181,405	220,496	17,735	9,115	-	522,177	522,177
Total	14,372,268	5,818,462	5,323,644	13,652,451	12,172,439	3,707,576	55,046,840	49,807,045
Credit related commitments	2,981,481	40,907	3,395	31,894	189,856	90,425	3,337,958	3,337,958

For further information on the Group's exposure to liquidity risk at year end refer to Note 41.

32 Capital management

The Central Bank of Russia sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2008, this minimum level is 10%. The Group was in compliance with the statutory capital ratio during the years ended 31 December 2007 and 31 December 2008.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the Group's capital position calculated in accordance with the requirements of the Basle Accord, as at 31 December 2008:

	2008 RUR'000	2007 RUR'000
Tier 1 capital		
Share capital	4,126,071	4,046,638
Share premium	1,375,351	1,079,781
Retained earnings	1,123,258	885,790
Minority interest	19,228	12,977
Goodwill	(252,676)	(252,676)
Total tier 1 capital	6,391,232	5,772,510
Tier 2 capital		
Revaluation reserve for property and equipment	816,731	1,145,460
Revaluation reserve of available-for-sale investments	(96,095)	-
Additional paid-in capital	70,621	70,621
Subordinated debts	2,031,200	620,306
Total tier 2 capital	2,822,457	1,836,387
Total capital	9,213,689	7,608,897
Risk-weighted assets	68,307,146	52,416,340
Total capital expressed as a percentage of risk-weighted assets ("total capital ratio")	13.49%	14.52%
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	9.36%	11.01%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements during the years ended 31 December 2008 and 31 December 2007.

33 Commitments

At any time the Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2008 RUR'000	2007 RUR'000
Contingencies and credit commitments		
Guarantees issued and similar commitments	2,649,187	2,964,687
Letters of credit and other contingencies related to contingent obligations	2,685,911	3,249,932
Unused loan commitments	2,079,123	3,337,958
Total contingencies and credit commitments	7,414,221	9,552,577

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

34 Operating leases

Leases as lessee

Non-cancelable operating lease rentals are payable as follows:

	2008 RUR'000	2007 RUR'000
Not later than 1 year	392,344	335,435
Later than 1 year and not later than 5 years	1,027,048	645,283
More than 5 years	130,824	61,598
Total operating lease commitments	1,550,216	1,042,316

The Group leases a number of premises and equipment under operating lease. The leases typically run for an initial period of 3 to 5 years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the current year RUR 432,867 thousand was recognised as an expense in the consolidated income statement in respect of operating leases (2007: RUR 307,622 thousand).

35 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions of the results of future operations of the Group.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position of the Group, if the authorities were successful in enforcing their interpretations, could be significant.

36 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated balance sheet.

37 Related party transactions

Control relationships

The ultimate shareholders of the Group are disclosed in Note 1.

Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in employee compensation (refer Note 12):

	2008 RUR'000	2007 RUR'000
Members of the Board of Directors	131,771	177,016
Members of the Management Board	64,452	63,797
	196,223	240,813

The above amounts include non-cash benefits in respect of the members of the Board of Directors and the Management Board.

The outstanding balances and average interest rates as of 31 December 2008 with the members of the Board of Directors and the Management Board are as follows:

	2008 RUR'000	Average Interest Rate	2007 RUR'000	Average Interest Rate
Consolidated Balance Sheet				
ASSETS				
Loans to customers	77,694	15.28%	51,147	15.26%
Off balance sheet guarantees	1,323	-	1,104	-
Customer accounts	58,074	9.66%	29,072	7.70%

Amounts are included in the consolidated income statement in relation to transactions with the members of the Board of Directors and the Management Board as follows:

	2008 RUR'000	2007 RUR'000
Consolidated Income Statement		
Interest income	10,635	4,699
Interest expense	5,197	1,525

Transactions with other related parties

Other related parties include associates, companies under common control and entities with significant influence over the Group. The outstanding balances and the related average interest rates as of 31 December 2008 and related income statement amounts for the year ended 31 December 2008 with other related parties are as follows:

	Entities with significant influence over the Group		Associates and companies under common control		Total
	RUR'000	Average interest rate	RUR'000	Average interest rate	RUR'000
Consolidated Balance Sheet					
ASSETS					
Loans to customers					
Principal balance with interest	-	-	1,830,269	13.27%	1,830,269
Provision for impairment	-	-	(27,680)	-	(27,680)
LIABILITIES					
Customer accounts	525	-	207,452	6.35%	207,977
Debt securities issued	-	-	423,043	9.72%	423,043
Subordinated debt	-	-	429,985	13.00%	429,985
Consolidated Income Statement					
Interest income	-	-	267,361	-	267,361
Interest expense	-	-	(22,590)	-	(22,590)
Fee and commission income	-	-	2,748	-	2,748

Other related parties include associates, companies under common control and entities with significant influence over the Group. The outstanding balances and the related average interest rates as of 31 December 2007 and related income statement amounts for the year ended 31 December 2007 with other related parties are as follows:

	Entities with significant influence over the Group		Associates and companies under common control		Total
	RUR'000	Average interest rate	RUR'000	Average interest rate	RUR'000
Consolidated Balance Sheet					
ASSETS					
Loans to customers					
Principal balance with interest	-	-	601,001	11.02%	601,001
Provision for impairment	-	-	(17,351)	-	(17,351)
LIABILITIES					
Customer accounts	1,338	-	351,187	8.84%	352,525
Subordinated debt	-	-	100,060	11.00%	100,060
Consolidated Income Statement					
Interest income	-	-	41,223	-	41,223
Interest expense	-	-	(38,433)	-	(38,433)
Fee and commission income	-	-	7,285	-	7,285

38 Cash and cash equivalents

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	2008 RUR'000	2007 RUR'000
Cash	3,874,716	2,672,275
Due from the Central Bank of the Russian Federation – nostro accounts	9,408,842	5,355,562
Placements with OECD banks	709,867	916,963
Nostro accounts of OECD banks	1,032,681	-
	15,026,106	8,944,800

39 Fair value of financial instruments

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 7 “Financial Instruments: Disclosures”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in a forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The estimated fair values of cash, mandatory cash balances with the Central Bank of the Russian Federation, and placements with banks and other financial institutions are their carrying values.

The estimated fair value of financial instruments at fair value through profit or loss and quoted available-for-sale assets are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the balance sheet date.

The Management of the Group believes fair values of all financial instruments, except as described below, approximate their carrying values.

	31 December 2008		31 December 2007	
	Carrying value RUR'000	Fair value RUR'000	Carrying value RUR'000	Fair value RUR'000
ASSETS				
Loans to customers	44,601,994	44,448,692	36,727,593	36,727,593
LIABILITIES				
Deposits and balances from banks and other financial institutions	8,486,328	8,477,995	1,947,227	1,947,227
Customer accounts	41,834,003	41,414,724	29,122,436	29,122,436
Debt securities issued	6,624,649	6,583,711	12,857,432	12,857,432
Other borrowed funds	8,762,223	7,275,678	3,138,513	3,138,513
Subordinated debts	2,619,475	2,555,389	998,220	998,220

40 Average effective interest rates

The table below displays the Group's interest bearing assets and liabilities as at 31 December 2008 and 2007 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value RUR'000	2008 Average effective interest rate	Value RUR'000	2007 Average effective interest rate
Interest bearing assets				
Placements with banks and other financial institutions				
<i>Loans and deposits</i>				
- RUR	940,278	10.27%	-	-
- USD	2,923,458	3.41%	1,631,963	4.76%
Financial instruments at fair value through profit or loss				
- RUR	161,929	9.92%	413,091	12.96%
- USD	403,456	7.91%	1,276,852	3.00%
- other currencies	837,807	4.68%	-	-
Amounts receivable under reverse repurchase agreements				
- RUR	2,581,307	14.49%	767,095	9.62%
Loans to customers				
- RUR	40,552,604	27.40%	33,703,311	26.73%
- USD	3,588,122	17.97%	2,736,100	14.62%
- other currencies	461,268	13.51%	288,182	12.24%
Available-for-sale securities				
- RUR	693,661	12.45%	-	-
Interest bearing liabilities				
Deposits and balances from banks and other financial institutions				
<i>Term deposits</i>				
- RUR	6,569,708	12.05%	923,278	9.18%
- USD	702,770	6.96%	519,235	8.46%
- other currencies	180,974	7.65%	129,791	5.53%

	Value RUR'000	2008 Average effective interest rate	Value RUR'000	2007 Average effective interest rate
Amounts payable under repurchase agreements				
- RUR	1,389,901	12.95%	356,502	10.99%
Customer accounts				
<i>Term deposits of legal entities</i>				
- RUR	2,778,918	8.47%	2,758,871	10.49%
- USD	761,333	7.18%	1,733,798	8.25%
- other currencies	135,858	7.36%	276,984	7.09%
<i>Term deposits of individuals</i>				
- RUR	19,648,214	12.52%	11,820,598	10.55%
- USD	3,752,268	10.44%	1,130,745	9.50%
- other currencies	4,084,447	10.36%	1,304,182	5.84%
Debt securities issued				
- RUR	4,400,828	9.51%	5,890,825	9.09%
- USD	2,215,522	12.48%	6,672,393	8.84%
- other currencies	8,299	8.08%	294,214	7.78%
Other borrowed funds				
- RUR	5,672,052	6.50%	-	-
- USD	760,963	6.29%	2,380,456	7.53%
- other currencies	2,329,208	5.72%	758,057	4.98%
Subordinated debts				
- RUR	1,368,126	11.86%	473,697	11.00%
- USD	1,195,080	11.77%	524,523	11.22%
- EUR	56,269	8.00%	-	-

41 Maturity analysis

The following table show assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2008, with the exception of financial instruments at fair value through profit or loss and available-for-sale securities, which are shown in the category “Less than 1 month or on demand” based on the fact that the Group’s management believes that all of these trading securities could be liquidated within one month in the normal course of business.

	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	More than 3 years	No maturity	Overdue	Total
ASSETS	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Cash	3,874,716	-	-	-	-	-	-	-	3,874,716
Due from the Central Bank of the Russian Federation	9,408,842	-	-	-	-	-	-	-	9,408,842
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	-	-	110,326	-	110,326
Placements with banks and other financial institutions	5,745,227	1,560,259	500,000	-	280,000	-	-	-	8,085,486
Financial instruments at fair value through profit or loss	1,596,383	-	-	-	-	-	-	-	1,596,383
Amounts receivable under reverse repurchase agreements	2,581,307	-	-	-	-	-	-	-	2,581,307
Loans to customers	5,882,188	4,099,901	6,225,701	6,134,170	11,109,956	7,696,693	-	3,453,385	44,601,994
Goodwill	-	-	-	-	-	-	252,676	-	252,676
Available-for-sale securities	1,259,374	-	-	-	-	-	-	-	1,259,374
Property and equipment and intangible assets	-	-	-	-	-	-	5,075,543	-	5,075,543
Current income tax asset	-	168,116	-	-	-	-	-	-	168,116
Deferred tax asset	-	40,180	-	-	-	-	-	-	40,180
Other assets	537,748	60,168	5,321	307,950	41,865	8,252	98,286	-	1,059,590
Total assets	30,885,785	5,928,624	6,731,022	6,442,120	11,431,821	7,704,945	5,536,831	3,453,385	78,114,533

	Less than 1 month RUR'000	1 to 3 months RUR'000	3 to 6 months RUR'000	6 months to 1 year RUR'000	1 to 3 years RUR'000	More than 3 years RUR'000	No maturity RUR'000	Overdue RUR'000	Total RUR'000
LIABILITIES									
Financial instruments at fair value through profit or loss	147,935	-	34,318	-	-	-	-	-	182,253
Deposits and balances from banks and other financial institutions	5,656,105	250,062	1,575,362	167,860	276,484	560,455	-	-	8,486,328
Amounts payable under repurchase agreements	1,389,901	-	-	-	-	-	-	-	1,389,901
Customer accounts	12,926,332	4,017,703	5,530,710	9,236,137	7,978,149	2,144,972	-	-	41,834,003
Debt securities issued	499,688	286,322	679,727	237,898	4,921,014	-	-	-	6,624,649
Other borrowed funds	119,481	11,433	205,663	272,980	3,680,569	4,472,097	-	-	8,762,223
Subordinated debts	-	-	-	-	501,311	2,118,164	-	-	2,619,475
Other liabilities	60,836	221,230	209,949	261,138	27,383	-	-	-	780,536
Total liabilities	20,800,278	4,786,750	8,235,729	10,176,013	17,384,910	9,295,688	-	-	70,679,368
Net position as at 31 December 2008	10,085,507	1,141,874	(1,504,707)	(3,733,893)	(5,953,089)	(1,590,743)	5,536,831	3,453,385	7,435,165
Net position as at 31 December 2007	2,455,277	896,077	337,024	(7,346,264)	(99,283)	4,108,697	5,246,773	1,642,966	7,241,267

Due to the fact that substantially all the financial instruments of the Group are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

The amounts in the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

The following table show assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2007, with the exception of financial instruments at fair value through profit or loss and available-for-sale securities, which are shown in the category “Less than 1 month or on demand” based on the fact that the Group’s management believes that all of these trading securities could be liquidated within one month in the normal course of business.

	Less than 1 month RUR'000	1 to 3 months RUR'000	3 to 6 months RUR'000	6 months to 1 year RUR'000	1 to 3 years RUR'000	More than 3 years RUR'000	No maturity RUR'000	Overdue RUR'000	Total RUR'000
ASSETS									
Cash	2,672,275	-	-	-	-	-	-	-	2,672,275
Due from the Central Bank of the Russian Federation	5,355,562	-	-	-	-	-	-	-	5,355,562
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	-	-	760,946	-	760,946
Placements with banks and other financial institutions	1,479,057	1,476,213	518,193	-	-	-	-	-	3,473,463
Financial instruments at fair value through profit or loss	2,273,619	7,510	252	-	-	-	-	-	2,281,381
Amounts receivable under reverse repurchase agreements	767,095	-	-	-	-	-	-	-	767,095
Loans to customers	4,076,013	4,894,930	4,839,856	5,126,210	9,401,216	6,746,402	-	1,642,966	36,727,593
Goodwill	-	-	-	-	-	-	252,676	-	252,676
Available-for-sale securities	16,600	-	-	-	-	-	-	-	16,600
Property and equipment and intangible assets	-	-	-	-	-	-	4,355,731	-	4,355,731
Current income tax asset	-	7,573	-	-	-	-	-	-	7,573
Other assets	149,611	58,968	75,224	57,920	-	-	35,694	-	377,417
Total assets	16,789,832	6,445,194	5,433,525	5,184,130	9,401,216	6,746,402	5,405,047	1,642,966	57,048,312

	Less than 1 month RUR'000	1 to 3 months RUR'000	3 to 6 months RUR'000	6 months to 1 year RUR'000	1 to 3 years RUR'000	More than 3 years RUR'000	No maturity RUR'000	Overdue RUR'000	Total RUR'000
LIABILITIES									
Financial instruments at fair value through profit or loss	-	448,774	-	-	-	-	-	-	448,774
Deposits and balances from banks and other financial institutions	592,612	619,203	150,000	9,272	73,260	502,880	-	-	1,947,227
Amounts payable under repurchase agreements	356,502	-	-	-	-	-	-	-	356,502
Customer accounts	12,360,656	3,037,500	2,565,265	5,260,573	5,687,996	210,446	-	-	29,122,436
Debt securities issued	668,388	866,600	1,915,275	5,830,350	3,576,819	-	-	-	12,857,432
Other borrowed funds	205,334	137,957	245,465	1,412,464	153,309	983,984	-	-	3,138,513
Subordinated debts	57,637	188	-	-	-	940,395	-	-	998,220
Current income tax liability	-	36,628	-	-	-	-	-	-	36,628
Deferred tax liability	-	379,136	-	-	-	-	-	-	379,136
Other liabilities	93,426	23,131	220,496	17,735	9,115	-	158,274	-	522,177
Total liabilities	14,334,555	5,549,117	5,096,501	12,530,394	9,500,499	2,637,705	158,274	-	49,807,045
Net position as at 31 December 2007	2,455,277	896,077	337,024	(7,346,264)	(99,283)	4,108,697	5,246,773	1,642,966	7,241,267

42 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2008:

	RUR	USD	EUR	Other	Total
	RUR'000	RUR'000	RUR'000	currencies	RUR'000
				RUR'000	
ASSETS					
Cash	2,707,191	566,622	599,808	1,095	3,874,716
Due from the Central Bank of the Russian Federation	2,128,462	2,556,094	4,724,286	-	9,408,842
Mandatory cash balances with the Central Bank of the Russian Federation	110,326	-	-	-	110,326
Placements with banks and other financial institutions	1,298,638	6,187,389	591,375	8,084	8,085,486
Financial instruments at fair value through profit or loss	355,120	403,456	816,034	21,773	1,596,383
Amounts receivable under reverse repurchase agreements	2,581,307	-	-	-	2,581,307
Loans to customers	40,552,604	3,588,122	269,055	192,213	44,601,994
Goodwill	252,676	-	-	-	252,676
Available-for-sale securities	1,259,374	-	-	-	1,259,374
Property and equipment and intangible assets	5,075,543	-	-	-	5,075,543
Current income tax asset	168,116	-	-	-	168,116
Deferred tax asset	40,180	-	-	-	40,180
Other assets	951,687	47,132	12,921	47,850	1,059,590
Total assets	57,481,224	13,348,815	7,013,479	271,015	78,114,533
LIABILITIES					
Financial instruments at fair value through profit or loss	36,083	75,481	70,524	165	182,253
Deposits and balances from banks and other financial institutions	6,582,742	1,462,280	441,306	-	8,486,328
Amounts payable under repurchase agreements	1,389,901	-	-	-	1,389,901
Customer accounts	30,878,271	5,928,250	5,003,629	23,853	41,834,003
Debt securities issued	4,400,828	2,215,522	5,801	2,498	6,624,649
Other borrowed funds	5,672,052	760,963	2,120,263	208,945	8,762,223
Subordinated debts	1,424,394	1,195,081	-	-	2,619,475
Other liabilities	777,958	2,484	94	-	780,536
Total liabilities	51,162,229	11,640,061	7,641,617	235,461	70,679,368
Net on balance sheet position as of 31 December 2008	6,318,995	1,708,754	(628,138)	35,554	7,435,165
Net off balance sheet position as of 31 December 2008	2,473,442	(3,080,448)	542,084	64,922	-
Net on and off balance sheet positions as of 31 December 2008	8,792,437	(1,371,694)	(86,054)	100,476	7,435,165

The following table shows the currency structure of assets and liabilities at 31 December 2007:

	RUR	USD	EUR	Other currencies	Total
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
ASSETS					
Cash	2,138,558	330,434	202,454	829	2,672,275
Due from the Central Bank of the Russian Federation	5,355,562	-	-	-	5,355,562
Mandatory cash balances with the Central Bank of the Russian Federation	760,946	-	-	-	760,946
Placements with banks and other financial institutions	466,596	2,728,008	274,847	4,012	3,473,463
Financial instruments at fair value through profit or loss	1,004,529	1,276,852	-	-	2,281,381
Amounts receivable under reverse repurchase agreements	767,095	-	-	-	767,095
Loans to customers	33,703,311	2,736,100	138,737	149,445	36,727,593
Goodwill	252,676	-	-	-	252,676
Available-for-sale securities	16,600	-	-	-	16,600
Property and equipment and intangible assets	4,355,731	-	-	-	4,355,731
Current income tax asset	7,573	-	-	-	7,573
Other assets	326,274	18,493	1,488	31,162	377,417
Total assets	49,155,451	7,089,887	617,526	185,448	57,048,312
LIABILITIES					
Financial instruments at fair value through profit or loss	448,774	-	-	-	448,774
Deposits and balances from banks and other financial institutions	946,804	682,834	317,589	-	1,947,227
Amounts payable under repurchase agreements	356,502	-	-	-	356,502
Customer accounts	23,699,663	3,538,004	1,874,389	10,380	29,122,436
Debt securities issued	5,890,825	6,672,393	294,214	-	12,857,432
Other borrowed funds	-	2,381,288	581,787	175,438	3,138,513
Subordinated debts	473,697	524,523	-	-	998,220
Current income tax liability	36,628	-	-	-	36,628
Deferred tax income	379,136	-	-	-	379,136
Other liabilities	508,253	13,798	126	-	522,177
Total liabilities	32,740,282	13,812,840	3,068,105	185,818	49,807,045
Net on balance sheet position as of 31 December 2007	16,415,169	(6,722,953)	(2,450,579)	(370)	7,241,267
Net off balance sheet position as of 31 December 2007	(9,354,571)	6,895,302	2,403,980	55,289	-
Net on and off balance sheet positions as of 31 December 2007	7,060,598	172,349	(46,599)	54,919	7,241,267

43 Acquisitions of subsidiaries

On 14 November 2008 the Group acquired OAO “Gazenergobank”.

The fair values of OAO “Gazenergobank’s” identifiable assets and liabilities at the date of acquisition were as follows:

	Fair value of assets and liabilities RUR'000
ASSETS	
Cash	95,050
Mandatory cash balances with the Central Bank of the Russian Federation	5,911
Due from other banks	11,561
Financial instruments at fair value through profit or loss	107,732
Loans to customers	4,311,534
Available-for-sale securities	97,248
Property and equipment and intangible assets	288,653
Other assets	10,077
LIABILITIES	
Deposits and balances from banks and other financial institutions	(140,490)
Customer accounts	(3,143,142)
Debt securities issued	(1,206)
Deferred tax liability	(17,516)
Other liabilities	(38,089)
Net identifiable assets acquired	1,587,323
Benefit from low interest funding received from Deposit Insurance Agency	634,659
Cash consideration paid	(1,152,576)
Gain on acquisition	1,069,406

On 5 December 2008 the Group acquired OAO “Bank 24.ru”.

The fair values of OAO “Bank 24.ru’s” identifiable assets and liabilities at the date of acquisition were as follows:

	Fair value of assets and liabilities RUR'000
ASSETS	
Cash	786,915
Mandatory cash balances with the Central Bank of the Russian Federation	10,657
Due from other banks	36,914
Financial instruments at fair value through profit or loss	531,149
Loans to customers	3,946,319
Available-for-sale securities	131,286
Property and equipment and intangible assets	962,459
Deferred tax asset	100,301
Other assets	352,372
LIABILITIES	
Deposits and balances from banks and other financial institutions	(150,703)
Customer accounts	(5,581,540)
Debt securities issued	(85,684)
Subordinated debts	(317,748)
Other liabilities	(48,025)
Net identifiable assets acquired	674,672
Benefit from low interest funding received from Deposit Insurance Agency	1,270,131
Cash consideration paid	(1,616,390)
Minority interest	(8,992)
Gain on acquisition	319,421

The acquisitions of the above banks resulted in a gain due to the fact that each bank was in a distressed situation at the time the transaction took place. In order to incentivise the Group to undertake the above acquisitions, long term loan funding of RUR 7.5 billion was provided by the State Deposit Insurance Agency. The difference between the cash received and the fair value of the liabilities assumed by the bank in respect of this funding has been included in the determination of gain arising on acquisition.

The following amounts were recognised in the consolidated financial statements in the period from the acquisition date to December 31, 2008 in respect of the above banks:

	OAO “Gazenergobank”	OAO “Bank 24.ru”.
Total revenue	95,253	70,088
Net loss	(114,158)	(190,152)

The financial statements of the acquired banks were prepared in accordance with Russian Accounting Principles and management therefore consider it is impracticable to determine the previous carrying amounts of assets and liabilities at the acquisition date, or the net income of the Group for the current reporting period if the acquisitions had occurred at the beginning of the reporting period.

44 Events subsequent to the balance sheet date

On 7 April 2009 the Bank repaid a subordinated loan of RUR 624,899 thousand from East Capital Financials Fund AB. Subsequent to the repayment, East Capital Financials Fund AB used these funds to purchase ordinary shares of the Bank. As a result, share capital of the Bank was increased by RUR 624,899 thousand.

Probusinessbank Group

Consolidated Financial Statements
For the Year Ended 31 December 2007

PROBUSINESSBANK GROUP

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PROBUSINESSBANK GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the report of the independent auditors set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the consolidated financial statements Probusinessbank Group (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2007, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation ("RAS");
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud, errors and other irregularities.

The consolidated financial statements for the year ended 31 December 2007 were approved on 19 May 2008 by the Management Board of JSCB "Probusinessbank".

On behalf of the Management Board of JSCB "Probusinessbank"

A.D. Zheleznyak
Chairman of the Board

Moscow

L.E. Alkhovaya
Chief Accountant

Moscow

REPORT OF THE INDEPENDENT AUDITORS

To shareholders and Board of Directors of the Joint Stock Commercial Bank “Probusinessbank” (Open Joint Stock Company):

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of JSCB Probusinessbank and its subsidiaries (the “Group”), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management of the Group is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 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 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 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 management, 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2007, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

30 May 2008
Moscow

PROBUSINESSBANK GROUP

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of Russian Roubles)

	Notes	Year Ended 31 December 2007	Year Ended 31 December 2006
Interest income	5, 30	7,124,519	4,018,660
Interest expense	5, 30	<u>(3,158,136)</u>	<u>(2,005,703)</u>
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		3,966,383	2,012,957
Provisions for impairment losses on interest bearing assets	6, 30	<u>(769,377)</u>	<u>(440,336)</u>
NET INTEREST INCOME		<u>3,197,006</u>	<u>1,572,621</u>
Net gain on financial assets and liabilities at fair value through profit or loss	7	213,155	414,371
Net gain on foreign exchange operations	8	334,718	150,909
Fee and commission income	9, 30	873,396	558,324
Fee and commission expense	9	(183,463)	(163,738)
Loss on disposal of subsidiary		-	(56,290)
Other income	10	<u>37,673</u>	<u>79,143</u>
NET NON-INTEREST INCOME		<u>1,275,479</u>	<u>982,719</u>
OPERATING INCOME		4,472,485	2,555,340
OPERATING EXPENSES	11	<u>(3,786,179)</u>	<u>(2,058,362)</u>
Other provisions	6	<u>(11,505)</u>	<u>(2,400)</u>

PROBUSINESSBANK GROUP

INCOME STATEMENT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007 *(in thousands of Russian Roubles)*

	Notes	Year Ended 31 December 2007	Year Ended 31 December 2006
PROFIT BEFORE INCOME TAX		674,801	494,578
Income tax expense	12	<u>(132,301)</u>	<u>(135,067)</u>
NET PROFIT		<u>542,500</u>	<u>359,511</u>
Attributable to:			
Shareholders of the parent		539,818	324,827
Minority shareholders		2,682	34,684

On behalf of the Management Board of JSCB “Probusinessbank”

A.D. Zheleznyak
Chairman of the Board

Moscow

L.E. Alkhovaya
Chief Accountant

Moscow

The notes on pages 11-61 form an integral part of these consolidated financial statements.

PROBUSBUSINESSBANK GROUP

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007 (in thousands of Russian Roubles)

	Notes	31 December 2007	31 December 2006
ASSETS:			
Cash and balances with the Central Bank of the Russian Federation	13	8,788,783	5,668,092
Financial assets at fair value through profit or loss	14	2,280,332	2,610,034
Due from banks	16	4,240,558	3,970,820
Loans to customers	17, 30	36,727,593	21,808,504
Goodwill	18	252,676	251,928
Property, plant and equipment and intangible assets	19	4,355,731	2,246,043
Current income tax assets		7,573	95,283
Other assets	20	395,066	429,570
TOTAL ASSETS		57,048,312	37,080,274
LIABILITIES AND EQUITY			
LIABILITIES:			
Financial liabilities at fair value through profit or loss	21	448,774	43,548
Due to banks	22	2,303,729	1,253,865
Customer accounts	23, 30	29,122,436	20,875,239
Debt securities issued	24	12,857,432	5,746,525
Other borrowed funds	25	3,138,513	1,668,152
Current income tax liabilities		36,628	68,293
Deferred income tax liabilities	12	379,136	188,418
Subordinated debt	27	998,220	910,024
Other liabilities	26	522,177	119,790
Total liabilities		49,807,045	30,873,854

PROBUSINESSBANK GROUP

CONSOLIDATED BALANCE SHEET (CONTINUED) AS AT 31 DECEMBER 2007 (in thousands of Russian Roubles)

	Notes	31 December 2007	31 December 2006
EQUITY:			
Equity attributable to shareholders the parent			
Share capital	28	4,046,638	2,324,808
Share premium	28	1,079,781	2,801,611
Additional paid-in capital		70,621	86,281
Property, plant and equipment revaluation reserve		1,145,460	577,332
Retained earnings		885,790	330,490
		<u>7,228,290</u>	<u>6,120,522</u>
Total equity attributable to shareholders the parent		7,228,290	6,120,522
Minority interest		12,977	85,898
		<u>12,977</u>	<u>85,898</u>
Total equity		<u>7,241,267</u>	<u>6,206,420</u>
TOTAL LIABILITIES AND EQUITY		<u>57,048,312</u>	<u>37,080,274</u>

On behalf of the Management Board of JSCB "Probusinessbank"

A.D. Zheleznyak
Chairman of the Board

Moscow

L.E. Alkhovaya
Chief Accountant

Moscow

The notes on pages 11-61 form an integral part of these consolidated financial statements.

PROBUSINESSBANK GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of Russian Roubles)

	Share capital	Share premium	Additional paid-in capital	Property, plant and equipment revaluation reserve	Retained earnings	Total equity attributable to equity holders of the parent Bank	Minority interest	Total equity
31 December 2005	1,860,044	32,955	86,281	183,502	39,874	2,202,656	79,745	2,282,401
Increase in share capital	464,764	2,768,656	-	-	-	3,233,420	-	3,233,420
Increase in property, plant and equipment revaluation reserve	-	-	-	414,926 ¹	-	414,926	-	414,926
Dividends paid on ordinary shares	-	-	-	-	(156)	(156)	(25)	(181)
Sale of subsidiary	-	-	-	(21,096) ²	(34,055)	(55,151)	(28,506)	(83,657)
Net income	-	-	-	-	324,827	324,827	34,684	359,511
31 December 2006	2,324,808	2,801,611	86,281	577,332	330,490	6,120,522	85,898	6,206,420
Increase in share capital through capitalisation of share premium	1,721,830	(1,721,830)	-	-	-	-	-	-
Redemption of subordinate debt	-	-	(15,660)	-	15,660	-	-	-
Increase in property, plant and equipment revaluation reserve	-	-	-	568,128 ³	-	568,128	-	568,128
Dividends declared on ordinary shares	-	-	-	-	(178)	(178)	(2)	(180)
Movements in minority interests due to purchase of subsidiary	-	-	-	-	-	-	(75,601)	(75,601)
Net income	-	-	-	-	539,818	539,818	2,682	542,500
31 December 2007	4,046,638	1,079,781	70,621	1,145,460	885,790	7,228,290	12,977	7,241,267

On behalf of the Management Board of JSCB "Probusinessbank"

A.D. Zheleznyak
Chairman of the Board

Moscow

L.E. Alkhovaya
Chief Accountant

Moscow

The notes on pages 11-61 form an integral part of these consolidated financial statements.

¹ after deducting the deferred tax of RUR 131,029 thousand

² after deducting the deferred tax of RUR 6,662 thousand

³ after deducting the deferred tax of RUR 190,718 thousand

PROBUSINESSBANK GROUP

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of Russian Roubles)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before taxes		674,801	494,578
Adjustments:			
Provision for impairment losses on interest bearing assets		769,377	440,336
Other provision		17,980	2,400
Assets write-off		(6,475)	-
Adjustment of fair value of financial instruments at fair value through profit or loss		(13,815)	(52,647)
Depreciation/amortization of property, plant and equipment and intangible assets		185,275	97,113
Gain on disposal of property, plant and equipment and intangible assets		(4,301)	(15,597)
Loss on disposal of subsidiary bank		-	56,290
Changes in net interest accruals		(144,619)	(342,793)
Net change in fair value of derivative financial instruments		405,221	41,063
Foreign exchange translation differences		304,981	(94,789)
Cash flow from operating activities before changes in operating assets and liabilities		2,188,425	625,954
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of the Russian Federation		(641,586)	(177,324)
Financial assets at fair value through profit or loss		109,503	(2,071,484)
Due from banks		27,579	(1,793,534)
Loans to customers		(17,186,870)	(7,758,385)
Other assets		88,608	(315,142)
Increase/(decrease) in operating liabilities:			
Due to banks		1,133,864	(1,334,037)
Customer accounts		9,965,736	7,796,132
Other liabilities		394,537	27,471
Cash outflows from operating activities before income tax		(3,920,204)	(5,000,349)
Income tax paid		(223,241)	(174,574)
Net cash outflows from operating activities		(4,143,445)	(5,174,923)

PROBUSBANK GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of Russian Roubles)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006 (restated)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment and intangible assets		(1,716,775)	(828,141)
Proceeds on sale of property, plant and equipment and intangible assets		239,933	407,234
Sale of subsidiary, net of cash disposed		-	(111,725)
Acquisition of subsidiary, net of cash acquired		(76,351)	(6,261)
Net cash outflows from investing activities		(1,553,193)	(538,893)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Share capital increase in the form of ordinary share issue		-	464,764
Share premium		-	2,768,656
Dividends paid		(178)	(156)
Issue of debt securities		20,176,415	17,057,767
Repayment of debt securities issued to raise a finance		(12,680,697)	(15,336,156)
Change in subordinated debt		169,330	351,409
Raising other borrowed funds		2,797,487	1,662,763
Repayment of other borrowed funds		(1,220,149)	(643,073)
Net cash inflows from financing activities		9,242,208	6,325,974
Effect of changes in foreign exchange rate on cash and cash equivalents		(16,560)	(20,830)
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,529,010	591,328
CASH AND CASH EQUIVALENTS, at beginning of year	13	5,415,790	4,824,462
CASH AND CASH EQUIVALENTS, at end of year	13	8,944,800	5,415,790

Interest paid and received by the Group during the year ended 31 December 2007 amounted to RUR 2,962,162 thousand and RUR 6,783,926 thousand, respectively.

Interest paid and received by the Group during the year ended 31 December 2006 amounted to RUR 1,894,675 thousand and RUR 3,702,163 thousand, respectively.

On behalf of the Management Board of JSCB "Probusinessbank"

A.D. Zheleznyak
Chairman of the Board

Moscow

L.E. Alkhovaya
Chief Accountant

Moscow

The notes on pages 11-61 form an integral part of these consolidated financial statements.

PROBUSINESSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1. ORGANISATION

Joint-Stock Commercial Bank “Probusinessbank” (the “Bank” or “Probusinessbank”) was incorporated in the Russian Federation in 1993. Its registered office is located at the following address: 3 Pudovkina Ul., Moscow, Russian Federation. The Bank holds General License No. 2412 of the Central Bank of the Russian Federation (the “CBR”) and provides a full range of banking services to corporate clients, including public, private, state-owned and other companies operating in various industries, as well as to individuals. In addition to the General Banking License, the Bank holds licenses for depositary activities, securities management, broker, dealer activity, intermediary for dealing in futures and options in the stock exchange, non-governmental pension funds assets management, leasing in the Russian Federation, precious metal transactions, and a license to act as a guarantor in relations with customs authorities. The Bank is a member of the following financial associations and organizations: Moscow Interbank Currency Exchange, Association of Russian Banks, Moscow Stock Exchange, Non-for-profit Partnership RTS, Society for Worldwide Interbank Financial Telecommunication (“SWIFT”), International Retail Banking Council (“IRBC”), American Chamber of Commerce in Moscow. The Bank is also a member of Master Card and Europay International S.A. and an associate member of VISA International. Probusinessbank has been a member of the Deposit Insurance System since 23 December 2004.

The Bank is a parent company of the Banking Group (the “Group”) which consists of the following companies which are consolidated in the financial statements as at 31 December 2007 and 2006:

Name	Country of incorporation	The Bank ownership interest/voting rights, %		Type of activity
		31 December 2007	31 December 2006	
OJSC “VUZ-Bank”	Russian Federation	100.00%	94.50%	Commercial Bank
CJSC “Express-Volga”	Russian Federation	98.75%	86.28%	Commercial Bank
LLC CB “Ivanovsky Oblastnoy Bank”	Russian Federation	100.00%	100.00%	Commercial Bank

On 31 March 2003 Probusinessbank acquired a 94.5% interest in OJSC “VUZ-Bank”, a commercial bank (“Vuz-Bank”). Acquisition by Probusinessbank of an additional VUZ-Bank’s share issue in June 2007 resulted in increasing this interest to 98.43%. In October 2007 Probusinessbank’s interest in the share capital of VUZ-Bank reached 100%.

VUZ-Bank was incorporated as a Limited Liability Company under the laws of the Russian Federation on 5 September 1991 and transformed into an Open Joint-Stock Company on 6 September 1999. Its registered office is located at the following address: 31-b Malysheva ul. / 11 Bankovsky per., Ekaterinburg, Russian Federation. VUZ-Bank’s activities are regulated by the CBR and appropriately licensed (license No. 1557). VUZ-Bnk is an associated member of Visa International Service Association, affiliate member of MasterCard International Incorporated and member of the Urals Bank Union. VUZ-Bank is a member of the Deposit Insurance System since 23 December 2004. Financial statements of VUZ-Bank are included into the Group’s consolidated financial statements starting from 31 March 2003, the date of acquisition, after elimination of intercompany transactions.

On 29 December 2003 Probusinessbank entered into an agreement with the shareholders of CJSC “Express-Volga” (“Express-Volga” or “Express-Volga Bank”) to acquire majority interest in Express-Volga Bank. From 6 to 10 February 2004 Probusinessbank has become a registered owner of and paid for 57.92% of the share capital of Express-Volga Bank and, additionally, on 19 April 2004 acquired

another 1.026% of this bank's share capital. In May 2005 Probusinessbank acquired additional 27.33% of Express-Volga Bank. In addition in March 2007 Probusinessbank acquired 116,382 registered shares (12.03% of share capital) of Express-Volga. The share of Probusinessbank in the share capital of Express-Volga Bank amounted to 98.01%. Probusinessbank's acquisition of additional issue of Express-Volga's ordinary registered shares in June 2007 resulted in the growth of its interest in Express-Volga's share capital to 98.75%.

CJSC "Express-Volga" was incorporated as a Closed Joint-Stock Company under the laws of the Russian Federation on 6 September 1994. Its registered office is located at the following address: 166/168 Michurina Ul., Saratov, Russian Federation. Express-Volga Bank's activities are regulated by the CBR and appropriately licensed (license No. 3085 of 2 October 2002). In addition to the license for banking operations in Russian Roubles and foreign currencies Express-Volga Bank has a license that allows it to perform depository activities. Express-Volga issues Union Card and Visa plastic cards also services international plastic cards Eurocard/Mastercard, Visa, Cirrus Maestro, Visa-Electron Plus. Express-Volga is a member of the Deposit Insurance System since 16 December 2004. Financial statements of Express-Volga Bank are included into the Group's consolidated financial statements from 29 December 2003, date of acquisition, after elimination of intercompany transactions.

On 1 December 2006 Probusinessbank finalised acquisition of interest in the share capital of LLC CB "Ivanovsky Oblastnoy Bank" ("IOB"). Probusinessbank's share in the share capital is 100%. In February 2007 share capital of IOB increased as a result of additional cash contribution by Probusinessbank (Minutes No. 23 of 22 December 2006). Probusinessbank's share in the share capital of IOB remained the same.

IOB is the successor of LLC CB "Ivanovskie Sitsy" established by the decision of members on 11 May 1992 and registered by the CBR on 7 July 1992, registration number 1949. In accordance with the CBR license IOB has the right to carry out operations with legal entities and individuals in Russian Roubles and in foreign currencies. IOB is a member of the Deposit Insurance System since 2 December 2004. Location and legal address is: 2 Palekhsкая Ul., Ivanovo 153000. The bank has 3 additional offices in the Ivanovo region: in Vichuga, Teykovo, Kokhma, and 1 additional office in the city of Ivanovo. Financial statements of IOB are included into the Group's consolidated financial statements starting from 1 December 2006, the date of acquisition, after elimination of intercompany transactions.

As at 31 December 2007 the Group's network includes eight additional offices in Moscow and ninety five separate subdivisions at the regional level. Four representative offices of the Bank operate in Saratov, Chita, Angarsk (Irkutsk region), Ivanovo. The Bank has opened its lending and cash offices and operation offices in the cities of Belgorod, Vladimir, Voronezh, Vologda, Derbent, Kaluga, Kostroma, Kursk, Kirov, Kurgan, Lipetsk, Nizhny Novgorod, Orel, Orenburg, Ryazan, Rostov-on-Don, St. Petersburg, Smolensk, Stary Oskol, Taganrog, Tula, Tyumen, Tver, Khanty-Mansiysk, Chita, Cherepovets, Yaroslavl, in Irkutsk, Perm, Tyumen regions.

The Group's network as at 31 December 2007 and 2006 is as follows:

31 December 2007	JSCB "Probusi- nessbank"	OJSC "VUZ-Bank"	CJSC "Express- Volga"	LLC CB "Ivanovsky Oblastnoy Bank"	Total
Branch	-	-	3	-	3
Additional office	8	9	18	4	39
Representative office	4	-	-	-	4
Lending and cash office	73	-	12	-	85
Operations office	18	4	4	-	26
Selling points	29	1	1	-	31
Total	132	14	38	4	188

31 December 2006	JSCB “Probusi- nessbank”	OJSC “VUZ- Bank”	CJSC “Express- Volga”	LLC CB “Ivanovsky Oblastnoy Bank”	Total
Branch	-	-	2	2	4
Additional office	7	8	13	1	29
Representative office	5	-	1	-	6
Lending and cash office	33	-	1	-	34
Selling points	50	-	-	-	50
Total	95	8	17	3	123

Since 1997 Probusinessbank has been awarded an international credit rating. Fitch Ratings international agency confirmed the following credit ratings for the Bank in December 2007:

- Short-term B;
- Long-term B-;
- Long-term national rating BB+(rus);
- Individual D;
- Support 5.

In December 2007 Fitch Ratings changed its long-term Issuer Default Ratings in foreign currencies and in national currency and national long-term rating from “Stable” to “Positive”.

As at 31 December 2007 and 2006, the following shareholders owned the shares of the Bank:

Shareholders of the first level:	31 December 2007, %	31 December 2006, %
LLC “Alivikt”	59.35	59.35
East Capital Explorer Financial Institutions Fund AB	10.25	10.25
Rekha Holding Limited	8.09	-
LLC “Rodina”	6.12	6.11
Agrera Investments Limited	-	8.09
Other	16.19	16.20
Total	100.00	100.00

Ultimate shareholders of the Bank:	31 December 2007, %	31 December 2006, %
S.L. Leontiev	33.41	33.39
E.V. Bikmaev	13.14	13.14
A.D. Zheleznyak	12.82	12.82
East Capital Explorer Financial Institutions Fund AB	10.25	10.25
Rekha Holding Limited	8.09	-
Agrera Investments Limited	-	8.09
E.V. Panteleev	6.10	6.11
Other	16.19	16.20
Total	100.00	100.00

These consolidated financial statements were authorized for issue by the Bank’s Management Board on 19 May 2008.

2. BASIS OF PRESENTATION

Accounting basis

The accompanying financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee.

These financial statements are presented in thousands of Russian Roubles (“RUR”), unless otherwise indicated. The financial statements have been prepared under the historical cost convention, except for certain financial instruments carried at fair value and buildings carried at revalued cost in accordance with International Accounting Standard 16 “Fixed Assets” (“IAS 16”).

In accordance with IAS 29 “Financial Reporting. in Hyperinflationary Economies” the economy of the Russian Federation was considered to be hyperinflationary during 2002 and prior years. From 1 January 2003, the Russian economy is no longer considered to be hyperinflationary and the values of non-monetary assets, liabilities and equity as stated in measuring units as at 31 December 2002 have formed the basis for the amounts carried forward.

The Group maintains its accounting records in accordance with Russian law. These financial statements have been prepared from the Russian statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

Key assumptions

The preparation of financial statements in accordance with IFRS requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses of the reporting period. Actual results, therefore, could differ from these estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include:

	31 December 2007 (RUR ‘000)	31 December 2006 (RUR ‘000)
Allowance for impairment of loans to customers	1,765,374	1,178,884
Property, equipment and intangible assets (buildings)	2,611,219	1,457,228

Loans to customers are measured at amortized cost net of any allowance for impairment losses. The estimation of allowance for impairment losses involves an exercise of judgment. The Group assesses the allowance for impairment losses to maintain the allowance at the level, which the Group’s management considers sufficient to provide for potential losses of the Group’s loan portfolio. The allowance for impairment losses under the extended loans is based on the probability that the asset will be written off and an estimate of losses from such write-off. Such estimates are made using statistical methods and are based on historical information and judgments made by the Group’s management.

The Group considers accounting estimates related to the calculation of provisions for loans issued to customers to be key sources of estimation uncertainty because: (a) it is highly probable that they change over time, as the estimates of expected future losses and expenses related to the impairment of loans are based on the Group’s recent performance indicators, as well as (b) if the estimates of the loss amount made by the Group differ significantly from its actual size, the Group will accrue provisions that can significantly affect the Group’s financial performance in the future. Estimates of losses are based on the results of previous operations, customer behavior in the past, creditworthiness of the client and overall economic environment, which is not necessarily an evidence of future loss.

Certain items of property and equipment (buildings) are carried at revalued cost. The effective date of the most recent valuation was 31 December 2007. The next valuation is preliminarily scheduled for 31 December 2009.

Taxation is discussed in Note 29.

Functional currency

The functional currency of these financial statements is the Russian Rouble.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of the subsidiaries are measured at their fair values at the date of acquisition. Any excess of the cost of the acquisition over the fair values of identifiable net assets is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated profit and loss in the period of acquisition. The minority interest is stated at the minority's proportion of the fair values of the assets and liabilities recognized. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The equity attributable to equity holders of the parent and net income attributable to minority shareholders' interests are shown separately in the combined balance sheets and combined income statements respectively.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

The difference, if any, between the carrying amount of minority interest and the amount received on its purchase is recognized in equity attributable to the equity holders of the parent.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of assets, liabilities and contingent liabilities of a subsidiary as at the date of acquisition.

The Group tests goodwill for impairment at least annually.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group:

- (a) Reassesses the identification and measurement of the Group's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
- (b) Recognizes immediately in profit or loss any excess remaining after that reassessment.

On disposal of an investment, the attributable amount of goodwill is included in the determination of financial result from disposal.

Recognition and measurement of financial instruments

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

Financial assets and liabilities are initially recognized at fair value. Initial cost of financial assets and liabilities, other than financial assets and liabilities recognized at fair value through profit or loss, is adjusted by the amount of any incurred operational costs that are directly attributable to the acquisition or creation of financial assets or issue of financial liabilities.. The principles of subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the Central Bank of the Russian Federation with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”), except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time and Government trading debt securities denominated in Russian Roubles. For purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of the Russian Federation is not included as cash equivalent due to restrictions on its availability.

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are stated at amortized cost based on expected dates of maturity. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss represent derivative financial instruments or securities acquired principally for the purpose of sale/redemption in the near term, or they are a part of portfolio of identified financial instruments that are managed together and for which there is evidence of an intention of short-term profit-taking, or financial assets/liabilities which are initially classified by the Group as assets and liabilities at fair value through profit or loss. Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine value of financial instruments at fair value through profit or loss. Fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the consolidated income statement for the period. The Group does not reclassify financial instruments in or out of this category while they are held.

The Group enters into derivative financial instruments to manage currency and liquidity risks and for trading purposes. Derivative financial instruments are entered into by the Group for trading purposes and include forwards and futures on foreign currency and securities. Transactions with derivative financial instruments entered into by the Group are not qualified for hedge accounting.

Repurchase and reverse repurchase agreements

The Group enters into financial assets sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repo and reverse repo transactions are utilized by the Group as an element of its treasury management for trading purposes.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit which is collateralized by securities and other assets.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains / (losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the assets under repo agreements is recognized as interest income or expense.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans granted by the Group with fixed maturities are initially recognized at fair value plus related transaction costs, directly attributable to the acquisition or creation of qualifying financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write-off of loans and advances

Loans and advances are written off against allowance for impairment losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral.

Impairment losses

The Group accounts for impairment losses of financial assets that are not carried at fair value when there is objective evidence that a financial asset or group of financial assets is impaired. The impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortised cost. 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 recognized, the previously recognized impairment loss is reversed by adjusting an allowance account. For financial assets carried at cost the impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in impairment losses is charged to profit either through allowance account (financial assets that are carried at amortized cost) or direct write-off (financial assets carried at cost). The total of the impairment losses is deducted in arriving at assets as shown in the balance sheet. Factors that the Group considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and

financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Group may sustain losses which are substantial relative for impairment losses, it is the judgment of management that the impairment losses are adequate to absorb losses incurred on risk assets, at the balance sheet date.

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets (other than buildings), acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Property, plant and equipment and intangible assets (other than buildings), acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss.

Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of property, equipment and intangible assets is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Buildings and structures	2%
Furniture and equipment	25%
Intangible assets	15%-33.3%

Leasehold improvements are amortized over the life of the related leased asset.

The carrying amounts of property, plant and equipment and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed this estimated recoverable amount, property, plant and equipment and intangible assets are written down to their recoverable amount. Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property, plant and equipment and intangible assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount of the assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The cost method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Any revaluation increase arising on the revaluation of property is credited to the property, plant and equipment and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense in the consolidated income statement, in which case the increase is credited to the consolidated income statements to the extent of the decrease previously charged. A decrease in carrying amount of an asset arising on the revaluation is charged as an expense to the income statement to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income. Upon the retirement or sale of buildings, the attributable revaluation surplus is transferred to retained earnings.

Receivables on assets under construction

Receivables on assets under construction are measured at the lower of their carrying amount and fair value less costs to sell. If the fair value less costs to sell for receivables on assets under construction is lower than their carrying amount, an impairment loss is recognized in the consolidated income statement as loss from receivables on assets under construction. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Taxation

Income tax expense comprises current and deferred taxation.

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

Deferred tax is reported using the balance sheet liability method and represents income tax assets and liabilities on the temporary difference between the carrying value of assets and liabilities and the respective tax accounting data used to arrive at the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the respective deferred tax assets can be utilized. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in transactions that affect neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that a related tax benefit will be realized sufficient for full or partial recovery of the asset.

Deferred tax assets and liabilities are offset by the Group with the resulting difference reported in the financial statements if:

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

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

Borrowed funds

Customer and bank deposits, debt securities issued and subordinated debt are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value is recognized as an interest expense in the consolidated income statement over the period of the borrowings using the effective interest method.

The conversion feature of a subordinated debt represents a fair value of the option for the loan conversion into the ordinary shares of Probusinessbank and is calculated based on the difference between the interest rate under the contract and the market interest rate for borrowings with similar maturities. The conversion feature is recognized within the additional paid in capital of the Group.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less (where appropriate) cumulative amortization of initial premium revenue received over financial guarantee contract or the letter of credit.

Share capital and share premium

Contributions to share capital, made before 1 January 2003 are recognized at their cost restated for inflation. Contributions to share capital, made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium.

External costs directly attributable to the issue of new shares are deducted from equity net of applicable income tax.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" and disclosed accordingly.

Retirement and other benefit obligation

In accordance with the requirements of the legislation of the Russian Federation the existing state pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. The Group does not have any pension arrangements separate from the State pension system of the Russian Federation. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts to the net carrying amount of the financial asset or financial liability. The period covered by discounting is equal to the expected life of the financial instrument, or if applicable, to a shorter period.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest on assets measured at fair value is classified as interest income.

Interest income also includes interest income earned on investments in securities. Other income is credited to income statement when the related transactions are completed.

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

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into RUR at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Exchange rate

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

	31 December 2007	31 December 2006
RUR / USD	24.5462	26.3311
RUR / EUR	35.9332	34.6965

Offset of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

Fiduciary activities

The Group provides depositary services to its customers that include transactions with securities on their depo accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts operational risks relating to these activities, whereas the Group's customers bear the credit and market risks associated with such operations.

Adoption of new standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for reporting periods beginning on 1 January 2007. The adoption of these new and revised Standards and Interpretations has not affected significantly the accounting policies of the Group that were used to report the results of the current and preceding periods, except for the application effect of IFRS 7 "Financial Instruments: Disclosures" ("IFRS 7").

IFRS 7 is effective from 1 January 2007 and applicable for the annual reporting periods beginning on 1 January 2007. IFRS 7 establishes new requirements and recommendations on financial instruments disclosure. Adoption of IFRS 7 did not affect the classification and measurement of the Group's financial instruments for the purposes of these consolidated financial statements. These financial statements contain additional disclosures required by IFRS 7 for the reporting period and the corresponding period for comparison purposes.

At the date of issue of these financial statements IFRS 8 "Operating segments" has been issued but not yet become effective. It will replace IAS 14 "Operating Segments" from 1 January 2009. The Group management is currently assessing the impact of the adoption of this new Standard in future period. The Group anticipates that the adoption of other newly issued Standards and Interpretations in future periods will have no material financial impact on the consolidated financial statements of the Group.

4. PRIOR PERIOD RECLASSIFICATIONS

Reclassifications

Certain reclassifications have been made to the financial statements as at 31 December 2006 and for the year then ended to conform to the presentation as at 31 December 2007 and for the year then ended as current year presentation provides better view of the Group's financial position.

Nature of reclassification	Amount (RUR '000)	Balance Sheet as per previous report	Balance Sheet as per current report
Change in classification of investments available-for-sale	23,822	Investments available- for-sale	Other assets
Change in classification of investment property	88,468	Investment property	Other assets

5. NET INTEREST INCOME

	Year Ended 31 December 2007 (RUR '000)	Year Ended 31 December 2006 (RUR '000)
Interest income		
Interest income on assets carried at amortized cost:		
- interest income on assets written down (partly written down) as a result of impairment	6,638,703	3,642,733
- interest income on unimpaired assets	351,878	297,917
Interest income on assets at fair value through profit or loss	133,938	78,010
Total interest income	7,124,519	4,018,660
Interest income on assets carried at amortized cost includes:		
Interest on loans and advances to customers	6,638,703	3,642,733
Interest on amounts due from banks	351,878	297,917
Total interest income on assets carried at amortized cost	6,990,581	3,940,650
Interest income on assets at fair value through profit or loss includes:		
Interest on financial assets held for trading	123,642	77,986
Interest on financial assets designated at fair value through profit or loss at initial recognition	10,296	24
Total interest income on assets at fair value through profit or loss	133,938	78,010
Interest expense on liabilities carried at amortized cost:		
Interest on customer accounts	(1,613,691)	(1,231,628)
Interest on debt securities issued	(916,676)	(414,492)
Interest on due to banks	(501,080)	(275,891)
Interest on subordinated debt	(126,689)	(83,692)
Total interest expense	(3,158,136)	(2,005,703)
Net interest income before provision for impairment losses on interest bearing assets	3,966,383	2,012,957

6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest earning assets were as follows:

	Due from banks (RUR '000)	Loans to customers (RUR '000)	Total (RUR '000)
31 December 2005	272	727,845	728,117
Acquisition of subsidiary	-	13,038	13,038
Provisions	851	439,485	440,336
Write-off of assets	-	(1,484)	(1,484)
31 December 2006	1,123	1,178,884	1,180,007
(Recovery of provision)/provision	(8)	769,385	769,377
Write-off of assets	-	(182,895)	(182,895)
31 December 2007	1,115	1,765,374	1,766,489

Information on the impairment of investments available-for-sale and movements in provisions for other operations is presented as follows:

	Other assets (RUR '000)	Investments available for sale (RUR '000)	Financial guarantees (RUR '000)	Total (RUR '000)
31 December 2005	580	4,904	-	5,484
Provisions	71	2,329	-	2,400
31 December 2006	651	7,233	-	7,884
Provisions	-	-	17,980	17,980
Write-off of assets	(33)	(6,442)	-	(6,475)
31 December 2007	618	791	17,980	19,389

Allowance for other assets is deducted from the relevant balance sheet asset line. Provisions for guarantees are recorded in other liabilities.

7. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	Year Ended 31 December 2007 (RUR '000)	Year Ended 31 December 2006 (RUR '000)
Net gain on financial assets and liabilities held for trading	128,938	423,693
Net gain on financial assets and liabilities designated at fair value through profit or loss at initial recognition	76,707	33,181
Net gain/(loss) on financial derivatives	7,510	(42,503)
Total net gain on financial assets and liabilities at fair value through profit or loss	213,155	414,371
Net gain on financial assets and liabilities held for trading comprises:		
Gain on trading operations	109,889	365,584
Fair value adjustments	13,815	52,647
Dividend income	5,236	5,462
Total net gain on financial assets and liabilities held for trading	128,940	423,693
Net gain on financial assets and liabilities designated at fair value through profit or loss at initial recognition comprises:		
Income from early redemption of own promissory notes and debt instruments	66,815	-
Gain on trading operations	9,892	32,750
Fair value adjustments	-	79
Dividend income	-	352
Total net gain on financial assets and liabilities designated at fair value through profit or loss at initial recognition	76,707	33,181

The Group enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. Net loss on derivatives in 2006 arose primarily on long-term forward purchases of US dollars concluded to close short USD position. For information on open currency position of the Group as at 31 December 2007 and 2006 – see Note 33.

8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year Ended 31 December 2007 (RUR '000)	Year Ended 31 December 2006 (RUR '000)
Foreign exchange gain/(loss), net	288,421	(115,619)
Dealing, net	46,297	266,528
Total net gain on foreign exchange operations	334,718	150,909

9. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year Ended 31 December 2007 (RUR '000)	Year Ended 31 December 2006 (RUR '000)
Fees and commissions income:		
Settlements operations	274,717	195,832
Cash operations	164,777	111,238
Plastic cards operations	123,164	56,435
Documentary operations	104,802	39,309
Issuing guaranties	94,329	66,191
Securities operations	50,952	36,874
Foreign exchange operations	29,225	22,326
Bank-customer services	10,162	10,308
Other	21,268	19,811
Total fee and commissions income	873,396	558,324
Fees and commissions expense:		
Documentary operations	64,400	51,503
Securities operations	43,690	13,180
Plastic cards operations	24,486	15,396
Special purpose borrowing	19,272	66,635
Cash operations	13,776	5,444
Settlements operations	6,955	4,893
Foreign currency operations	6,338	3,804
Fee for guarantees received	1,132	765
Other	3,414	2,118
Total fee and commission expense	183,463	163,738

Fee and commission income for years ended 31 December 2007 and 2006 includes income on financial assets and liabilities not at fair value through profit or loss amounting to RUR 473,848 thousand and RUR 301,332 thousand, respectively. Fee and commission expense for the years ended 31 December 2007 and 2006 includes expense on financial liabilities not at fair value through profit or loss amounting to RUR 72,487 thousand and 57,161 thousand, respectively.

10. OTHER INCOME

Other income comprises:

	Year Ended 31 December 2007 (RUR '000)	Year Ended 31 December 2006 (RUR '000)
Income on property lease operations	13,772	13,102
Remuneration on insurance contracts	5,526	5,374
Profit from sale of property, plant and equipment	4,301	15,597
Reimbursement of legal costs and enforcement orders	3,386	416
Write-off of accounts payable	2,797	-
Consulting services income	1,860	7,042
Income received from securities placement and securities received free of charge	1,265	2,907
Fines/penalties received	592	-
Profit of aquisition of a subsidiary bank	-	32,366
Other	4,174	2,339
Total other income	37,673	79,143

11. OPERATING EXPENSES

Operating expenses comprise:

	Year Ended 31 December 2007 (RUR '000)	Year Ended 31 December 2006 (RUR '000)
Salary costs and bonuses	1,896,850	928,863
Rent expenses	307,622	105,670
Unified social tax	262,615	147,132
Depreciation/amortization of property, plant and equipment and intangible assets	185,275	97,113
Advertising expenses	179,559	92,161
Telecommunications	166,946	72,549
Taxes (other than income tax)	122,754	107,328
IT, vehicle maintenance and information services	112,770	59,072
Business trip expenses	105,862	45,805
Professional services	81,633	39,923
Deposit Insurance System contribution	69,539	59,325
Property, plant and equipment maintenance	68,112	52,709
Materials and office supplies	67,174	75,038
Software acquisition and support	23,737	19,892
Security	22,460	11,136
Entertainment expenses	20,526	19,268
Insurance expenses	12,199	7,821
Assets written off	4,214	14,805
Fines paid	1,398	4,428
Other costs	74,934	98,324
Total operating expenses	3,786,179	2,058,362

12. INCOME TAX

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2007 and 2006 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2007 and 2006 comprise:

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Deductible temporary differences:		
Other liabilities	399,813	71,675
Other assets	119,760	21,903
Due from banks and loans to customers	230,982	372,401
Debt securities issued	26,850	14,597
Customer accounts	19,272	42,358
Subordinated debt	10,207	44,022
Total deferred assets	806,884	566,956
Taxable temporary differences:		
Property, equipment and intangible assets	(1,563,770)	(714,889)
Financial assets at fair value through profit or loss	(13,756)	(132,777)
Total deferred liabilities	(1,577,526)	(847,666)
Net deferred liabilities	(770,642)	(280,710)
Deferred tax assets at the statutory rate (24%)	194,182	121,048
Less: valuation allowance	(194,182)	(121,048)
Deferred liabilities	(1,579,733)	(785,075)
Net deferred tax liabilities	(379,136)	(188,418)

The relationship between income tax expense and accounting profits for the years ended 31 December 2007 and 2006 is explained as follows:

	Year Ended 31 December 2007 (RUR '000)	Year Ended 31 December 2006 (RUR '000)
Profit before income tax	674,801	494,578
Tax at the statutory tax rate (24%)	(161,952)	(118,699)
Change in unrecognized deferred tax assets	(73,134)	(109,420)
Tax effect of permanent differences	102,786	93,052
Income tax expenses	(132,301)	(135,067)
Current income tax expense	(132,301)	(211,654)
Deferred income tax credit	-	76,587
Income tax expenses	(132,301)	(135,067)

Deferred income tax liabilities	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Beginning of the period	(188,418)	(140,638)
Decrease in deferred tax liabilities due to disposal of subsidiary	-	6,662
Increase in deferred tax liabilities reported in equity (due to revaluation of buildings)	(190,718)	(131,029)
Decrease in deferred income tax for the period reported in the consolidated income statement	-	76,587
End of the period	<u>(379,136)</u>	<u>(188,418)</u>

13. CASH AND BALANCES WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Cash in vault	2,672,275	1,553,952
Balances with the Central Bank of the Russian Federation	<u>6,116,508</u>	<u>4,114,140</u>
Total cash and balances with the Central Bank of the Russian Federation	<u>8,788,783</u>	<u>5,668,092</u>

The balances with the Central Bank of the Russian Federation as at 31 December 2007 and 2006 include RUR 760,946 thousand and RUR 598,711 thousand, respectively, which represents the minimum reserve deposits required by the CBR. The Group is required to maintain the reserve balance at the CBR at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Cash in vault	2,672,275	1,553,952
Balances with the Central Bank of the Russian Federation	6,116,508	4,114,140
Due from banks in countries included in the Organization for Economic Co-operation and Development countries	916,963	332,844
Financial assets at fair value through profit or loss	-	13,565
Less minimum reserve deposits and foreign currency deposits with the Central Bank of the Russian Federation	<u>(760,946)</u>	<u>(598,711)</u>
Total cash and cash equivalents	<u>8,944,800</u>	<u>5,415,790</u>

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit at loss comprise:

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Financial assets designated at fair value through profit or loss at initial recognition		
Shares	-	4,686
Debt securities	-	791
Total financial assets designated at fair value through profit or loss at initial recognition	-	5,477
Financial assets held for trading		
Debt securities	1,689,942	1,655,621
Shares	449,260	948,936
Investments into shares of investment funds	107,350	-
Total financial assets held for trading	2,246,552	2,604,557
Derivative financial instruments	33,780	-
Total financial assets at fair value through profit or loss	2,280,332	2,610,034

Financial assets held for trading comprise:

	Interest to nominal %	31 December 2007 (RUR '000)	Interest to nominal %	31 December 2006 (RUR '000)
Debt securities of central governments				
Domestic State Foreign Currency Loan Bonds – 5 tranche	3%	1,276,852	3%	1,249,146
Voronezh region administration	9%	29,460	-	-
Russian State Bonds No. 46001	-	-	10%	13,565
Domestic State Foreign Currency Loan Bonds – 8 tranche	-	-	3%	791
Kurgan region administration	-	-	9.25%	5,076
Total state debt securities		1,306,312		1,268,578

	Interest to nominal %	31 December 2007 (RUR '000)	Interest to nominal %	31 December 2006 (RUR '000)
Debt securities of companies and banks				
OJSC "Solidarnost" – 1 tranche	14.00%	302,807		-
LLC "Technonicol-Finance" – 2 issue	9.70%	39,863		-
OJSC "Solidarnost" – 2 tranche	10.70%	23,985		-
OJSC "ASPEK" – 1 issue	12.00%	14,969		-
OJSC "Spurt" – 2 issue	10.47%	2,007		-
OJSC "Bank St.-Petersburg"	-	-	9.60%	49,213
LLC "Gruppa Agrokom"	-	-	10.75%	39,325
OJSC "Sibirtelecom"	-	-	12.50%	37,219
LLC "Home Credit & Finance Bank"	-	-	8.25%	30,008
LLC "Pyaterochka Finance"	-	-	9.30%	25,964
AKB "Transkapitalbank"	-	-	10.50%	25,316
OJSC "Tatfondbank"	-	-	10%	21,736
LLC "MLK-Finance"	-	-	12%	20,294
LLC "UTair Finance"	-	-	10.40%	20,118
LLC "Penoplex"	-	-	11.25%	20,062
LLC "Uralvagonzavod-Finance"	-	-	9.40%	20,062
LLC "UBRiR Finance"	-	-	11%	15,401
OJSC "Salut-Energia"	-	-	9.80%	14,690
LLC KB "Sudostroitelny bank"	-	-	10.50%	14,602
LLC "Mirax Group"	-	-	10.99%	10,389
OJSC "Moscow Credit Bank"	-	-	10.40%	10,068
LLC "Gaz-Finance"	-	-	8.49%	5,168
LLC KB "Russian International Bank"	-	-	10.50%	4,958
LLC KB "Uniastrum"	-	-	12.50%	3,241
ZAO "OST Group of Companies"	-	-	-	-
LLC "Nikoskhim-invest"	-	-	-	-
Total debt securities of companies and banks		383,631		387,834

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Shares:		
OJSC MMC Norilsk Nickel	448,636	359,749
OJSC OGC-5 oö.	534	-
OJSC TGK-5 oö.	89	-
OJSC "Gazprom"	-	192,529
OJSC "Surgutneftegaz"	-	93,777
OJSC RAO "UES of Russia"	-	90,150
OJSC NK Rosneft	-	75,742
OJSC NK "LUKoil"	-	46,248
OJSC AK "Transneft"	-	45,436
OJSC "Uralsvyazinform"	-	28,848
OJSC "Rostelecom"	-	16,457
OJSC NPK "Irkut"	-	2,828
OJSC "CenterTelecom"	-	1,212
OJSC "Severstal"	-	646
Total shares	449,259	953,622

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Units of investment funds:		
Units of the Open Mixed Investment Fund "Strazhi Urala"	107,350	-
Total investment in units of investment funds	107,350	-

Financial derivative instruments comprise:

	31 December 2007		
	Fair value (RUR '000)		Net value (RUR '000)
	Asset	Liability	
Foreign currency contracts			
Forward	1,233,786	(1,233,705)	81
Swap	7,628,158	(7,601,969)	26,189
Contracts on securities			
Forward	338,070	(330,560)	7,510
Total	9,200,014	(9,166,234)	33,780

As at 31 December 2007 and 2006 included in financial assets at fair value through profit or loss is accrued interest income on debt securities amounting to RUR 30,196 thousand and RUR 29,914 thousand, respectively.

As at 31 December 2007 and 2006 financial assets at fair value through profit or loss also included securities purchased under repo agreements, with a fair value of RUR 447,872 thousand and RUR 64,038 thousand, respectively (see Note 22).

15. DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT CONTRACTS

The Group's position and carrying amounts of derivative financial instruments and spot contracts outstanding as at 31 December 2007 and 2006 are presented below:

	31 December 2007 (RUR '000)			31 December 2006 (RUR '000)		
	Asset	Liability	Net value	Asset	Liability	Net value
Foreign currency contracts						
Spot deals	8,545,965	(8,544,916)	1,049	4,230,838	(4,229,793)	1,045
Swap contracts	7,628,158	(7,601,969)	26,189	-	-	-
Forwards	1,233,786	(1,233,705)	81	1,986,740	(1,996,839)	(10,099)
Futures	-	-	-	3,080,739	(3,113,308)	(32,569)
Total liabilities under foreign currency contracts	17,407,909	(17,380,590)	27,319	9,298,317	(9,339,940)	(41,623)
Securities contracts						
Forwards	338,070	(330,560)	7,510	482,555	(483,435)	(880)
Total liabilities under securities contracts	338,070	(330,560)	7,510	482,555	(483,435)	(880)
	17,745,979	(17,711,150)	34,829	9,780,872	(9,823,375)	(42,503)

16. DUE FROM BANKS

Due from banks comprise:

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Correspondent accounts with other banks	1,841,132	1,210,756
Loans and advances to banks	1,633,446	2,115,066
Loans under reverse repurchase agreements	767,095	646,121
	<u>4,241,673</u>	<u>3,971,943</u>
Less provision for impairment losses	<u>(1,115)</u>	<u>(1,123)</u>
Total due from banks	<u>4,240,558</u>	<u>3,970,820</u>

Included in due from banks is accrued interest in the amount of RUR 5,954 thousand and RUR 11,594 thousand as at 31 December 2007 and 2006, respectively.

Movements in allowances for impairment losses on loans and advances to banks for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

As at 31 December 2007 Group placed its funds with one bank totalling RUR 1,258,429 thousand, which individually exceeded 10% of the Group's equity.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as at 31 December 2007 and 2006 are presented as follows:

	31 December 2007 (RUR '000)		31 December 2006 (RUR '000)	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Russian corporate bonds				
LLC "Uralvagonzavod-Finance"	-	-	29,329	30,826
LLC "Inimilk Finance"	-	-	28,818	31,833
LLC "Dymovskoe kolbasnoe proizvodstvo"	-	-	15,624	17,333
OJSC "PIC Group of Companies"	-	-	10,013	11,112
Shares of Russian companies				
OJSC GMK "Norilsk Nickel"	767,095	798,844		
OJSC "Gazprom"	-	-	282,731	318,895
OJSC "The Fifth Power Generation Company "OGK-5"	-	-	147,443	209,108
OJSC "Promstroybank"	-	-	104,580	158,250
OJSC "Sberbank"	-	-	16,655	23,386
OJSC "Uralsvyazinform"	-	-	9,380	9,624
OJSC "Surgutneftegaz"	-	-	774	1,565
OJSC "Magnitogorsk Iron and Steel Works"	-	-	357	460
OJSC "Mosenergo"	-	-	213	277
OJSC "Yakutskenergo"	-	-	204	262
Total	<u>767,095</u>	<u>798,844</u>	<u>646,121</u>	<u>812,931</u>

As at 31 December 2007 the Group sold the assets received under reverse repurchase agreements of RUR 448,774 thousand under direct repo agreement (see Note 21). The resulting balance of commitments to purchase these assets is included in liabilities recognised at fair value through profit or loss.

17. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Loans to customers granted	38,492,967	22,987,388
Less allowance for impairment losses	(1,765,374)	(1,178,884)
Loans to customers	36,727,593	21,808,504

As at 31 December 2007 and 2006 accrued interest income included in loans to customers amounted to RUR 765,966 thousand and RUR 420,015 thousand, respectively.

As at 31 December 2007 and 2006 the Group had loans to the Moscow region customers totalling RUR 10,125,796 thousand and RUR 7,531,221 thousand, respectively, forming 26% and 33% of the loan portfolio, respectively.

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

An analysis of the present value of loans to customers broken down by the collateral provided is presented below:

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Loans collateralised by equipment	5,830,258	5,251,133
Loans collateralized by goods in turnover	5,183,102	5,447,736
Loans collateralized by real estate or rights thereon	3,864,563	1,648,682
Loans collateralized by receivables	2,199,289	1,400,675
Loans collateralized by other assets	928,350	979,942
Loans collateralized by the Bank's deposits and promissory notes	655,276	408,188
Loans collateralized by securities	291,466	260,750
Unsecured loans	19,540,663	7,590,282
	38,492,967	22,987,388
Less allowance for impairment losses	(1,765,374)	(1,178,884)
Loans to customers	36,727,593	21,808,504

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Analysis by sector:		
Individuals	18,347,672	8,189,008
Trading	11,307,968	9,608,438
Construction	2,512,162	861,931
Manufacturing	1,870,473	1,741,074
Leasing companies	1,101,642	740,220
Transport and communication	717,158	124,257
Agriculture	472,559	226,564
Heavy industry	117,663	224,602
State authorities	-	30,305
Other	2,045,670	1,240,989
	38,492,967	22,987,388
Less allowance for impairment losses	(1,765,374)	(1,178,884)
Loans to customers	36,727,593	21,808,504

Loans to individuals comprise the following products:

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Consumer loans	15,377,770	5,576,348
Car loans	2,500,705	2,344,526
Mortgage loans	263,872	102,737
Other	205,325	165,397
	<u>18,347,672</u>	<u>8,189,008</u>
Less allowance for impairment losses	<u>(838,796)</u>	<u>(540,455)</u>
Total loans to individuals	<u>17,508,876</u>	<u>7,648,553</u>

As at 31 December 2007 and 2006 included in the loans to customers were loans in the amount of RUR 110,640,468 thousand and RUR 286,723,221 thousand, respectively, the terms of which were renegotiated. Otherwise these loans would have become overdue or impaired.

As at 31 December 2007 and 2006 included in the loans to customers were loans in the amount of RUR 1,695,866 thousand and RUR 573,142 thousand, respectively, which had individual indicators of impairment. As at 31 December 2007 and 2006, these loans were secured with collateral with fair value of RUR 1,415,935 thousand and RUR 332,424 thousand, respectively. For the purposes of estimating impairment of specific loans the Group analyses the financial condition, debt service, credit history and the collateral level and quality.

	31 December 2007 (RUR'000)			31 December 2006 (RUR'000)		
	Initial value	Impairment allowance	Carrying value	Initial value	Impairment allowance	Carrying value
Loans to customers individually assessed as impaired	6,402,747	(258,064)	6,144,683	4,507,203	(234,267)	4,272,936
Collective impairment allowance		<u>(1,507,310)</u>			<u>(944,617)</u>	
Total impairment allowance		<u>(1,765,374)</u>			<u>(1,178,884)</u>	

18. GOODWILL

Goodwill comprises:

	Year Ended 31 December 2007 (RUR '000)	Year Ended 31 December 2006 (RUR '000)
At the beginning of the period	251,928	285,951
Goodwill recognised on acquisition of shares of a subsidiary bank	748	-
Goodwill derecognised on sale of a subsidiary bank	<u>-</u>	<u>(34,023)</u>
At the end of the period	<u>252,676</u>	<u>251,928</u>

In March 2007 Probusinessbank acquired additional 116,382 registered shares (12.03% of share capital) of CJSC Express-Volga. The share of Probusinessbank in the share capital of Express-Volga Bank amounted to 98.01%. Probusinessbank's acquisition of additional issue of Express-Volga's ordinary registered shares in June 2007 resulted in the growth of its interest in Express-Volga's share capital to 98.75%.

19. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The Group's property, equipment and intangible assets comprise:

	Buildings (RUR '000)	Furniture and office equipment (RUR '000)	Transport (RUR '000)	Intangible assets (RUR '000)	Land (RUR '000)	Construction in progress (RUR '000)	Total (RUR '000)
At initial/indexed/revalued cost							
31 December 2005	1,070,137	332,923	53,879	37,503	-	164,731	1,659,173
Additions	313,255	181,048	19,039	45,599	10,700	258,500	828,141
Revaluation surplus	502,850	-	-	-	-	61,610	564,460
Purchase of subsidiary	-	6,261	-	-	-	-	6,261
Disposals	(429,014)	(38,161)	(23,369)	(3,929)	-	-	(494,473)
31 December 2006	1,457,228	482,071	49,549	79,173	10,700	484,841	2,563,562
Additions	631,662	402,489	34,192	93,855	1,411	553,166	1,716,775
Revaluation surplus	450,754	-	-	-	-	292,002	742,756
Disposals	(3,790)	(128,592)	(12,993)	-	-	(184,706)	(330,081)
31 December 2007	2,535,854	755,968	70,748	173,028	12,111	1,145,303	4,693,012
Accumulated depreciation							
31 December 2005	38,873	238,334	15,058	15,380	-	-	307,645
Charge for the period	35,724	48,282	6,770	6,337	-	-	97,113
Eliminated on disposals	(61,830)	(21,815)	(3,594)	-	-	-	(87,239)
31 December 2006	12,767	264,801	18,234	21,717	-	-	317,519
Charge for the period	62,754	92,662	9,641	20,218	-	-	185,275
Eliminated on disposals	(156)	(79,720)	(10,272)	-	-	-	(90,148)
Elimination of accumulated depreciation on revaluation	(75,365)	-	-	-	-	-	(75,365)
31 December 2007	-	277,743	17,603	41,935	-	-	337,281
Net book value							
31 December 2007	2,535,854	478,225	53,145	131,093	12,111	1,145,303	4,355,731
31 December 2006	1,444,462	217,270	31,315	57,455	10,700	484,841	2,246,043

As at 31 December 2007 and 2006 included in property, plant and equipment was fully depreciated equipment at cost of RUR 123,324 thousand and RUR 66,012 thousand, respectively.

The Group's office buildings in Moscow, Saratov, Engels and Volgograd were revalued based on an independent expert's appraisal as at 31 December 2007. The following methods were used to derive at fair value of buildings:

1. Discounted cash flow method (income approach);
2. Comprehensive cost method (cost approach);
3. Sales comparison method (market approach).

To obtain the final value, the estimations derived using various approaches were assigned weights based on the extent to which the estimates achieved the following: completeness and reliability of information, reflection of the individual nature of properties, etc.

Intangible assets include software developed by the Group and licenses.

20. OTHER ASSETS

Other assets comprise:

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Prepayments and receivables	260,866	283,040
Taxes recoverable, other than income tax	48,459	11,936
Rights of participation in construction in progress	33,968	88,468
Equipment received under pledge agreements	29,331	-
Investments available-for-sale	18,126	23,822
Net fair value of spot deals	1,049	1,045
Other accounts receivable	3,885	21,910
	<u>395,684</u>	<u>430,221</u>
Less provision for impairment losses	(618)	(651)
Total other assets	<u>395,066</u>	<u>429,570</u>

Movements in allowances for impairment losses on other assets for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

During the year 2006 the Group acquired rights of participation in construction and reconstruction of the real estate (houses and production workshops) in Smolensk for amount totalling RUR 88,464 thousand. During the year 2007 the Group partly sold these rights to third parties or they were claimed to building companies.

21. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities at fair value through profit and loss comprise:

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Liabilities for purchase of assets pledged under reverse repurchase agreements and sold by the Group (short position)	448,774	-
Derivative financial instruments	<u>-</u>	<u>43,548</u>
Total financial liabilities at fair value through profit and loss	<u>448,774</u>	<u>43,548</u>

Derivative financial instruments are presented in Note 15.

22. DUE TO BANKS

Amounts due to banks comprise:

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Loans from banks and financial institutions	1,572,304	814,697
Correspondent accounts of other banks	374,923	391,298
Loans under repurchase agreements	356,502	47,870
Total due to banks	2,303,729	1,253,865

Included in due to banks is accrued interest expense in the amount of RUR 22,700 thousand and RUR 4,707 thousand as at 31 December 2007 and 2006, respectively.

As at 31 December 2007 and 2006 included in due to banks are loans under repurchase agreements amounting to RUR 356,502 thousand and RUR 47,870 thousand with maturity in 25 March 2008 and 25 January 2007, respectively.

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2007 and 2006 are presented as follows:

	31 December 2007 (RUR '000)		31 December 2006 (RUR '000)	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Shares of Russian companies	356,502	447,872	47,870	64,038
Total	356,502	447,872	47,870	64,038

23. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Time deposits	19,025,178	13,182,310
Repayable on demand	10,097,258	7,692,929
Total customer accounts	29,122,436	20,875,239

As at 31 December 2007 and 2006 accrued interest expense included in customer accounts amounted to RUR 190,115 thousand and RUR 143,233 thousand, respectively.

As at 31 December 2007 and 2006 customer accounts amounting to RUR 203,988 thousand and RUR 1,063,179 thousand, respectively, were held as security against letters of credit issued and other transaction related contingent obligations.

As at 31 December 2007 and 2006 amounts due to one and four customers which individually exceeded 10% of the Group's equity totaled RUR 736,386 thousand and RUR 1,398,777 thousand, respectively.

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Analysis by sector:		
Individuals	15,686,656	9,999,536
Trade	4,631,042	3,628,485
Finances, loans, pensions	2,643,710	1,611,333
Manufacturing	2,356,368	997,586
Insurance	527,383	329,495
Public sector	401,409	113,505
Transport and communication	285,464	107,315
Organization of exhibitions	279,744	1,408,447
Energy and fuel sector	149,762	386,309
Real estate	97,223	57,829
Mining and metallurgy	70,059	241,879
Agriculture	23,534	44,451
Other	1,970,082	1,949,069
Total customer accounts	29,122,436	20,875,239

24. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity month/year	Annual interest rate to nominal %	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Credit notes	July 2010	7.78-9.72	9,731,181	2,643,653
Discount bearing promissory notes	April 2009	3.00-13.00	2,506,118	2,395,617
Bonds	April 2009	8.69	413,110	496,559
Zero-interest/non-discount bearing promissory notes	On demand – April 2009	-	207,023	210,671
Interest-bearing promissory notes	On demand – January 2007	12.00	-	25
Total debt securities issued			12,857,432	5,746,525

As at 31 December 2007 and 2006 accrued interest expenses included in debt securities issued amounted to RUR 238,497 thousand and RUR 137,324 thousand, respectively.

25. OTHER BORROWED FUNDS

	Original currency	Maturity date	Interest rate %	31 December 2007 (RUR '000)	Interest rate %	31 December 2006 (RUR '000)
Loans granted by Landesbank Berlin AG	USD	2008	7.51	1,235,719	8.83	894,995
Loans granted by the European Bank for Reconstruction and Development	EUR	2008	6.63	36,674	-	-
Loans granted by the European Bank for Reconstruction and Development	USD	2011	7.74-9.42	632,319		
Loans granted by Bankgesellschaft Berlin AG	USD	2010	5.68	84,313	5.68	120,593
Loans granted by Bankgesellschaft Berlin AG	EUR	2014	4.31-5.09	310,700	4.3-4.65	331,547
Loans granted by Deere Credit	USD	2011	5.47-8.98	203,645	-	-
Loans granted by Deere Credit	EUR	2011	5.74	63,178	-	-
Loans granted by BAYERISCHE VEREINSBANK AG	CHF	2008	3.86	175,438	-	-
Loans granted by Landesbank Baden-Wuerttemberg	EUR	2012	5.37-5.62	171,235	4.60-7.01	191,918
Loans granted by Black Sea Trade and Development Bank	USD	2008	8.77	131,746	-	-
Loans granted by Bre Bank	USD	2011	6.46	93,544	7.04	129,099
Total other borrowed funds				<u>3,138,511</u>		<u>1,668,152</u>

As at 31 December 2007 and 2006 accrued interest expenses included in other borrowed funds amounted to RUR 68,125 thousand and RUR 34,026 thousand, respectively.

26. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Payable to employees	393,743	75,377
Transit accounts for settlements with customers on dividends and coupon income	45,413	-
Payables for services received	23,447	3,987
Provisions for guarantees and other commitments	17,980	-
Liabilities on payments to the Deposit Insurance Fund	17,546	13,636
Taxes payable, other than income tax	16,903	13,046
Other	7,145	13,744
Total other liabilities	<u>522,177</u>	<u>119,790</u>

Movements in provision for guarantees and other commitments for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

27. SUBORDINATED DEBT

	Currency	Maturity year	Interest rate %	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Subordinated loan from International Finance Corporation				-	96,773
Conversion feature				-	(15,660)
Net payables under the subordinated loan from the International Finance Corporation				-	81,113
Subordinated loan from the European Bank for Reconstruction and Development	USD	2013	11.85%	545,897	566,091
Conversion feature				(70,621)	(70,621)
Net payable on subordinated loan from the European Bank for Reconstruction and Development				475,276	495,470
Subordinated loan from LLC “Probusiness-building”	RUR	2012	11%	491,944	297,213
Subordinated loan from LLC “Probusiness-Holding”	RUR	2014	0.5%	31,000	31,039
Subordinated loan from the Urals State Economic University				-	5,189
Total subordinated debt				998,220	910,024

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

As at 31 December 2007 and 2006 accrued interest expenses included in subordinated debt amounted to RUR 57,855 thousand and RUR 62,028 thousand, respectively.

28. SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2007 and 2006 the Bank's share capital consisted of 4,046,638 and 2,324,808 ordinary shares, respectively, registered and fully paid, with par value of RUR 1,000 each.

All ordinary shares are ranked equally and carry one vote, with par value of RUR 1,000 per share.

The movements in capital during the years ended 31 December 2007 and 2006 were as follows:

	Share capital, shares
31 December 2005	880,974
Capitalisation of share premium	464,764
31 December 2006	1,345,738
Capitalisation of share premium	1,721,830
31 December 2007	3,067,568

Share premium represents the excess of contributions received over the nominal value of shares issued.

Dividends declared and paid after 31 December 2007 and 2006 amounted to RUR 180 thousand and RUR 181 thousand per share, respectively.

The Group's distributable among shareholders reserves are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statute that provides for the creation of a reserve for these purposes of not less than 5% of the Bank's share capital reported in statutory books.

29. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated balance sheet.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 31 December 2007 provision for losses on commitments and contingencies amounted to RUR 17,980 thousand.

As at 31 December 2007 and 2006, the nominal or contract amounts for financial commitments of instruments with off-balance sheet risks were:

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	2,964,687	1,890,166
Letters of credit and other transaction related contingent obligations	3,249,932	2,855,007
Unused loan commitments	<u>3,337,958</u>	<u>4,401,362</u>
Total contingent liabilities and credit commitments	<u>9,552,577</u>	<u>9,146,535</u>

As at 31 December 2007 and 2006, the Group issued guarantees to the Russian State Customs Committee totaling RUR 158,578 thousand and RUR 408,107 thousand, respectively.

Decisions on extending loans to customers under open credit facilities are made by the Group pursuant to each customer's application for credit resources, depend on the financial position of the borrower, its credit history and other factors characterizing credit risks and are assessed by the Group at the time when such decision is to be made. Liabilities with such condition included in commitments on loans and unused credit facilities amounted to RUR 3,148,034 thousand and RUR 4,169,808 thousand as at 31 December 2007 and 2006, respectively.

Operating lease commitments – The future minimum rental payments under non-cancelable operating leases in effect as at 31 December 2007 and 2006 are as follows:

	31 December 2007 (RUR '000)	31 December 2006 (RUR '000)
Not later than one year	335,435	76,238
Later than 1 year and not later than 5 years	645,283	372,253
More than 5 years	61,598	186,070
Total operating lease commitments	<u>1,042,316</u>	<u>634,561</u>

Fiduciary activities – The Group provides depositary services to its customers. As at 31 December 2007 and 2006, the Group had customer securities totalling 906,253,347 items and 393,403,289 items, respectively, in its nominal holder accounts.

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Some retail banks are receiving claims from individual customers with respect to certain commissions on loans not disclosed by the banks. The CBR issued an instruction requiring banks to disclose effective interest rates on loans granted to individuals. Management is of the opinion that such claims would not have adverse consequences for the Bank, and has established procedures on disclosing additional information in loan agreements in compliance with the CBR instruction.

Taxation – Provisions of the Russian tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the Russian tax authorities to take decisions based on their own arbitrary interpretation of these provisions. As a result, due to interpretation by the tax authorities of tax regulations differing from the taxpayer's position, the taxpayers often have to defend their position in court. It should be borne in mind that for the treatment of the Bank's transactions the tax authorities may, in particular, rely on clarifications of judicial authorities, that have defined such concepts as "unjustified tax benefit" and "actual economic substance of a transaction", as well as criteria of "the business purpose" of a deal.

For example, such uncertainty may be associated with the tax treatment of financial instruments and determination of market level for deals' pricing. It could also result in temporary taxable differences arising from creation and recovery of allowances for losses on loans and loan equivalents being treated by the tax authorities as understatement of the tax base. The Group believes that it has already made all tax payments, and therefore no allowance is required in the financial statements.

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

Retirement benefit plans – Employees receive pension benefits under the government program in accordance with the laws and regulations of the Russian Federation. As at 31 December 2007 and 2006, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment – The Group's principal business activities are within the Russian Federation. Laws and regulations affecting the business environment in the Russian Federation are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

30. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, represent:

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives them significant influence over the Bank; and that have joint control over the Group;
- (b) Associates – enterprises on which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Group is a venturer;
- (d) Members of key management personnel of the Group or its parent;
- (e) Close members of the family of any individuals referred to in (a)-(d);
- (f) Entities that are under control, joint control or significant influence of any person described in (a)-(e), or in which a substantial interest in the voting power is owned, directly or indirectly, by such a person;
- (g) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party of the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding as at 31 December 2007 and 2006 with related parties:

	31 December 2007 (RUR ‘000)		31 December 2006 (RUR ‘000)	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers before				
allowance for impairment losses	652,148	38,492,967	234,677	22,987,388
- companies under common control	487,743	-	150,435	-
- other related parties	113,258	-	50,925	-
- members of key management personnel of the Group or its parent	51,147	-	33,317	-
Allowance for impairment losses on loans to customers	17,540	1,765,374	6,805	1,178,884
- companies under common control	17,329	-	3,958	-
- members of key management personnel of the Group or its parent	189	-	2,785	-
- other related parties	22	-	62	-
Customer accounts	381,597	29,122,436	357,876	20,875,239
- companies under common control	346,795	-	325,721	-
- members of key management personnel of the Group or its parent	29,072	-	26,671	-
- other related parties	4,392	-	3,769	-
- shareholders	1,338	-	1,715	-
Subordinated debt	100,060	998,220	297,213	910,024
- companies under common control	100,060	-	-	-
- shareholders	-	-	297,213	-
Key management personnel compensation:	240,813	1,896,850	65,452	928,863
Short-term employee benefits	240,813	-	65,452	-

Included in the consolidated income statement for the years ended 31 December 2007 and 2006 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2007 (RUR '000)		Year ended 31 December 2006 (RUR '000)	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Interest income	45,922	7,124,519	45,204	4,018,660
- companies under common control	25,444	-	25,559	-
- key management personnel of the entity or its parent	4,699	-	4,600	-
- other related parties	15,779	-	15,045	-
Interest expense	39,958	3,158,136	35,727	2,005,703
- associates	38,096	-	35,675	-
- members of key management personnel of the Group or its parent	1,525	-	32	-
- other related parties	337	-	20	-
- shareholders	-	-	-	-
Commission income	7,292	873,396	6,634	558,324
- companies under common control	7,257	-	6,596	-
- members of key management personnel of the Group or its parent	34	-	23	-
- other related parties	1	-	15	-
Operating expenses (except for compensations)	27	1,889,329	-	-
- companies under common control	27	-	-	-

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the price at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Group is presented below:

	31 December 2007		31 December 2006	
	Carrying value (RUR '000)	Fair value (RUR '000)	Carrying value (RUR '000)	Fair value (RUR '000)
Cash and balances with the Central Bank of the Russian Federation	8,788,783	8,788,783	5,668,092	5,668,092
Financial assets at fair value through profit or loss	2,280,332	2,280,332	2,610,034	2,610,034
Due from banks	4,240,558	4,240,558	3,970,820	3,970,820
Loans to customers	36,727,593	36,727,593	21,808,504	21,808,504
Financial liabilities at fair value through profit or loss	448,774	448,774	43,548	43,548
Due to banks	2,303,729	2,303,729	1,253,865	1,253,865
Customer accounts	29,122,436	29,122,436	20,875,239	20,875,239
Debt securities issued	12,857,432	12,857,432	5,746,525	5,746,525
Other borrowed funds	3,138,513	3,138,513	1,668,152	1,668,152
Subordinated debt	998,220	998,220	910,024	910,024

32. CAPITAL MANAGEMENT

The Group manages capital to ensure continuous operations of all entities of the Group by maximizing the shareholders' profit through optimization of the debt/equity ratio.

Capital structure is revised by the Group's Management Board semi-annually at least. During this review the Management Board, in particular, analyzes the cost of capital and risks related to each capital class. Based on recommendations of the Management Board, the Group adjusts the capital structure by issuing additional shares, taking additional loans or paying on existing loans.

The Central Bank of the Russian Federation requires banks to maintain a statutory capital adequacy ratio computed based on Russian Accounting Standards.

Under the current capital requirements set by the Central Bank of the Russian Federation banks have to maintain a ratio of capital to risk weighted assets («statutory capital ratio») above the prescribed minimum level. As at 31 December 2007, this minimum level was 10%. The Group was in compliance with the statutory capital adequacy ratio during the years ended 31 December 2007 and 2006.

The Group also monitors its capital adequacy ratio calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks, commonly known as Basel I.

The table below shows the Group's capital structure and calculation of capital adequacy ratio in accordance with requirements of the Basel Accord as at 31 December 2007 and 2006:

	31 December 2007 RUR'000	31 December 2006 RUR'000
Tier 1 capital:		
Share capital	4,046,638	2,324,808
Share premium	1,079,781	2,801,611
Retained earnings	885,790	330,490
Minority interest	12,977	85,898
Goodwill	(252,676)	(251,928)
Total Tier 1 capital	5,772,510	5,290,879
Tier 2 capital:		
Property, plant and equipment revaluation reserve	1,145,460	577,332
Share premium	70,621	86,281
Subordinated debt	620,306	607,293
Total Tier 2 capital	1,836,387	1,270,906
Total capital	7,608,897	6,561,785
Risk-weighted assets	52,416,340	31,323,362
Total capital expressed as a percentage of risk-weighted assets	14.52%	20.95%
Total tier 1 capital expressed as a percentage of risk-weighted assets	11.01%	16.89%

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. Under these covenants the Group has to maintain the total capital ratio at a level not less than 12%. The Group has complied with all externally imposed capital requirements during the years ended 31 December 2007 and 2006.

The Group's overall capital risk management policy remains unchanged from 2006.

33. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The principal risks inherent in the Group's operations are:

- Credit risk;
- Liquidity risk;
- Market risk;
- Interest rate and currency risk.

To provide for an efficient and effective risk management policy, the Group determined the key risk management principles aimed at protecting the Group from the existing risks and enabling it to achieve the planned figures. These principles are used by the Group to manage the following risks:

Credit risk

Lending activities are conducted in accordance with statutory requirements established by CBR and internationally recognized criteria. Credit Policy is defined by the Bank's Management Board. Credit risk is being taken based on the principles of risk adequacy, adequacy of profitability and strategic rationale. Credit operations conducted by the Bank include time loans, credit lines, overdraft facilities, documentary operations and other operations involving credit risk. The credit procedure is structured in line with a strict segregation of duties, based on the approved Credit Manual of the Group.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority, by the Management of Business divisions and the Group's Management Board. Before any application is made by the Management Board, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Head of the Management Board and Branch Credit Divisions.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved monthly (quarterly) by the Management Board. The exposure in relation to each borrower, including banks and brokers, is further restricted by sub-limits which cover on and off-balance sheet risks. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Off-balance sheet credit commitments represent unused portions of credit lines, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. 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 applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum credit risk exposure

The Group's maximum credit risk exposure may vary significantly depending on the individual risks inherent in specific assets and overall market risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets carried in the balance sheet accounts the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee or the loan amount under an open credit facility was called on.

	Maximum credit risk exposure	Offset	Net credit risk exposure after offset	Collateral	31 December 2007 (RUR '000) Net credit risk exposure after offset and collateral
Cash and balances with the Central Bank of the Russian Federation	8,788,783	-	8,788,783	-	8,788,783
Financial assets at fair value through profit or loss	2,280,332	-	2,280,332	-	2,280,332
Due from banks	4,240,558	100,000	4,140,558	798,844	3,341,714
Loans to customers	36,727,593	655,276	36,072,317	16,869,323	19,202,994
Credit facilities and overdrafts	189,924	-	189,924	-	189,924
Guarantees issued	2,806,109	-	2,806,109	-	2,806,109
Import letters of credit	3,249,932	-	3,249,932	1,540,983	1,708,949

	Maximum credit risk exposure	Offset	Net credit risk exposure after offset	Collateral	31 December 2006 (RUR '000) Net credit risk exposure after offset and collateral
Cash and balances with the Central Bank of the Russian Federation	5,568,092	-	5,568,092	-	5,568,092
Financial assets at fair value through profit or loss	2,610,034	-	2,610,034	-	2,610,034
Due from banks	3,970,820	-	3,970,820	812,931	3,157,889
Loans to customers	21,808,504	408,188	21,400,316	14,155,818	7,244,498
Credit facilities and overdrafts	278,741	-	278,741	-	278,741
Guarantees issued	1,482,059	-	1,482,059	-	1,482,059
Import letters of credit	2,855,007	-	2,855,007	1,063,179	1,791,828

Financial assets are graded according to the current credit rating assigned by internationally recognized rating agencies. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Group, that are neither past due nor impaired:

	AA	A	BBB	>BBB	Not rated	31 December 2007 Total (RUR '000)
Cash and balances with the Central Bank of the Russian Federation	-	-	-	-	8,788,783	8,788,783
Financial assets at fair value through profit or loss	-	-	2,052,281	2,006	226,045	2,280,332
Due from banks	20,197	1,102,394	1,280,407	615,600	1,221,960	4,240,558
Loans to customers	-	-	-	-	665,276	665,276

	AA	A	BBB	>BBB	Not rated	31 December 2006 Total (RUR '000)
Cash and balances with the Central Bank of the Russian Federation	-	-	-	-	5,568,092	5,568,092
Financial assets at fair value through profit or loss	2,828	25,316	1,997,708	289,638	294,544	2,610,034
Due from banks	186,744	563,365	1,231,739	618,628	1,370,344	3,970,820
Loans to customers	-	-	-	-	408,188	408,188

Banking sector entities are generally exposed to credit risk arising with regard to financial instruments, commitments and contingencies. The Group's credit risk is concentrated within the Russian Federation. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are complied with.

The Group transacts with parties non-rated by an internationally regarded agency. In order to assess corporate borrowers the Group created a methodology to assess a borrower's credit rating. This technique assesses the rating of a borrower and collateral for the loan. This technique assigns a rating based on the following groups of criteria: the borrower's market position, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Group and the borrower, financial position of the borrower, the borrower's activities and the collateral provided. The borrower's financial position and activities are the most important criteria. Thus, the model provides an overall assessment of the borrower and the loan.

Besides, a scoring model was developed by the Group for assessment and making decisions on loans to small and medium businesses and individuals. The scoring model was created with regard to the standard credit products and takes into account the key indicators of a borrower's activities: financial position, relations with the Group, quality of management, use of resources, location, credit history, etc.

The Group applies internal models for certain loans to corporate customers and for groups of loans to individuals. The models are adapted to specific products and applied at various stages within the life of a loan. Consequently, it is impossible to compare the assessments assigned to different products and to break down the whole credit portfolio by ratings. That's why more detailed information is not provided.

Geographical concentration

The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation. The Group's Management Board sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.

The geographical concentration of assets and liabilities is set out below:

	Russia	Other CIS countries	OECD countries	Non-OECD countries	31 December 2007 Total (RUR '000)
ASSETS:					
Financial assets at fair value through profit or loss	2,280,332	-	-	-	2,280,332
Cash and balances with the Central Bank of the Russian Federation	8,788,783	-	-	-	8,788,783
Due from banks	1,682,244	369,020	1,451,120	738,174	4,240,558
Loans to customers	36,703,580	1,713	22,300	-	36,727,593
Goodwill	252,676	-	-	-	252,676
Property, plant and equipment and intangible assets	4,355,731	-	-	-	4,355,731
Current income tax assets	7,573	-	-	-	7,573
Other assets	347,154	-	47,912	-	395,066
TOTAL ASSETS	<u>54,418,073</u>	<u>370,733</u>	<u>1,521,332</u>	<u>738,174</u>	<u>57,048,312</u>
LIABILITIES:					
Financial liabilities at fair value through profit or loss	448,774	-	-	-	448,774
Due to banks	1,336,497	-	939,480	27,752	2,303,729
Customer accounts	27,003,085	168,280	1,916,996	34,075	29,122,436
Debt securities issued	5,681,177	-	-	7,176,255	12,857,432
Other borrowed funds	-	-	3,044,969	93,544	3,138,513
Current income tax liabilities	36,628	-	-	-	36,628
Deferred income tax liabilities	379,136	-	-	-	379,136
Subordinated debt	522,789	-	475,431	-	998,220
Other liabilities	519,357	-	515	2,305	522,177
TOTAL LIABILITIES	<u>35,927,443</u>	<u>168,280</u>	<u>6,377,391</u>	<u>7,333,931</u>	<u>49,807,045</u>
NET POSITION	<u>18,490,630</u>	<u>202,453</u>	<u>(4,856,059)</u>	<u>(6,595,757)</u>	<u>7,241,267</u>

	Russia	Other CIS countries	OECD countries	Non-OECD countries	31 December 2006 Total (RUR '000)
ASSETS:					
Cash and balances with the Central Bank of the Russian Federation	5,668,092	-	-	-	5,668,092
Financial assets at fair value through profit or loss	2,610,034	-	-	-	2,610,034
Due from banks	1,954,928	276,641	948,126	791,125	3,970,820
Loans to customers	21,769,648	267	36,322	2,267	21,808,504
Goodwill	251,928	-	-	-	251,928
Property, plant and equipment and intangible assets	2,246,043	-	-	-	2,246,043
Current income tax assets	95,283	-	-	-	95,283
Other assets	429,570	-	-	-	429,570
TOTAL ASSETS	35,025,526	276,908	984,448	793,392	37,080,274
LIABILITIES:					
Financial liabilities at fair value through profit or loss	43,548	-	-	-	43,548
Due to banks	996,885	-	256,973	7	1,253,865
Customer accounts	19,442,799	28,464	1,287,355	116,621	20,875,239
Debt securities issued	3,100,672	-	2,200	2,643,653	5,746,525
Other borrowed funds	-	-	1,539,072	129,080	1,668,152
Current income tax liabilities	68,293	-	-	-	68,293
Deferred income tax liabilities	188,418	-	-	-	188,418
Other liabilities	119,096	-	508	186	119,790
Subordinated debt	333,441	-	576,583	-	910,024
TOTAL LIABILITIES	24,293,152	28,464	3,662,691	2,889,547	30,873,854
NET POSITION	10,732,374	248,444	(2,678,243)	(2,096,155)	6,206,420

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

Substantially all of the Group's interest bearing assets and interest bearing liabilities are at fixed rates of interest.

The ALMC controls the liquidity risk by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The review of liquidity and balance sheet interest rate risks is provided below:

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature are crucial in determining the Group's liquidity and its susceptibility to fluctuation of interest rates and exchange rate.

The maturity of time deposits of individuals is based on contractual terms. However, individuals have the right to demand early repayment of these deposits.

	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	Over 3 years	Overdue	Maturity undefined	31 December 2007 Total (RUR '000)
ASSETS:									
Financial assets at fair value									
through profit or loss	1,689,944	-	-	-	-	-	-	-	1,689,944
Due from banks	471,629	1,476,213	518,193	-	-	-	-	-	2,466,035
Loans to customers	4,247,254	5,056,205	4,923,209	5,167,877	9,443,540	6,746,402	1,143,106	-	36,727,593
Total interest bearing assets	6,408,827	6,532,418	5,441,402	5,167,877	9,443,540	6,746,402	1,143,106	-	40,883,572
Cash and balances with the Central Bank of the Russian Federation	8,027,837	-	-	-	-	-	-	760,946	8,788,783
Financial assets at fair value									
through profit or loss	582,626	7,510	252	-	-	-	-	-	590,388
Due from banks	1,774,523	-	-	-	-	-	-	-	1,774,523
Goodwill	-	-	-	-	252,676	-	-	-	252,676
Property, plant and equipment and intangible assets	-	-	-	-	-	-	-	4,355,731	4,355,731
Current income tax assets	7,573	-	-	-	-	-	-	-	7,573
Other assets	150,661	58,968	75,224	57,920	18,125	-	-	34,168	395,066
TOTAL ASSETS	16,952,047	6,598,896	5,516,878	5,225,797	9,714,341	6,746,402	1,143,106	5,150,845	57,048,312
LIABILITIES:									
Financial liabilities at fair value through profit or loss	-	448,774	-	-	-	-	-	-	448,774
Due to banks	574,191	619,203	150,000	9,272	73,260	-	-	-	1,425,926
Customer accounts	3,489,460	3,037,500	2,565,265	4,524,187	5,587,807	210,446	-	-	19,414,665
Debt securities issued	574,661	865,881	1,915,207	5,830,350	3,464,310	-	-	-	12,650,409
Other borrowed funds	-	137,957	-	-	5,819	291,557	-	-	435,333
Subordinated debt	-	-	-	-	-	31,000	-	-	31,000
Total fixed interest bearing liabilities	4,638,312	5,109,315	4,630,472	10,363,809	9,131,196	533,003	-	-	34,406,107
Due to banks	-	-	-	-	-	502,880	-	-	502,880
Customer accounts	-	-	-	736,386	100,189	-	-	-	836,575
Other borrowed funds	205,334	-	245,465	1,412,464	147,490	692,427	-	-	2,703,180
Subordinated debt	57,637	188	-	-	-	909,395	-	-	967,220
Total floating interest bearing liabilities	262,971	188	245,465	2,148,850	247,679	2,104,702	-	-	5,009,855
Total interest bearing liabilities	4,901,283	5,109,503	4,875,937	12,512,659	9,378,875	2,637,705	-	-	39,415,962
Due to banks	374,923	-	-	-	-	-	-	-	374,923
Customer accounts	8,871,196	-	-	-	-	-	-	-	8,871,196
Debt securities issued	93,727	719	68	-	112,509	-	-	-	207,023
Current income tax liabilities	-	36,628	-	-	-	-	-	-	36,628
Deferred income tax liabilities	-	379,136	-	-	-	-	-	-	379,136
Other liabilities	93,426	23,131	220,496	17,735	9,115	-	-	158,274	522,177
TOTAL LIABILITIES	14,334,555	5,549,117	5,096,501	12,530,394	9,500,499	2,637,705	-	158,274	49,807,045
Liquidity gap	2,617,492	1,049,779	420,377	(7,304,597)	213,842	4,108,697			
Interest sensitivity gap for fixed interest bearing assets and liabilities	1,770,515	1,423,103	810,930	(5,195,932)	312,344	6,213,399			
Interest sensitivity gap for floating interest bearing assets and liabilities	(262,971)	(188)	(245,465)	(2,148,850)	(247,679)	(2,104,702)			
Interest sensitivity gap	1,507,544	1,422,915	565,465	(7,344,782)	64,665	4,108,697			
Cumulative interest sensitivity gap	1,507,544	2,930,459	3,495,924	(3,848,858)	(3,784,193)	324,504			

The liquidity risk is analysed in table below as at 31 December 2007. This table represents the expected maturity for non-derivative financial assets based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	Over 3 years	Overdue	Maturity undefined	31 December 2007 Total (RUR '000)
Financial liabilities at fair value through profit or loss	-	448,774	-	-	-	-	-	-	448,774
Due to banks	953,106	632,120	156,258	10,057	91,853	694,643	-	-	2,538,037
Customer accounts	12,389,508	3,112,847	2,692,531	5,774,866	7,378,047	295,129	-	-	31,642,928
Debt securities issued	672,678	885,986	2,001,034	6,359,746	4,520,496	-	-	-	14,439,940
Other borrowed funds	205,912	141,379	253,326	1,490,047	172,929	1,306,944	-	-	3,570,537
Subordinated debt	57,637	188	-	-	-	1,410,860	-	-	1,468,685
Total	14,278,841	5,221,294	5,103,149	13,634,716	12,163,325	3,707,576	-	-	54,108,901

	Up to 1 month	1 month to 3 months	3 month to 6 months	6 months to 1 year	1 year to 3 years	Over 3 years	Overdue	Maturity undefined	31 December 2006 Total (RUR '000)
ASSETS:									
Financial assets at fair value									
through profit or loss	1,626,498	-	-	-	-	-	-	-	1,626,498
Due from banks	982,483	1,719,864	76,302	90,671	-	-	-	-	2,869,320
Loans to customers	2,184,250	5,059,491	2,757,574	2,391,389	4,724,229	4,138,487	553,084	-	21,808,504
Total fixed interest bearing assets	4,793,231	6,779,355	2,833,876	2,482,060	4,724,229	4,138,487	553,084	-	26,304,322
Cash and balances with the Central Bank of the Russian Federation	5,069,381	-	-	-	-	-	-	598,711	5,668,092
Financial assets at fair value through profit or loss	983,536	-	-	-	-	-	-	-	983,536
Due from banks	1,101,500	-	-	-	-	-	-	-	1,101,500
Goodwill	-	-	-	-	251,928	-	-	-	251,928
Property, plant and equipment and intangible assets	-	-	-	-	-	-	-	2,246,043	2,246,043
Current income tax assets	95,283	-	-	-	-	-	-	-	95,283
Other assets	197,072	41,273	38,684	29,711	34,203	-	159	88,468	429,570
TOTAL ASSETS	12,240,003	6,820,628	2,872,560	2,511,771	5,010,360	4,138,487	553,243	2,933,222	37,080,274
LIABILITIES:									
Financial liabilities at fair value through profit or loss	-	-	43,548	-	-	-	-	-	43,548
Due to banks	529,655	299	301,900	25,879	4,834	-	-	-	862,567
Customer accounts	3,603,297	3,033,113	2,044,422	3,757,364	1,429,074	269,680	-	-	14,136,950
Debt securities issued	290,747	507,966	508,079	965,123	3,262,919	1,020	-	-	5,535,854
Total fixed interest bearing liabilities	4,423,699	3,541,378	2,897,949	4,748,366	4,696,827	301,700	-	-	20,609,919
Other borrowed funds	33,675	-	-	868,926	44,108	721,443	-	-	1,668,152
Subordinated debt	62,028	-	52,662	10,671	5,000	748,663	-	-	879,024
Total floating interest bearing liabilities	95,703	-	52,662	879,597	49,108	1,470,106	-	-	2,547,176
Total interest bearing liabilities	4,519,402	3,541,378	2,950,611	5,627,963	4,745,935	1,771,806	-	-	23,157,095
Due to banks	391,298	-	-	-	-	-	-	-	391,298
Customer accounts	6,738,289	-	-	-	-	-	-	-	6,738,289
Debt securities issued	98,160	-	-	-	-	112,511	-	-	210,671
Current income tax liabilities	-	68,293	-	-	-	-	-	-	68,293
Deferred income tax liabilities	-	188,418	-	-	-	-	-	-	188,418
Other liabilities	119,790	-	-	-	-	-	-	-	119,790
TOTAL LIABILITIES	11,866,939	3,798,089	2,950,611	5,627,963	4,745,935	1,884,317	-	-	30,873,854
Liquidity gap	373,064	3,022,539	(78,051)	(3,116,192)	264,425	2,254,170			
Interest sensitivity gap for fixed interest bearing assets and liabilities	369,532	3,237,977	(64,073)	(2,266,306)	27,402	3,836,787			
Interest sensitivity gap for floating interest bearing assets and liabilities	(95,703)	-	(52,662)	(879,597)	(49,108)	(1,470,106)			
Interest sensitivity gap	273,829	3,237,977	(116,735)	(3,145,903)	(21,706)	2,366,681			
Cumulative interest sensitivity gap	273,829	3,511,806	3,395,071	249,168	227,462	2,594,143			

The liquidity risk is analysed in table below as at 31 December 2006. This table represents the expected maturity for non-derivative financial assets based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	Over 3 years	Overdue	Maturity undefined	31 December 2006 Total (RUR '000)
Financial liabilities at fair value through profit or loss	-	-	43,548	-	-	-	-	-	43,548
Due to banks	924,519	305	314,093	27,998	6,022	-	-	-	1,272,937
Customer accounts	10,368,477	3,101,021	2,135,967	4,098,533	1,818,354	367,628	-	-	21,889,980
Debt securities issued	390,902	518,425	529,001	1,045,711	4,080,280	113,871	-	-	6,678,190
Other borrowed funds	33,675	-	-	917,700	46,458	900,565	-	-	1,898,398
Subordinated debt	62,028	-	55,079	13,115	5,814	1,323,257	-	-	1,459,293
Total	11,779,601	3,619,751	3,077,688	6,103,057	5,956,928	2,705,321	-	-	33,242,347

Market risk

Market risk includes interest rate risk, currency risk and other price risks facing the Bank. In 2007 the scope, assessment and management of those risks in the Group did not change.

The Group is exposed to interest rate change risk as the members of the Group receive loans at fixed and floating rates. The Group manages this risk by maintaining the balance between loans at fixed rates and loans at floating rates.

The ALMC also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Department of Financial Control conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate risk

The Group has interest rate risk primarily as a result of its activities of granting loans to customers and other banks at fixed interest rates in the amount and for the term, which differ from the amounts and terms of deposits and other borrowed funds with fixed interest rates. In practice, interest rates are generally established for a short-term (usually for the next three months). Also, the interest rates fixed in the contractual terms and conditions with regard to assets and liabilities are often revised based on mutual agreement between the parties in accordance with the effective market situation. Interest risk and liquidity risk are regulated based on the liquidity management. Interest rates are set on the basis of marketing analyses. Interest rates are approved by the Management Board.

The following table presents an analysis of interest rate risk and thus the potential of the Group for gain or loss. Current effective average interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	31 December 2007			31 December 2006		
	RUR	USD	Other currencies	RUR	USD	Other currencies
ASSETS:						
Financial assets at fair value through profit or loss	12.96%	3.00%	-	10.33%	3.00%	-
Due from banks:						
- time deposits	9.94%	4.76%	-	6.94%	4.60%	-
- demand deposits	3.00%	1.00%	-	3.00%	1.00%	-
Loans to customers	16.63%	13.83%	12.29%	14.98%	14.46%	12.36%
LIABILITIES:						
Due to banks	9.18%	8.46%	5.53%	8.39%	10.00%	6.75%
Customer accounts:						
- corporate	10.49%	8.25%	7.09%	7.77%	9.12%	7.01%
- individual	10.55%	9.50%	5.84%	10.86%	7.27%	7.02%
Debt securities issued:						
- loan participation notes	9.73%	8.81%	7.78%	8.32%	8.96%	7.40%
- bonds	8.69%	-	-	9.69%	-	-
- promissory notes	8.41%	9.81%	5.75%	9.29%	5.91%	8.65%
Other borrowed funds:						
- banks	-	7.72%	5.27%	-	8.29%	4.76%
- corporate	-	5.54%	5.74%	-	-	-
Subordinated debt	11.00%	11.22%	-	10.19%	11.44%	-

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on “reasonably possible changes in the risk variable”. The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

	31 December 2007 (RUR‘000)		31 December 2006 (RUR ‘000)	
	Interest rate +0.5 %	Interest rate -0.5 %	Interest rate +0.5 %	Interest rate -0.5 %
Assets:				
Financial assets at fair value through profit or loss	8,450	(8,450)	8,132	(8,132)
Due from banks	12,330	(12,330)	14,347	(14,347)
Loans to customers	183,638	(183,638)	109,043	(109,043)
Liabilities:				
Financial liabilities at fair value through profit or loss	(2,244)	2,244	(218)	218
Due to banks	(9,620)	9,620	(4,313)	4,313
Customer accounts	(101,256)	101,256	(70,685)	70,685
Debt securities issued	(59,475)	59,475	(27,679)	27,679
Other borrowed funds	(15,457)	15,457	(8,172)	8,172
Subordinated debt	(5,055)	5,055	(4,671)	4,671
Net effect on profit before tax	11,311	(11,311)	15,784	(15,784)

	31 December 2007 (RUR'000)		31 December 2006 (RUR '000)	
	Interest rate +0.5 %	Interest rate -0.5 %	Interest rate +0.5 %	Interest rate -0.5 %
Assets:				
Financial assets at fair value				
through profit or loss	6,143	(6,143)	5,912	(5,912)
Due from banks	8,964	(8,964)	10,430	(10,430)
Loans to customers	133,503	(133,503)	79,273	(79,273)
Liabilities:				
Financial liabilities at fair value				
through profit or loss	(1,631)	1,631	(158)	158
Due to banks	(6,993)	6,993	(3,135)	3,135
Customer accounts	(73,612)	73,612	(51,387)	51,387
Debt securities issued	(43,238)	43,238	(20,123)	20,123
Other borrowed funds	(11,237)	11,237	(5,941)	5,941
Subordinated debt	(3,675)	3,675	(3,396)	3,396
Net effect on equity	8,224	(8,224)	11,475	(11,475)

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Finance Committee controls currency risk by management of the open currency position on the estimated basis of RUR devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the CBR.

The Group's exposure to foreign currency exchange rate risk is presented in the tables below:

	RUR	USD USD 1 = RUR 24.5462	EUR EUR 1 = RUR 35.9332	Other currency	31 December 2007 Total (RUR '000)
ASSETS:					
Cash and balances with the Central Bank of the Russian Federation	8,255,066	330,434	202,454	829	8,788,783
Financial assets at fair value through profit or loss	1,003,480	1,276,852	-	-	2,280,332
Due from banks	1,233,691	2,728,008	274,847	4,012	4,240,558
Loans to customers	33,703,311	2,736,100	138,737	149,445	36,727,593
Goodwill	252,676	-	-	-	252,676
Property, plant and equipment and intangible assets	4,355,731	-	-	-	4,355,731
Current income tax assets	7,573	-	-	-	7,573
Other assets	343,923	18,493	1,488	31,162	395,066
TOTAL ASSETS	49,155,451	7,089,887	617,526	185,448	57,048,312
LIABILITIES:					
Due to banks	1,303,306	682,834	317,589	-	2,303,729
Financial liabilities at fair value through profit or loss	448,774	-	-	-	448,774
Customer accounts	23,699,663	3,538,004	1,874,389	10,380	29,122,436
Debt securities issued	5,890,825	6,672,393	294,214	-	12,857,432
Other borrowed funds	-	2,381,288	581,787	175,438	3,138,513
Current income tax liabilities	36,628	-	-	-	36,628
Deferred income tax liabilities	379,136	-	-	-	379,136
Other liabilities	508,253	13,798	126	-	522,177
Subordinated debt	473,697	524,523	-	-	998,220
TOTAL LIABILITIES	32,740,282	13,812,840	3,068,105	185,818	49,807,045
NET BALANCE SHEET POSITION	16,415,169	(6,722,953)	(2,450,579)	(370)	7,241,267

Derivative financial instruments and spot contracts

Fair values of derivative financial instruments and spot contracts are included in the currency analysis presented above. Analysis of the currency risk on derivative financial instruments and spot contracts is presented in the table below:

	RUR	USD USD 1 = RUR 24.5462	EUR EUR 1 = RUR 35.9332	Other currency	31 December 2007 Total (RUR '000)
Accounts receivable on swap and spot contracts	2,794,022	8,317,531	4,675,311	360,021	16,146,885
Accounts receivable on forward contracts	428,192	556,148	524,625	55,301	1,564,266
Accounts payable on swap and spot contracts	(6,991,461)	(6,662,523)	(2,277,801)	(215,100)	(16,146,885)
Accounts payable on forward contracts	(330,556)	(556,128)	(524,819)	(152,763)	(1,564,266)
NET SWAP, SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(4,099,803)	1,655,028	2,397,316	47,459	
TOTAL NET POSITION	12,315,366	(5,067,925)	(53,263)	47,089	

	RUR	USD USD 1 = RUR 26.3311	EUR EUR 1 = RUR 34.6965	Other currency	31 December 2006 Total (RUR '000)
ASSETS:					
Cash and balances with the Central Bank of the Russian Federation	5,216,442	328,835	122,162	653	5,668,092
Financial assets at fair value through profit or loss	1,360,097	1,249,937	-	-	2,610,034
Due from banks	1,777,018	2,001,478	175,491	16,833	3,970,820
Loans to customers	19,221,581	2,195,011	391,912	-	21,808,504
Goodwill	251,928	-	-	-	251,928
Property, plant and equipment and intangible assets	2,246,043	-	-	-	2,246,043
Current income tax assets	95,283	-	-	-	95,283
Other assets	413,066	9,220	7,276	8	429,570
TOTAL ASSETS	30,581,458	5,784,481	696,841	17,494	37,080,274
LIABILITIES:					
Due to banks	967,293	67,312	219,260	-	1,253,865
Financial liabilities at fair value through profit or loss	-	43,548	-	-	43,548
Customer accounts	17,710,316	2,065,165	1,070,103	29,655	20,875,239
Debt securities issued	2,771,958	1,883,429	1,091,138	-	5,746,525
Other borrowed funds	-	1,144,687	523,465	-	1,668,152
Current income tax liabilities	68,293	-	-	-	68,293
Deferred income tax liabilities	188,418	-	-	-	188,418
Other liabilities	115,947	3,826	17	-	119,790
Subordinated debt	280,577	629,447	-	-	910,024
TOTAL LIABILITIES	22,102,802	5,837,414	2,903,983	29,655	30,873,854
NET BALANCE SHEET POSITION	8,478,656	(52,933)	(2,207,142)	(12,161)	6,206,420

Fair values of derivative financial instruments and spot contracts are included in the currency analysis presented above. Analysis of the currency risk on derivative financial instruments and spot contracts is presented in the table below:

	RUR	USD USD 1 = RUR 26.3311	EUR EUR 1 = RUR 34.6965	Other currency	31 December 2006 Total (RUR '000)
Financial assets – settlement instruments (spot)	2,543,532	1,579,747	107,560	-	4,230,839
Financial assets – settlement instruments (futures)	-	3,080,739	-	-	3,080,739
Financial assets – settlement instruments (forward)	482,555	34,935	1,887,697	64,107	2,469,294
Financial liabilities – settlement instruments (spot)	(1,685,373)	(2,545,466)	-	-	(4,230,839)
Financial liabilities – settlement instruments (futures)	(3,080,739)	-	-	-	(3,080,739)
Financial liabilities – settlement instruments (forward)	(472,454)	(1,962,354)	(34,486)	-	(2,469,294)
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(2,212,479)	187,601	1,960,771	64,107	
TOTAL NET POSITION	6,266,177	134,668	(246,371)	51,946	

Analysis of sensitivity to currency risk

The table below details the Group's sensitivity to appreciation and depreciation of the US dollar against the Russian rouble. 10 kopecks is the sensitivity rate used when reporting foreign currency risk internally to key management personnel; it represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis only includes outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10 kopecks change in foreign currency rates.

	31 December 2007 (RUR '000)		31 December 2006 (RUR '000)	
	RUR/USD +10 kopecks	RUR/USD -10 kopecks	RUR/USD +10 kopecks	RUR/USD -10 kopecks
Impact on profit before tax	(20,528)	20,528	511	(511)
Impact on equity	(14,924)	14,924	372	(372)

	31 December 2007 (RUR '000)		31 December 2006 (RUR '000)	
	RUR/EUR +10 kopecks	RUR/EUR -10 kopecks	RUR/EUR +10 kopecks	RUR/EUR -10 kopecks
Impact on profit before tax	(146)	146	(710)	710
Impact on equity	(106)	106	(516)	516

Other price risks

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Securities price sensitivity analysis

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for investments in securities at the reporting date.

The results of the analysis of the sensitivity of the Group's profit before tax and equity for the year to changes in prices of securities on a simplified scenario of 1% symmetrical increase or decrease in all securities prices are given in the table below:

	31 December 2007 (RUR '000)		31 December 2006 (RUR '000)	
	1% increase in securities prices	1% decrease in securities prices	1% increase in securities prices	1% decrease in securities prices
Effect on profit before tax	17,730	(17,730)	22,529	(22,529)
Effect on equity	14,255	(14,255)	18,113	(18,113)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

The Group's sensitivity to shares prices has not changed significantly from the prior year.

PBB LPN ISSUANCE LIMITED
REPORT AND FINANCIAL STATEMENTS
31 December 2008

Κ. ΕΥΣΤΑΘΙΟΥ & ΣΙΑ ΛΤΔ
Εγκεκριμένοι Λογιστές

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PBB LPN ISSUANCE LIMITED

REPORT AND FINANCIAL STATEMENTS

31 December 2008

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PBB LPN ISSUANCE LIMITED

BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors:	Eleni P. Kinani
Company Secretary:	Zoulia Limited
Independent Auditors:	C. Efsthathiou & Co Ltd Certified Public Accountants (CY) 8 Kennedy Avenue Athienitis Building 2nd floor, Office 201 1087 Nicosia
Registered office:	Annis Komnini, 29A P.C. 1061, Nicosia, Cyprus
Banker:	Hellenic Bank Public Company Ltd
Registration number:	159439

PBB LPN ISSUANCE LIMITED

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors presents its report and audited financial statements of the Company for the year ended 31 December 2008.

Incorporation

The Company PBB LPN Issuance Limited was incorporated in Cyprus on 7 April, 2005 as a limited liability company under the provisions of the Cyprus Companies Law, Cap. 113, with registration number 159439.

Principal activity

The principal activity of the Company comprises the receiving and granting of loans

Review of current position, future developments and significant risks

The Company's development to date, financial results and position as presented in the financial statements are considered satisfactory.

The main risks and uncertainties faced by the Company and the steps taken to manage these risks, are described in note 3 of the financial statements.

Results and Dividends

The Company's results for the year are set out on page 5. The Board of Directors does not recommend the payment of a dividend and the net profit for the year is retained.

Share capital

Authorised capital

On 1 January, 2008 the authorised share capital of the Company amounting to CYP1000 divided into 1000 ordinary shares of CYP1 each, was converted into EUR1710 divided into 1000 ordinary shares of EUR1,71 each.

Issued capital

On 1 January, 2008 the issued share capital of the Company amounting to CYP1000 divided into 1000 ordinary shares of CYP1 each, was converted into EUR1710 divided into 1000 ordinary shares of EUR1,71 each.

Board of Directors:

The member of the Company's the Board of Directors as at 31 December 2008 and at the date of this report is presented on page 1. The sole director was a member of the Board throughout the year ended 31 December 2008

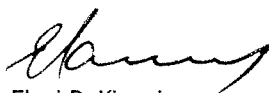
In accordance with the Company's Articles of Association the sole director presently member of the Board continues in office.

There were no significant changes in remuneration of the Board of Directors.

Independent Auditors

The independent auditors, C. Efstathiou & Co Ltd, have expressed their willingness to continue in office and 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 of Directors,



Eleni P. Kinani
Director

Nicosia, 12 January, 2010

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Fax: +357 22768195

C. Efstathiou & Co Ltd
Certified Public Accountants (Cy)

E-mail: costascy@spidernet.com.cy

Independent Auditors' Report

To the Members of PBB LPN Issuance Limited

Report on the Financial Statements

We have audited the financial statements of PBB LPN Issuance Limited (the "Company") on pages 5 to 15, which comprise the balance sheet as at 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report (continued)

To the Members of PBB LPN Issuance Limited

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of PBB LPN Issuance Limited as of 31 December 2008 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.

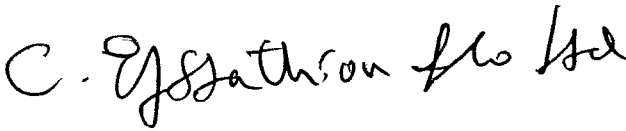
Report on Other Legal Requirements

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 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 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 on page 2 is consistent with the 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.



C. Efstathiou & Co Ltd
Certified Public Accountants (CY)

Nicosia, 12 January, 2010

PBB LPN ISSUANCE LIMITED

INCOME STATEMENT

Year ended 31 December 2008

	Note	2008 US\$	2007 US\$
Revenue	5	28,916,775	27,596,288
Cost of sales		(28,479,901)	(27,293,712)
Gross profit		436,874	302,576
Administration expenses		(403,740)	(342,700)
Operating profit / (loss)	6	33,134	(40,124)
Net finance income / (cost)	7	23,208	(2,209)
Profit/ (loss) before tax		56,342	(42,333)
Tax	8	(3,577)	-
Net profit / (loss) for the year		52,765	(42,333)

The notes on pages 9 to 15 form an integral part of these financial statements.

PBB LPN ISSUANCE LIMITED

BALANCE SHEET

31 December 2008

	Note	2008 US\$	2007 US\$
ASSETS			
Current assets			
Trade and other receivables	9	170.027.279	404.873.892
Cash at bank and in hand		135.322	7.360
		170.162.601	404.881.252
Total assets		170.162.601	404.881.252
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	10	2.510	2.196
Retained earnings / accumulated (losses)		48.616	(4.149)
Total equity		51.126	(1.953)
Current liabilities			
Trade and other payables	11	170.107.898	404.883.205
Current tax liabilities	12	3.577	-
		170.111.475	404.883.205
Total equity and liabilities		170.162.601	404.881.252

On 12 January, 2010 the Board of Directors of PBB LPN Issuance Limited authorised these financial statements for issue.



Eleni P. Kinani
Director

The notes on pages 9 to 15 form an integral part of these financial statements.

PBB LPN ISSUANCE LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Note	Share capital US\$	Retained earnings/ accumulated (losses) US\$	Total US\$
Balance - 1 January 2007		2.196	38.184	40.380
Net loss for the year		-	(42.333)	(42.333)
At 31 December 2007/ 1 January 2008		2.196	(4.149)	(1.953)
Net profit for the year		-	52.765	52.765
Foreign exchange difference on conversion of share capital	10	314	-	314
At 31 December 2008		2.510	48.616	51.126

Companies which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 15% will be payable on such deemed dividends to the extent that the shareholders (companies and individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Company for the account of the shareholders.

The notes on pages 9 to 15 form an integral part of these financial statements.

PBB LPN ISSUANCE LIMITED

CASH FLOW STATEMENT

Year ended 31 December 2008

	2008 US\$	2007 US\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/ (loss) before tax	56.342	(42.333)
Unrealised exchange (profit)	(23.820)	-
Foreign exchange difference on conversion of share capital	314	-
	32.836	(42.333)
Cash flows from / (used in) operations before working capital changes	32.836	(42.333)
Decrease / (increase) in trade and other receivables	234.846.613	(303.016.964)
(Decrease) / increase in trade and other payables	(234.775.307)	303.060.369
Cash flows from operations	104.142	1.072
Tax paid	-	(4.693)
Net cash flows from / (used in) operating activities	104.142	(3.621)
CASH FLOWS FROM INVESTING ACTIVITIES	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Unrealised exchange profit	23.820	-
Net cash flows from financing activities	23.820	-
Net increase / (decrease) in cash and cash equivalents	127.962	(3.621)
Cash and cash equivalents:		
At beginning of the year	7.360	10.981
At end of the year	135.322	7.360

The notes on pages 9 to 15 form an integral part of these financial statements.

PBB LPN ISSUANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

1. Incorporation and principal activities

Country of incorporation

The Company PBB LPN Issuance Limited (the "Company") was incorporated in Cyprus on 7 April, 2005 as a limited liability Company under the Cyprus Companies Law, Cap. 113. Its registered office is at Annis Komninis, 29A, P.C. 1061, Nicosia, Cyprus.

Principal activity

The principal activity of the Company comprises the receiving and granting of loans

2. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented in these financial statements unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113. The financial statements have been prepared under the historical cost convention

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the Company's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Adoption of new and revised IFRSs

During the current year the Company adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2008. This adoption did not have a material effect on the accounting policies of the Company.

At the date of approval of these financial statements, standards and interpretations were issued by the International Accounting Standards Board which were not yet effective. Some of them were adopted by the European Union and others not yet. The Board of Directors expects that the adoption of these accounting standards in future periods will not have a material effect on the financial statements of the Company except for the application of International Accounting Standard 1 (Revised) "Presentation of Financial Statements" which will have a material effect on the presentation of the financial statements and the application of IFRS 7 "(Amendments) - Financial Instruments: Disclosures: Improving disclosures about financial instruments" which will enhance disclosures about fair value measurements and liquidity risk.

Revenue recognition

Revenues earned by the Company are recognised on the following bases:

- **Rendering of services**

Sales of services are recognised in the accounting period in which the services are rendered 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.

PBB LPN ISSUANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

2. Accounting policies (continued)

Finance income

Finance income includes interest income which is recognised based on an accrual basis.

Finance costs

Interest expense and other borrowing costs are charged to the income statement as incurred.

Foreign currency translation

- (1) Functional and presentation currency
Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in United States Dollars (US\$), which is the Company's functional and presentation currency.
- (2) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Tax

Current tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

PBB LPN ISSUANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

2. Accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

Share capital

Ordinary shares are classified as equity.

3. Financial risk management

Financial risk factors

The Company is exposed to interest rate risk, credit risk, liquidity risk, currency risk and capital risk management arising from the financial instruments it holds. The risk management policies employed by the Company to manage these risks are discussed below:

3.1 Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company's income and operating cash flows are substantially independent of changes in market interest rates as the Company has no significant interest-bearing assets. The Company is exposed to interest rate risk in relation to its non-current borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

3.2 Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Company has no significant concentration of credit risk. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. Cash balances are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

PBB LPN ISSUANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

3. Financial risk management (continued)

3.3 Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

3.4 Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar and the Euro. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

3.5 Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from last year.

Fair value estimation

The fair values of the Company's financial assets and liabilities approximate their carrying amounts at the balance sheet date.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- **Provision for bad and doubtful debts**

The Company reviews its trade and other receivables for evidence of their recoverability. Such evidence includes the customer's payment record and the customer's overall financial position. If indications of irrecoverability exist, the recoverable amount is estimated and a respective provision for bad and doubtful debts is made. The amount of the provision is charged through the income statement. The review of credit risk is continuous and the methodology and assumptions used for estimating the provision are reviewed regularly and adjusted accordingly.

- **Income taxes**

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

PBB LPN ISSUANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

5. Revenue

	2008 US\$	2007 US\$
Arrangement fees	2,019,390	302,576
Interest received	<u>26,897,385</u>	<u>27,293,712</u>
	<u>28,916,775</u>	<u>27,596,288</u>

6. Operating profit / (loss)

	2008 US\$	2007 US\$
Operating profit / (loss) is stated after charging the following items:		
Auditors' remuneration	<u>8,460</u>	<u>7,650</u>

7. Finance income / cost

	2008 US\$	2007 US\$
Exchange profit	23,820	-
Finance income	<u>23,820</u>	<u>-</u>
Net foreign exchange transaction losses	(314)	(281)
Other finance expenses	<u>(298)</u>	<u>(1,928)</u>
Finance costs	<u>(612)</u>	<u>(2,209)</u>
Net finance income / (cost)	<u>23,208</u>	<u>(2,209)</u>

8. Tax

	2008 US\$	2007 US\$
Corporation tax - current year	3,577	-
Charge for the year	<u>3,577</u>	<u>-</u>

The corporation tax rate is 10%.

Under certain conditions interest income may be subject to defence contribution at the rate of 10%. In such cases 50% of the same interest will be exempt from corporation tax, thus having an effective tax rate burden of approximately 15%. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 15%.

9. Trade and other receivables

	2008 US\$	2007 US\$
Loans receivable	<u>170,027,279</u>	<u>404,873,892</u>
	<u>170,027,279</u>	<u>404,873,892</u>

The fair values of trade and other receivables due within one year approximate to their carrying amounts as presented above.

PBB LPN ISSUANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

10. Share capital

	2008 Number of shares	2008 US\$	2007 Number of shares	2007 US\$
Authorised				
Ordinary shares of EUR1,71 each	1.000	2.510	-	-
Ordinary shares of CYP 1 each	-	-	1.000	2.196
	<u>1.000</u>	<u>2.510</u>	<u>1.000</u>	<u>2.196</u>
Issued and fully paid				
On 1 January	1.000	2.196	1.000	2.196
Foreign exchange difference on conversion of share capital	-	314	-	-
At 31 December	<u>1.000</u>	<u>2.510</u>	<u>1.000</u>	<u>2.196</u>

Authorised capital

On 1 January, 2008 the authorised share capital of the Company amounting to CYP1000 divided into 1000 ordinary shares of CYP1 each, was converted into EUR1710 divided into 1000 ordinary shares of EUR1,71 each.

Issued capital

On 1 January, 2008 the issued share capital of the Company amounting to CYP1000 divided into 1000 ordinary shares of CYP1 each, was converted into EUR1710 divided into 1000 ordinary shares of EUR1,71 each.

11. Trade and other payables

	2008 US\$	2007 US\$
Loans payable	170.090.924	404.873.892
Other creditors	-	799
Shareholders' current accounts - credit balances	864	864
Accruals	16.110	7.650
	<u>170.107.898</u>	<u>404.883.205</u>

The fair values of trade and other payables due within one year approximate to their carrying amounts as presented above.

12. Current tax liabilities

	2008 US\$	2007 US\$
Corporation tax	3.577	-
	<u>3.577</u>	<u>-</u>

13. Contingent liabilities

The Company had no contingent liabilities as at 31 December 2008.

14. Commitments

The Company had no capital or other commitments as at 31 December 2008.

PBB LPN ISSUANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

15. Post balance sheet events

There were no material post balance sheet events, which have a bearing on the understanding of the financial statements.

Independent Auditors' Report pages 3 and 4

PBB LPN ISSUANCE LIMITED

DETAILED INCOME STATEMENT

Year ended 31 December 2008

	Page	2008 US\$	2007 US\$
Revenue			
Arrangement fees		2.019.390	302.576
Interest received		26.897.385	27.293.712
Cost of sales	17	<u>(28.479.901)</u>	<u>(27.293.712)</u>
Gross profit		436.874	302.576
Operating expenses			
Administration expenses	18	<u>(403.740)</u>	<u>(342.700)</u>
Operating profit/ (loss)		33.134	(40.124)
Finance income	19	23.820	-
Finance costs	19	<u>(612)</u>	<u>(2.209)</u>
Net profit/ (loss) for the year before tax		<u>56.342</u>	<u>(42.333)</u>

PBB LPN ISSUANCE LIMITED

COST OF SALES

Year ended 31 December 2008

	2008 US\$	2007 US\$
Cost of sales		
Direct costs		
Interest paid	26.897.385	27.293.712
Arrangement fee	<u>1.582.516</u>	<u>-</u>
	<u>28.479.901</u>	<u>27.293.712</u>

PBB LPN ISSUANCE LIMITED

OPERATING EXPENSES

Year ended 31 December 2008

	2008	2007
	US\$	US\$
Administration expenses		
Sundry expenses	-	490
Courier expenses	-	718
Auditors' remuneration	8.460	7.650
Secretarial services	18.135	4.214
Professional and legal fees	377.145	329.628
	403.740	342.700

PBB LPN ISSUANCE LIMITED

FINANCE INCOME / COST

Year ended 31 December 2008

	2008 US\$	2007 US\$
Finance income		
Unrealised exchange profit	<u>23.820</u>	<u>-</u>
	23.820	-
 Finance costs		
Other finance expenses		
Bank charges	298	1.928
 Net foreign exchange transaction losses		
Realised exchange loss	<u>314</u>	<u>281</u>
	612	2.209

PBB LPN ISSUANCE LIMITED

COMPUTATION OF CORPORATION TAX

Year ended 31 December 2008

Net profit per detailed income statement	Page 16	US\$	US\$ 56.342
<u>Less:</u>			
Unrealised exchange profit		<u>23.820</u>	<u>(23.820)</u>
Chargeable income for the year			<u><u>32.522</u></u>
Converted into € at US\$ 1,410000 = €1			€ <u>23.065</u>
<u>Calculation of corporation tax</u>	Income €	Rate %	Total € c Total US\$
Tax at normal rates:			
Chargeable income as above	<u>23.065</u>	10	2.306,50 3.252
10% penalty			<u>230,65</u> 325
TAX PAYABLE			<u><u>2.537,15</u></u> <u><u>3.577</u></u>

PBB LPN ISSUANCE LIMITED
REPORT AND FINANCIAL STATEMENTS
31 December 2007

Κ. ΕΥΣΤΑΘΙΟΥ & ΣΙΑ
Εγκεκριμένοι Λογιστές

Λεωφ. Κέννεντυ 8
Γραφείο 201
Τ.Κ. 20542, 1660 Λευκωσία
Τηλ. 22-768822
Φαξ: 22-768195

C. EFSTATHIOU & CO
Certified Public Accountants (Cy)

8 Kennedy Ave.,
Office 201
P.O. Box 20542, 1660 Nicosia
Tel.: 22-768822
Fax: 22-768195

PBB LPN ISSUANCE LIMITED

REPORT AND FINANCIAL STATEMENTS

31 December 2007

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PBB LPN ISSUANCE LIMITED

BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors:	Eleni P. Kinani
Company Secretary:	Zoulia Limited
Registered Office:	Annis Komnini, 29A P.C. 1061, Nicosia, Cyprus
Registration number:	159439

PBB LPN ISSUANCE LIMITED

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors presents its report and audited financial statements of the Company for the year ended 31 December 2007.

Incorporation

The Company PBB LPN Issuance Limited was incorporated in Cyprus on 7 April 2005 as a private company with limited liability under the Companies Law, Cap. 113, with registration number 159439.

Principal activity

The principal activity of the Company comprises the receiving and granting of loans.

Review of current position, future developments and significant risks

The Company's development to date, financial results and position as presented in the financial statements are considered satisfactory.

The most significant risks faced by the Company and the steps taken to manage these risks, are described in note 3 of the financial statements.

Results

The Company's results for the year are set out on page 5. The net loss for the year is carried forward.

Share capital

There were no changes in the share capital of the Company during the year.

Board of Directors

The members of the Board of Directors of the Company as at 31 December 2007 and at the date of this report are shown on page 1. The sole director was a member of the board throughout the year ended 31 December 2007.

In accordance with the Company's Articles of Association all directors presently members of the Board continue in office.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Post balance sheet events

There were no material post balance sheet events, which have a bearing on the understanding of the financial statements.

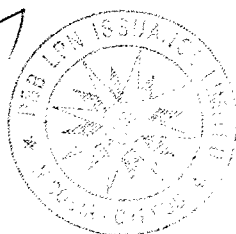
Independent Auditors

The independent auditors, C.Efstathiou & Co, have expressed their willingness to continue in office and 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 of Directors,


Eleni P. Kinani
Director

Nicosia, 23 May 2008



Independent Auditors' Report

To the Members of PBB LPN Issuance Limited

Report on the Financial Statements

We have audited the financial statements of PBB LPN Issuance Limited (the "Company") on pages 5 to 15, which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

C. Efstathiou F.C.C.A., A. E. Demetriou F.C.A.

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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF
PBB LPN ISSUANCE LTD

Report on the Financial Statements

We have audited the financial statements of PBB LPN Issuance Ltd on pages 5 to 17, which comprise the balance sheet as at 31 December 2007, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and International Financial Reporting Standards as issued by the International Accounting Standards Boards (IASB) 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of PBB LPN Issuance Ltd as of 31 December 2007, 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 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 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 on page 2 is consistent with the 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.



CERTIFIED PUBLIC ACCOUNTANTS (CY)

Nicosia
23 May, 2008

PBB LPN ISSUANCE LIMITED

INCOME STATEMENT

Year ended 31 December 2007

	Note	2007 US\$	2006 US\$
Revenue	5	27.596.288	4.682.255
Cost of sales		(27.293.712)	(4.306.605)
Gross profit		302.576	375.650
Administration expenses		(342.700)	(330.503)
Operating (loss) / profit	6	(40.124)	45.147
Net finance costs	7	(2.209)	(208)
(Loss)/ profit before tax		(42.333)	44.939
Tax	8	-	(4.693)
Net (loss) / profit for the year		(42.333)	40.246

The notes on pages 9 to 15 form an integral part of these financial statements.

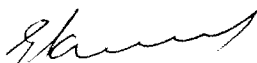
PBB LPN ISSUANCE LIMITED

BALANCE SHEET

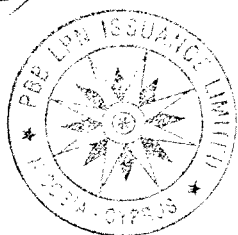
31 December 2007

	Note	2007 US\$	2006 US\$
ASSETS			
Current assets			
Trade and other receivables	9	404.873.892	101.856.928
Cash at bank and in hand		7.360	10.981
Total assets		<u>404.881.252</u>	<u>101.867.909</u>
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	10	2.196	2.196
Accumulated (losses) / retained earnings		(4.149)	38.184
		(1.953)	40.380
Current liabilities			
Trade and other payables	11	404.883.205	101.822.836
Current tax liabilities	12	-	4.693
		404.883.205	101.827.529
Total equity and liabilities		<u>404.881.252</u>	<u>101.867.909</u>

On 23 May 2008 the Board of Directors of PBB LPN Issuance Limited authorised these financial statements for issue.



Eleni P. Kinani
Director



The notes on pages 9 to 15 form an integral part of these financial statements.

PBB LPN ISSUANCE LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Share capital US\$	Accumulated (losses)/ retained earnings US\$	Total US\$
Balance - 1 January 2006	2.196	(2.062)	134
Net profit for the year	-	40.246	40.246
At 31 December 2006/ 1 January 2007	2.196	38.184	40.380
Net loss for the year	-	(42.333)	(42.333)
At 31 December 2007	2.196	(4.149)	(1.953)

Companies which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 15% will be payable on such deemed dividends to the extent that the shareholders (companies and individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable for the account of the shareholders.

The notes on pages 9 to 15 form an integral part of these financial statements.

PBB LPN ISSUANCE LIMITED

CASH FLOW STATEMENT

Year ended 31 December 2007

	2007 US\$	2006 US\$
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/ profit before tax	<u>(42.333)</u>	<u>44.939</u>
Cash flows (used in) / from operations before working capital changes	(42.333)	44.939
Increase in trade and other receivables	(303.016.964)	(79.220.897)
Increase in trade and other payables	<u>303.060.369</u>	<u>79.186.522</u>
Cash flows from operations	1.072	10.564
Tax paid	<u>(4.693)</u>	-
Net cash (used in) / from operating activities	<u>(3.621)</u>	<u>10.564</u>
CASH FLOWS FROM INVESTING ACTIVITIES	<u>-</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
Net (decrease) / increase in cash and cash equivalents	(3.621)	10.564
Cash and cash equivalents:		
At beginning of the year	<u>10.981</u>	<u>417</u>
At end of the year	<u>7.360</u>	<u>10.981</u>

The notes on pages 9 to 15 form an integral part of these financial statements.

PBB LPN ISSUANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

1. Incorporation and principal activities

Country of incorporation

The Company PBB LPN Issuance Limited (the "Company") was incorporated in Cyprus on 7 April 2005 as a private company with limited liability under the Companies Law, Cap. 113. Its registered office is at Annis Komninis, 29A, P.C. 1061, Nicosia, Cyprus.

Principal activity

The principal activity of the Company comprises the receiving and granting of loans.

2. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented in these financial statements unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the Company's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Adoption of new and revised IFRSs

During the current year the Company adopted all the new and revised IFRSs and International Accounting Standards (IAS), which are relevant to its operations and are effective for accounting periods commencing on 1 January 2007.

The adoption of these Standards did not have a material effect on the financial statements.

At the date of authorisation of these financial statements some Standards were in issue but not yet effective. The Board of Directors expects that the adoption of these Standards in future periods will not have a material effect on the financial statements of the Company.

Revenue recognition

Revenues earned by the Company are recognised on the following bases:

- **Rendering of services**

Sales of services are recognised in the accounting period in which the services are rendered 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.

- **Commission income**

Commission income is recognised when the right to receive payment is established.

PBB LPN ISSUANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

2. Accounting policies (continued)

Revenue recognition (continued)

- **Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method.

- **Dividend income**

Dividend income is recognised when the right to receive payment is established.

Finance income

Finance income includes interest income which is recognised based on an accrual basis.

Finance costs

Interest expense and other borrowing costs are charged to the income statement as incurred.

Foreign currencies

The financial statements are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

The assets and liabilities of the Company's foreign operations (including comparatives) are expressed in Currency Units using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Company's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Taxation

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

PBB LPN ISSUANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

2. Accounting policies (continued)

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Loans granted

Loans originated by the Company by providing money directly to the borrower are categorised as loans and are carried at amortised cost. This is defined as the fair value of cash consideration given to originate those loans as is determined by reference to market prices at origination date. All loans are recognised when cash is advanced to the borrower.

An allowance for loan impairment is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand.

Borrowings

Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Share capital

Ordinary shares are classified as equity.

Non-current liabilities

Non-current liabilities represent amounts that are due more than twelve months from the balance sheet date.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

3. Financial risk management

Financial risk factors

The Company is exposed to interest rate risk, credit risk, liquidity risk, currency risk and capital risk management arising from the financial instruments it holds. The risk management policies employed by the Company to manage these risks are discussed below:

PBB LPN ISSUANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

3. Financial risk management (continued)

(1.1) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company's income and operating cash flows are substantially independent of changes in market interest rates as the Company has no significant interest-bearing assets. The Company is exposed to interest rate risk in relation to its non-current borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

(1.2) Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Company has no significant concentration of credit risk. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. Cash balances are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

(1.3) Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

(1.4) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency. The Company is exposed to foreign exchange risk arising from various currency exposures. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

(1.5) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from last year.

(2) Fair value estimation

The fair values of the Company's financial assets and liabilities approximate their carrying amounts at the balance sheet date.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

PBB LPN ISSUANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

4. Critical accounting estimates and judgements (continued)

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- **Income taxes**

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. Revenue

	2007 US\$	2006 US\$
Arrangement fees	302,576	375,650
Interest received	27,293,712	4,306,605
	<u>27,596,288</u>	<u>4,682,255</u>

6. Operating (loss) / profit

	2007 US\$	2006 US\$
Operating (loss) / profit is stated after charging the following items:		
Auditors' remuneration	<u>7,650</u>	<u>5,716</u>

7. Finance costs

	2007 US\$	2006 US\$
Net foreign exchange transaction losses	281	-
Other finance expenses	<u>1,928</u>	<u>208</u>
	<u>2,209</u>	<u>208</u>

8. Tax

	2007 US\$	2006 US\$
Corporation tax - current year	-	4,693
Charge for the year	<u>-</u>	<u>4,693</u>

The Company's taxable profits are subject to Cyprus Corporation Tax at the prevailing rate of 10%.

Under certain conditions interest may be subject to defence contribution at the rate of 10%. In such cases 50% of the same interest will be exempt from corporation tax, thus having an effective tax rate burden of approximately 15%. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 15%.

PBB LPN ISSUANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

9. Trade and other receivables

	2007 US\$	2006 US\$
Loans receivable	404.873.892	101.580.678
Trade receivables	-	276.250
	<u>404.873.892</u>	<u>101.856.928</u>

The fair values of trade and other receivables due within one year approximate to their carrying amounts as presented above.

10. Share capital

	2007 Number of shares	2007 US\$	2006 Number of shares	2006 US\$
Authorised				
Ordinary shares of CY£1 each	<u>1.000</u>	<u>2.196</u>	<u>1.000</u>	<u>2.196</u>
Issued and fully paid				
On 1 January	<u>1.000</u>	<u>2.196</u>	<u>1.000</u>	<u>2.196</u>
At 31 December	<u>1.000</u>	<u>2.196</u>	<u>1.000</u>	<u>2.196</u>

11. Trade and other payables

	2007 US\$	2006 US\$
Loans payable	404.873.892	101.580.678
Other creditors	799	235.579
Shareholders' current accounts - credit balances	864	864
Accruals	7.650	5.715
	<u>404.883.205</u>	<u>101.822.836</u>

The fair values of trade and other payables due within one year approximate to their carrying amounts as presented above.

12. Current tax liabilities

	2007 US\$	2006 US\$
Corporation tax	-	4.693
	<u>-</u>	<u>4.693</u>

13. Commitments

The Company had no capital or other commitments as at 31 December 2007.

PBB LPN ISSUANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

14. Post balance sheet events

There were no material post balance sheet events, which have a bearing on the understanding of the financial statements.

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PBB LPN ISSUANCE LIMITED

DETAILED INCOME STATEMENT

Year ended 31 December 2007

	Page	2007 US\$	2006 US\$
Revenue			
Arrangement fees		302.576	375.650
Interest received		27.293.712	4.306.605
Cost of sales	17	(27.293.712)	(4.306.605)
Gross profit		302.576	375.650
Operating expenses			
Administration expenses	18	(342.700)	(330.503)
Operating (loss)/ profit		(40.124)	45.147
Finance costs	19	(2.209)	(208)
Net (loss)/ profit for the year before tax		(42.333)	44.939

PBB LPN ISSUANCE LIMITED

COST OF SALES

Year ended 31 December 2007

	2007 US\$	2006 US\$
Cost of sales		
Direct costs		
Interest paid	<u>27.293.712</u>	<u>4.306.605</u>
	<u>27.293.712</u>	<u>4.306.605</u>

PBB LPN ISSUANCE LIMITED

OPERATING EXPENSES

Year ended 31 December 2007

	2007 US\$	2006 US\$
Administration expenses		
Sundry expenses	490	-
Courier expenses	718	-
Auditors' remuneration	7.650	5.716
Secretarial Services	4.214	-
Professional and legal fees	329.628	324.787
	342.700	330.503

PBB LPN ISSUANCE LIMITED

FINANCE COSTS

Year ended 31 December 2007

	2007 US\$	2006 US\$
Finance costs		
Other finance expenses		
Bank charges	1.928	208
Net foreign exchange transaction losses		
Realised exchange loss	281	-
	<u>2.209</u>	<u>208</u>

PBB LPN ISSUANCE LIMITED

COMPUTATION OF CORPORATION TAX

Year ended 31 December 2007

Net loss per detailed income statement	Page	US\$
Net (loss) for the year	16	(42.333)
		<u>(42.333)</u>
Converted into CY£ at US\$ 2,5200 = CY£1		CY£
		<u>(16.799)</u>

OVERVIEW OF THE BANKING SECTOR AND BANKING REGULATION IN RUSSIA

Infrastructure

The current institutional framework of the Russian banking sector consists of the CBR, Russian credit organisations and branches and representative offices of foreign credit organisations.

History and development of the Russian banking sector

Under the Soviet regime, Gosbank allocated resources from the government's budget according to the prevailing economic plan and the state-owned Sberbank of the USSR offered retail banking services. In 1987, with the liberalisation of government controls over companies and interbank settlements, a small group of dependent specialised banks developed to attract savings deposits and finance foreign trade, construction, industry, agriculture and small enterprises.

During the second phase of reform from 1988 to 1989, many regional commercial banks emerged (primarily in the form of co-operatives or joint stock companies). Immediately prior to the collapse of the Soviet Union in December 1991, the CBR assumed all of Gosbank's functions and the government liquidated Gosbank. In 1991, three of the specialised state banks transformed into joint stock companies. Some regional branches of the banks became independent from head offices through management buy-outs.

Until the mid-1990s, the number of commercial banks in the Russian Federation was increasing (from approximately 358 in 1990 to 2,538 in 1996). Very few of these entities enjoyed sufficient economies of scale to be viable as stand alone entities and most were dependent on support from their shareholders. The reluctance of Russian corporations to outsource their banking services was, and continues to be, one of the reasons for the industry's fragmented nature. Many Russian banks remain poorly managed, with inadequate or non-existent risk management systems. Corporate governance in the sector is weak, with creditor abuse still rife. Financial disclosure is poor and ownership structures lack transparency.

The weakness of the Russian banking system was exposed in 1998 during the Russian financial market crisis brought about by the Russian Government's default on much of its short-term domestic debt.

Many banks went bankrupt or were placed under the administration of the ARCO, a state corporation established in 1999 to restructure defaulting banks and protect their creditors. During 2002, some banks underwent administration by ARCO and completed the financial restructuring process, while other defaulting banks were liquidated. Following the stabilisation of the banking sector, ARCO's role has decreased substantially. Pursuant to Federal Law No. 87-FZ of 28 July 2004, ARCO was liquidated.

During the period 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 the circulation of various market rumours and, in some cases, certain regulatory and liquidity problems, several Russian privately-owned banks collapsed or ceased or significantly limited their operations. A number of Russian banks were experiencing liquidity problems and were unable to attract funds on the interbank market or from their clients or shareholders. Simultaneously, they faced large withdrawals of deposits by both retail and corporate clients. According to the CBR, from 15 June until 1 August 2004, private depositors withdrew approximately RUB 30 billion from Russian banks, except for Sberbank.

The CBR took steps to combat the crisis. The rate of mandatory reserves that banks were required to deposit with the CBR was temporarily reduced from 7.0 per cent. to 3.5 per cent. To implement these measures, the CBR permitted banks to immediately reduce their mandatory reserves. Accordingly, banks' borrowing costs have been reduced. In addition, legislation has been passed to mitigate the effects of the crisis and to minimise potential losses of private depositors. In accordance with 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**”), the CBR will make payments to the private depositors of insolvent Russian banks if such banks have not been admitted to the system of the insurance of private deposits prior to their bankruptcy.

The disruptions in the global markets experienced since the second half of 2008 and the global financial crisis have had a severe impact on liquidity, as well as the availability of credit and the terms and cost of funding in Russia. Aside from the measures taken internationally to seek to restore confidence in the global capital markets, the Russian Federation enacted a number of measures to support the liquidity of the Russian banking sector. The Russian Government has agreed to, inter alia, provide up to RUB 910 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.

Measures to support the liquidity of the Russian banking system

On 3 October 2008, in addition to the assets previously accepted by the CBR as security (such as promissory notes or receivables), the CBR expanded the list of Bonds, eligible to be provided as security for its loans, to include bonds meeting the following criteria established by the CBR:

- (a) the relevant issue of bonds is included in a list of specific types of bonds (published in “**Vestnik of the CBR**”), which can be accepted by the CBR as security in accordance with the decisions of the CBR’s board of directors;
- (b) the bonds are registered on the securities (depo) account opened with a depository;
- (c) the bonds are owned by the borrowing bank, and are not charged under any other obligations of the bank and there are no disputes and/or claims in respect of the bonds;
- (d) the bonds have to be repaid not earlier than six days after the repayment date under the CBR loan; and
- (e) the borrowing bank is not the issuer of the bonds to be provided as security.

On 1 December 2008, the CBR reduced the rating requirements for banks eligible to be compensated for their inter-bank lending losses to BB-/Ba3.

The CBR also holds regular repo auctions.

Following a number of reductions between 14 May 2009 and 30 April 2010 from 12 per cent. to 8.0 per cent., the CBR continued to reduce its refinancing rate. With effect from 1 June 2010, the CBR reported that it decreased its refinancing rate from 8.0 per cent. to record low of 7.75 per cent. This decrease is intended to overcome the deficit of liquidity.

On 1 June 2010, the CBR fixed the interest rate on collateral loans with a term of one day, seven days and thirty days at 6.75 per cent. per annum; and the interest rates on loans from the CBR secured by the pledge of promissory notes, receivables or suretyships provided by credit organisations as follows: 6.75 per cent. per annum for loans with a term of up to 90 calendar days; 7.25 per cent. per annum for loans with a term of 91 to 180 calendar days; and 7.75 per cent. per annum for loans with a term of 181 to 365 days.

During 2009, the CBR gradually increased mandatory reserve requirements for Russian banks. With effect from 1 August 2009, the CBR increased its reserve requirements as follows: on liabilities to individuals (in Roubles) from 2.0 per cent. to 2.5 per cent.; on credit institutions’ liabilities to non-resident banks (in Roubles and foreign currency) from 2.0 per cent. to 2.5 per cent.; and on credit institutions’ other liabilities (in Roubles and foreign currency) from 2.0 per cent. to 2.5 per cent. (the CBR re-established these requirements with effect from 1 November

2009). The reserve requirements were increased to maintain liquidity in the banking system and to urge banks to increase required reserves, which had been lowered as part of earlier anti-crisis measures.

With effect from 14 October 2008, the Russian Government also increased the maximum deposit guarantee for individuals under the Mandatory Deposit Insurance System from RUB 400,000 to RUB 700,000.

The Russian Federation has recently adopted a set of federal laws and subordinate legislation to support the liquidity of the Russian banking sector, restore investor confidence and support the medium term economic growth of the Russian economy by facilitating credit across the Russian banking sector.

The Federal Law No. 173-FZ “On the Additional Measures to Support the Financial System of the Russian Federation” dated 13 October 2008, as amended, (“**Rescue Measures Law**”) introduces the framework principles to support the financial system of Russian Federation and provides for the specific measures and actions to be taken by the CBR and Vnesheconombank.

Under the Rescue Measures Law, the CBR and Vnesheconombank may issue up to RUB 910 billion in subordinated loans to state-owned and private banks provided that certain financial and rating criteria are met. Under the Rescue Measures Law, in 2008, Sberbank, Russian Agricultural Bank and VTB received RUB 500 billion, RUB 25 billion and RUB 200 billion, respectively, in unsecured subordinated loans.

Furthermore, under the Rescue Measures Law, the CBR is authorised to enter into agreements with privately-owned banks to partially compensate such banks for the losses suffered from 14 October 2008 until 31 December 2010 as the result of operations with banks whose licences are revoked. Vnesheconombank had the right, until 31 December 2009, to issue foreign currency loans up to USD 50 billion to Russian legal entities to repay and/or refinance the loans received from foreign lenders prior to 25 September 2008.

Federal Law No. 317-FZ “On Amending Articles 46 and 76 of 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 state support, including subordinated loans pursuant to the provisions of 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 issues including the disbursement of loans to third parties.

The 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.

Federal Law No. 175-FZ “On the Additional Measures for Strengthening Stability of the Banking System for the Period up to 31 December 2011” dated 27 October 2008, as amended, (the “**Banking System Stability Law**”) came into effect on 28 October 2008. The Banking System Stability Law envisages that the Deposit Insurance Agency (the “**DIA**”) will assist the 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 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 DIA (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 DIA;
- 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 DIA 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 DIA. Based on the results of the analysis the DIA will develop a rehabilitation plan for that credit organisation subject to further approval by the CBR.

According to the DIA website, as at 4 October 2010 the CBR and the DIA have launched rehabilitation measures in respect of 18 credit organisations.

The CBR Regulation No. 323-P “On Provision of Unsecured Loans to Russian Credit Institutions by the Bank of Russia” dated 16 October 2008 has introduced the procedure and criteria for issuing unsecured loans by the CBR.

Government Decree No. 18 “On the Procedure of National Welfare Fund Assets Management” dated 19 January 2008 was amended on 15 October 2008 by increasing 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, according to the above Decree, up to RUB 655 billion of such funds may be deposited in Vnesheconombank to support the Russian financial markets.

Statistical information on the Russian banking sector

As at 1 September 2010, the number of credit organisations operating in the Russian Federation was 1,158 compared to 1,178 as of 1 January 2010.

According to the CBR, as at 1 September 2010, the total assets of the Russian banking sector were valued at approximately RUB 30,954 billion. The total own capital of Russian credit organisations was RUB 4,585 billion as at 1 September 2010.

The main source of growth of the banks’ financial resources is the increasing number of retail deposits. As at 1 September 2010, the amount of credit balances on Rouble and foreign currency accounts of individuals increased to approximately RUB 8,722 billion as compared to RUB 7,485 billion as at 1 January 2010. The second source of growth of financial resources is credit balances on accounts of corporate clients. The remaining sources of growth of the banking sector’s resource base are increasing volumes of issue of debt securities (primarily promissory notes) and interbank credit operations, amounting to RUB 5,183.2 billion and RUB 3,265.0 billion, respectively, as at 1 September 2010, as compared to RUB 4,075.4 billion and RUB 3,117.3 billion, respectively, as at 1 January 2010.

As at 1 September 2010, of the Russian banking sector's total assets, 67.0 per cent. were represented by account receivables under loan operations, 18.0 per cent. were represented by investments in securities, 4.0 per cent. and 2.1 per cent. were represented by balances on accounts with the CBR and correspondent banks, respectively, and 3.4 per cent. were represented by other assets. Although the volume and amount of loan operations is increasing, Russian banks are focused mainly on short-term financing due to the insufficient creditworthiness and transparency of Russian entities. That, in turn, broadens the practice of tied loans and financing of affiliated parties.

Banking industry sector

The Russian banking sector is characterised by a high level of concentration of capital. As at 1 September 2010, approximately 47.8 per cent. of the banking sector's total assets were held by five of the largest Russian banks. Sberbank remains the largest bank in Russia in terms of assets, volume of banking operations, client base and the number of branch offices.

State-owned banks continue to play a vital role in the development of the Russian banking sector. State owned banks offering retail banking services include Sberbank and VTB Group. Other state-owned banks focus primarily on operations with budgetary funds and participate in the realisation of governmental programmes (e.g., Russian Agricultural Bank, Roseximbank (Russian Export Import Bank)).

Although it is not possible for foreign banks to directly conduct business on the Russian financial market, many major foreign banks have subsidiary banks in the Russian Federation. The aggregate level of participation of foreign capital within the Russian banking system is supposed to be determined by federal law as proposed by the Russian Government in conjunction with the CBR. At the moment, however, such law has not yet been adopted. As at 1 September 2010, 25 banks controlled by foreign groups through the holding of more than 50 per cent. of their shares were operating in the Russian Federation. Although certain foreign-controlled banks focus primarily on cash and settlement services to non-residents and interbank operations, many foreign owned banks, such as Raiffeisenbank, Citibank, Bank Société Générale Vostok and Delta Bank, offer full scope services to their Russian customers, including retail deposits and loans to retail customers.

Retail banking

Sberbank and, to a lesser extent, VTB 24 (formerly Guta bank, which was purchased and renamed by VTB) are the leaders in retail banking operations. The collapse of large privately-owned banks with large distribution networks, such as SBS Agro, Incombank and Rosyysky Kredit in 1998, considerably undermined the credibility of private consumer banking among retail depositors. 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.

Role of the CBR

The CBR is in many respects the successor to Gosbank, the former state bank of the Soviet Union, and operates under the CBR Law.

According to the CBR Law, neither the state nor the CBR is liable for the other's obligations, unless they have accepted such liability under an agreement or such liability is imposed by Russian legislation. The assets of the CBR are under federal ownership. According to the latest available data, as at 1 September 2010, total CBR assets amounted to RUB 17,663.8 billion (approximately USD 564,498 million at the then-current exchange rate) and its gold and currency reserves as at 1 September 2010 (held together with the Ministry of Finance) amounted to USD 476,266.0 billion.

The CBR is legally and financially independent of the Russian Government. The management of the CBR consists of the Chairman, the Board of Directors and the National Banking Council, a

body executing primarily supervisory functions (e.g., determining the CBR's maximum capital expenditures, allocation of CBR's profits, appointment of the CBR's auditors and approval of the CBR's accounting rules and procedures). The Chairman of the CBR is appointed for a four year term by the State Duma of the Russian Federation (lower chamber of the Russian Parliament) upon nomination by the President of the Russian Federation. The same procedure applies to the Chairman's removal. The Chairman of the CBR participates in meetings of the Russian Government. Of the 12 members of the National Banking Council, the Federation Council (upper chamber of the Russian Parliament) appoints two from among its members, the State Duma appoints three from among its members, the President of the Russian Federation and the Russian Government each appoint three members. The Chairman of the CBR is ex officio member of the National Banking Council.

Pursuant to the Banking Law and Federal Law No. 173-FZ "On Currency Regulation and Currency Control" dated 10 December 2003, as amended (the "**Currency Law**"), the CBR is authorised to issue and implement binding regulations with respect to banking and currency operations.

Under current legislation, the CBR performs the following main functions:

Issue of currency and regulation of its circulation

The CBR has 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.

Financing/monetary policy

The CBR may assist in the re-financing of banks by extending short-term loans at discount rates to private banks. The CBR also establishes reserve and capital adequacy and various ratio requirements for banks. The CBR implements monetary policy by determining refinance interest rates, conducting currency interventions and issuing securities.

Registration and licensing

The CBR registers commercial banks and grants licenses for performance of banking activity. The CBR may suspend or revoke banking licences. In addition, the CBR registers share and bond issues by Russian banks.

Supervision and control

The CBR oversees banks' compliance with financial 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 administrators of banks, regulates the acquisition and/or trust management of shareholding in banks (for stakes of between one per cent. and 20 per cent. the CBR requires notification; in respect of stakes that exceed 20 per cent., prior CBR approval of the transaction must be obtained) and assesses the financial standing of banks and their owners.

Transactions with banks

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 and securities issued by the CBR, bullion and precious stones;
- purchases and sells foreign currency and foreign currency denominated payment documents issued by Russian and foreign banks; and
- registers securities issued by banks.

Save for limited instances set out in the CBR Law, the CBR is prohibited from holding shares in banks and other commercial entities.

Federal budget administration and domestic government debt service

The CBR acts as placement and service agent for 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 is prohibited, unless the federal budget expressly authorises it to do so, extend loans to the Russian Government to finance Russian Government budget deficits.

Exchange control

In accordance with new currency legislation, the CBR, as one of the currency control bodies of the Russian Federation, has retained some powers with respect to regulation of foreign currency operations.

Regulation of the Russian banking sector

Banking activity in the Russian Federation is broadly governed by the CBR Law, the Banking Law, various CBR regulations and, to a limited extent, by the Currency Law. While the CBR is the primary regulator of the banking sector, other state authorities also have regulatory and supervisory responsibilities in respect of banks. The FSFM issues licences to banks to act as professional participants on the Russian securities market (e.g., brokerage/dealer and custody activities). Tax authorities supervise tax assessments of banks. The Federal Anti-Monopoly Service controls mergers and acquisitions of stakes in excess of 25 per cent. of the total voting shares in credit organisations established in the form of joint stock companies and shareholdings representing one third or more of the charter capital of credit organisations established in the form of limited liability companies.

The Association of Russian Banks, comprising, as at 4 October 2010, 714 members (of which 541 are credit institutions), was established pursuant to the provisions of the Banking Law as a non-commercial self-regulatory organisation. It offers various forms of technical support to its members and lobbies on behalf of the banks in all political branches of the Russian Government.

Federal Law No. 57-FZ “On the Procedure for Making Foreign Investments in Business Entities of Strategic Importance for the National Defense and Security of the Russian Federation,” dated 29 April 2008 (the “**Strategic Investments Law**”) imposes certain restrictions on direct and indirect foreign equity investments in business entities registered in Russia and carrying out activities of strategic importance to the national defense and security (“**Strategic Companies**”) (the Strategic Investments Law currently lists 42 such strategically important activities).

A credit organisation would be deemed a Strategic Company if it is engaged in any of the following activities (in accordance with the respective licence): (i) development and production of means of encryption and IT systems protected by way of usage of encryption data systems; (ii) activities involving distribution of means of encryption; (iii) activities involving maintenance of the means of encryption; or (iv) rendering services in the field of information encryption.

Pursuant to the Strategic Investments Law, a transaction entered into by a foreign investor that results in the acquisition of “control” (or blocking power) over a Strategic Company is subject to a consent (prior/retroactive) of the Governmental Commission for Control over Foreign Investment.

Set out below are some of the principal features of the regulatory regime applicable to banks in the Russian Federation.

Licensing

A credit organisation must be licensed by the CBR in order to conduct “banking activities”, as defined in the Banking Law. Licence applicants must submit to the CBR a feasibility report, detailed information on senior management and their compliance with qualification requirements, documents certifying the source of funds contributed to the charter capital of the particular credit organisation and certain other documents pursuant to the Banking Law.

A credit organisation must be incorporated in the Russian Federation in order to be licensed by the CBR. Under the Banking Law, credit organisations may be incorporated either as joint stock or limited liability companies or companies with additional liability. The latter form, however, is not common in Russian banking practice, as it envisages joint liability of the company’s owners in respect of the company’s obligations.

- The CBR may refuse to register a credit organisation and to issue a banking licence if, among other things: application documents do not comply with Russian law requirements;
- the financial standing of the founders of the credit organisation is unsatisfactory;
- candidates for the position of chief executive officer, chief accountant and deputy chief accountant of the credit organisation fail to meet qualification requirements; and
- a candidate for a position as a member of the credit organisation’s board of directors has a business reputation which does not correspond to the established qualification requirements.

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. Main capital includes, among other items, charter capital, share premium, retained earnings and certain reserves funds. Additional capital includes, among other items, assets revaluation reserves, general loan loss reserves, and subordinated debt.

The 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 at 1 January 2007. Each bank whose capital base was below RUB 180 million as at 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 minimum capital base required for a newly established bank seeking to obtain a general banking licence is RUB 3.6 billion.

Capital adequacy

The mandatory financial ratios applicable to Russian banks, including the capital adequacy ratio, are set out in the CBR Instruction No. 110-I "On Mandatory Ratios of Banks" dated 16 January 2004, as amended ("**Instruction No. 110-I**").

The following table sets forth the mandatory financial 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.

Mandatory economic ratios	Description of mandatory economic ratio	CBR maximum/minimum mandatory economic ratios requirements
Capital adequacy ratio (N1)	This ratio is intended to limit the risk of a bank's insolvency and sets requirements for the minimum size of the bank's capital base necessary to cover credit and market risks. It is formulated as a ratio of the size of a bank's capital base to the amount of its risk weighted assets.	Minimum 11 per cent. (where a bank's capital base is below RUB 180 million) and minimum 10 per cent. (where a bank's capital base is equal to or more than RUB 180 million).
Instant liquidity ratio (N2)	This ratio is intended to limit the risk of a bank's liquidity loss within one operational day. It is formulated as the minimum ratio of a bank's highly liquid assets to the amount of the bank's liabilities payable on demand.	Minimum 15 per cent.
Current liquidity ratio (N3)	This ratio is intended to limit the risk of a bank's liquidity loss within 30 calendar days preceding the date of the calculation of this ratio. It is formulated as the minimum ratio of the bank's liquid assets to the amount of the bank's liabilities due in less than 30 calendar days.	Minimum 50 per cent.
Long term liquidity ratio (N4)	This ratio is intended to limit the risk of loss by a bank with respect to its liquidity as a result of the placement of funds into long term assets. It is formulated as the maximum permitted ratio of a bank's credit claims maturing in more than one year, to a bank's capital base and liabilities maturing in more than one year.	Maximum 120 per cent.
Maximum exposure to 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, who are close relatives, or who can directly or indirectly materially influence the decisions of legal entity borrowers). It is formulated as the maximum ratio of the aggregate amount of a bank's claims to a	Maximum 25 per cent.

Mandatory economic ratios	Description of mandatory economic ratio	CBR maximum/minimum mandatory economic ratios requirements
	borrower or a group of related borrowers to a bank's capital base.	
Maximum amount of major credit risks (N7)	This ratio is intended to limit the aggregate amount of a bank's major credit risks (defined as the sum of loans to, and guarantees or sureties in respect of, one client that exceeds 5 per cent. of a bank's capital base). It is formulated as the maximum ratio of the aggregate amount of major credit risks to the size of 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 bank's shareholders. It is formulated as the maximum ratio of the amount of loans, bank guarantees and sureties extended by the bank to its shareholders, to the bank's capital base.	Maximum 50 per cent.
Aggregate exposure to the bank's insiders (N10.1)	This ratio is intended to limit the aggregate credit exposure of a bank to its insiders (i.e. individuals capable of influencing the bank's credit decisions). It is formulated as the maximum ratio of the aggregate amount of the bank's credit claims to its insiders, to the bank's capital base.	Maximum 3 per cent.
Ratio for the use of a bank's capital base to acquire shares (participation interest) in other legal entities (N12)	This ratio is intended to limit the aggregate risk of a bank's investments in shares (participation interests) of other legal entities. It is formulated as the maximum ratio of a bank's investments in shares (participation interest) of other legal entities, to a bank's capital base.	Maximum 25 per cent.

In accordance with CBR Instruction No. 112-I of 31 March 2004, banks issuing mortgage-backed bonds are required to additionally comply with the following mandatory economic ratios: (i) a minimum ratio of issued mortgage loans to a bank's capital base (N17, minimum 10 per cent.); (ii) a minimum ratio of the amount of the mortgage coverage to the amount of issued mortgage-backed bonds (N18, minimum 100 per cent.); and (iii) a maximum ratio of the aggregate amount of a bank's liabilities to creditors having a priority right to satisfy their claims, to the bank's capital base (N19, maximum 50 per cent.). The banks must comply with these special ratios from time of the decision to issue mortgage-backed securities until the complete redemption of securities.

Compulsory reserve requirements

Pursuant to the CBR Law, the Board of Directors of the CBR may establish compulsory reserve requirements for banks. Compulsory reserve requirements must not exceed 20 per cent. of a bank's liabilities and may vary for different categories of banks.

Banks are currently required to post compulsory reserves to be held on non-interest bearing accounts with the CBR. To stabilise the situation on the local financial market and to support the liquidity of the Russian banking sector following the global financial crisis, the CBR gradually increased mandatory reserves for various obligations of credit organisations.

From 15 October 2008 until 1 May 2009, mandatory reserves for banks' obligations of all types (categorised into obligations to non-resident banks in Roubles or foreign currency; obligations to individuals in Roubles; and other obligations in Roubles or foreign currency) were set at 0.5 per cent. The CBR increased the reserve requirements for banks for all types of financial obligations to 1.0 per cent. starting from 1 May 2009 and implemented further monthly increases in the reserve requirements by 0.5 per cent. on each of 1 June 2009, 1 July 2009 and 1 August 2009. From 1 August 2009, mandatory reserves for banks' obligations of each category (i.e. those to non-resident banks in Roubles or foreign currency; those to individuals in Roubles; and other obligations in Roubles and foreign currency) were set at 2.5 per cent. and the CBR re-confirmed these requirements with effect from 1 November 2009.

From November 2009, the mandatory reserves are calculated by banks in accordance with CBR Regulation No. 342-P, dated 7 August 2009, as amended (the "**Reserves Regulation**"). The Reserves Regulation requires the banks to promptly report to the CBR and its regional units at the end of each calendar month with calculation of reserves and to promptly post additional reserves, if necessary.

In the event of non compliance by a bank with the compulsory reserve requirements, the CBR may impose a fine on such bank and directly debit the bank's correspondent account with the CBR in respect of insufficient reserve amounts. The CBR and its regional bodies have a right to conduct unscheduled audits on credit organisations to check their compliance with the reserve rules.

Amounts deposited with the CBR in compliance with compulsory reserve requirements may not be subject to an attachment, arrest or other legal proceedings launched by the bank's creditors. In the event of revocation of a bank's banking licence, such amounts are included in the pool of assets generally available for distribution amongst the bank's creditors in the order established by Russian legislation.

Provisioning and loss allowances

The CBR has established certain rules concerning creation of allowances for loan losses in respect of loans extended by banks. The CBR's Regulation No. 254-P dated 26 March 2004, as amended ("**Regulation No. 254-P**") requires banks to adopt procedures for calculation and posting of allowances for loan losses and continuously monitor the financial condition of banks' borrowers.

In particular, Regulation No. 254-P requires credit organisations to rank their loans (other than loans grouped in the uniform loans portfolio) into the following five categories of credit quality: category I (standard loans) – the absence of credit risk; category II (non-standard loans) – moderate credit risk; category III (doubtful loans) – considerable credit risk; category IV (problem loans) – high credit risk; and category V (bad loans) – no probability that the loan will be repaid. The allocation of the loan into a particular category to be made on the basis of professional judgment. Regulation No. 254-P established that loans classified as Category I loans (standard loans) need not be provided for. Category II through V loans entail the following provisions, respectively: (i) 1% to 20%; (ii) 21% to 50%; (iii) 51% to 100%; and (iv) 100%. Additionally, credit

organisations will be required to classify their loan security into two groups on the basis of its quality.

On 12 December 2006, the CBR adopted Instruction No. 1759-U, which provides for amendments to provisioning rules established by Regulation No. 254-P. Instruction No. 1759-U came into force on 1 July 2007. According to this Instruction, Russian banks must provide for portfolios of homogeneous loans granted to individuals depending on whether such loans are secured and the period of time in arrears. A peculiarity of these provisioning rules is that banks are required to establish provisions even for those loans to individuals which are not overdue, i.e. 0.5 per cent. for portfolios of homogeneous loans secured by mortgage and auto loans and 1 per cent. for portfolios of other loans. Maximum provisions amounting to 75 per cent. are to be established for portfolios of loans granted for individuals which are overdue for more than 180 days. However, banks are allowed to allocate minimal reserves only in respect of those retail loans granted after 1 July 2007 (or prior to 1 July 2007 if there were changes to the material terms of such loans afterwards) for which an effective rate is fully disclosed to a customer. In addition, Instruction No. 1759-U provides for insignificant changes in risk assessment procedures and the investment of reserves.

On 31 December 2008 new rules on evaluation of debt servicing level of a borrower adopted by the CBR (Instruction No. 2156-U dated 23 December 2008) entered into force. The new rules overrode the provisions of Regulation No. 254-P and were temporarily introduced until 30 June 2010.

Under the new rules the debt servicing level of a loan to a legal entity is considered to be good if the aggregate loan or interest repayment arrear does not exceed 30 days for the last 180 calendar days (compared to 5 days aggregate loan or interest repayment arrear stipulated by Regulation No. 254-P). Similarly, the good debt servicing level of a loan to an individual was extended from 30 days to 60 days of aggregate repayment arrear occurred during the last 180 calendar days. Time periods for average and bad debt servicing levels were also increased by 30 days each.

In addition, the new rules stipulated that a restructuring of a loan (including change of the loan nominal currency and time periods for repayment of the loan and interest) does not affect the debt servicing level.

On 3 June 2010, the CBR adopted Instruction No. 2459-U, which provides for amendments to rules established by Instruction No. 2156-U. Instruction No. 2459-U came into force on 1 July 2010. According to this Instruction, a credit organisation is not obliged to change the debt servicing level of a loan if as at the date of the debt servicing level assessment there is no overdue payment of the principal debt and/or interest for this loan. This Instruction also indicates situations when a credit organisation is not obliged to change the debt servicing level when it assesses credit risk for a restructured loan.

Allowances for loan losses are calculated at the end of each calendar month in Roubles and then adjusted each month. Such allowances are only used to cover losses relating to the principal amount of loans made by banks and/or amounts of promissory notes that exclude the relevant interest and discount. The CBR and its regional units have the right to audit the banks' compliance with the requirements relating to allowances for loan losses and check the correct calculation of such allowances in order to balance the need to create allowances on the one hand and ensure the correct preparation of the banks' financial statements for tax purposes on the other.

The CBR also established rules concerning creation of allowances 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, forward and other transactions. The CBR Regulation No. 283-P dated 20 March 2006 requires banks to rank such assets and operations into five risk groups reflecting the following situations: (i) no real or potential threat of

losses; (ii) moderate potential threat of losses; (iii) serious potential or moderate real threat of losses; (iv) simultaneous potential and moderate real threat of losses or material real threat of losses; and (v) value of particular type of asset or operation is going to be lost completely. Banks are then required to provide allowances for each type of asset or operation in the amounts corresponding to the amounts of possible losses but within the following framework established by the CBR for each risk group indicated above, respectively: (i) 0 per cent.; (ii) 1 per cent. to 20 per cent.; (iii) 21 per cent. to 50 per cent.; (iv) 51 per cent. to 100 per cent.; and (v) 100 per cent.

Banks must report to the CBR on the amounts of non-loan allowances created each month within ten days following the end of the reporting month. The CBR and its regional units are responsible for monitoring the compliance of banks with these rules.

Regulation of currency exposure

In its Instruction 124-I of 15 July 2005, as amended, the CBR established rules regarding foreign currency and precious metals exposure of banks (collectively, “**currency exposure**”), as well as controls over such exposure. Currency exposure is calculated in respect of net amounts of balance sheet positions, spot market positions, forward positions, option positions and positions under guarantees. A bank’s open currency position is calculated as the sum of all these net amounts. Such exposure is calculated for each currency and each precious metal and then recalculated into Roubles in accordance with the official exchange rates and the CBR’s prices for precious metals.

The CBR established that the total amount of all long or short currency positions shall not exceed 20 per cent. of the bank’s own capital at the end of each operational day. At the same time, at the end of each operational day, the long or short position in respect of one particular currency or one particular precious metal shall not exceed 10 per cent. of the bank’s own capital.

The CBR is authorised to impose sanctions on banks if the limits on open currency positions are exceeded on more than six operational days in each 30 consecutive days.

Reporting requirements

Under the CBR Regulation No. 2332-U dated 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 an ad hoc basis. Specific reporting requirements apply to credit organisations in liquidation pursuant to CBR Regulation No. 1594-U dated 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 certification of such financial statement by an independent auditor. Quarterly financial statements may be published without 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 to the CBR the consolidated accounts for the whole group.

The CBR may at any time conduct full or selective audits of any filings made by a bank 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 specified in the CBR Law.

Accounting practices

The CBR establishes accounting rules and procedures for banks, as well as a standard format for presentation of financial and statistical data and recording banking transactions. The Banking Law requires that the annual balance sheet and other financial statements of banks be certified by an auditor licensed by the CBR.

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 organisation 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 IFRS 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. 24-T dated 17 February 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 Banking Law requires that an independent auditor certify such organisation's annual financial statements.

Banking reform

The global financial crisis revealed a lack of proper management controls and risk management systems in the Russian banking sector and strengthened public anxiety regarding the integrity of the banking system, with misleading advertisements, money laundering, corruption and criminal involvement all being major concerns.

Strategic plans

On 5 April 2005, the Russian Government and the CBR issued their joint Strategy for the Development of the Banking Sector of Russia until 2008 (the "**Strategy**"). The Strategy replaced the five year Strategy for the Development of the Banking Sector in the Russian Federation issued in December 2001, and set out an action plan for the facilitation of the development of the Russian banking sector in the medium term (2005- 2008).

Among other things, the Strategy outlined the targets for the reform of the Russian banking sector, the forecast of the results of such reform and the analysis of the then-current condition of the Russian banking sector. The Strategy also listed measures which should be implemented to achieve these targets.

Following the achievement of the targets set forth in the Strategy, the current action plan (2009-2015) is aimed at positioning the Russian banking sector as a key part of the international financial markets. In early 2008, the Association of Regional Banks of Russia and Expert RA rating agency began to co-develop a new strategy for the period from 2009 through 2015. This strategy is yet to be issued by the Russian Government and the CBR.

In November 2008, the Russian Government adopted a long-term strategy of social and economic development of the Russian Federation for the period until the year 2020, which provides that the medium-and long-term development goal in respect of the Russian banking system and financial markets is to establish an effective and competitive participant within the international financial system, which would ensure a high level of investment activity and financial support to innovative activities in Russia. In this respect, the strategy's priorities include:

- increasing the level of Russian bank lending in the Russian economy from 40 per cent. of GDP in 2007 to 70-75 per cent. of GDP in 2015 and to 80-85 per cent. of GDP in 2020;

- increasing the role of the banking sector in the financing of investment in core capital from 9.4 per cent. in 2007 to 20-25 per cent. in 2020;
- increasing the reliability of Russian banks by means of their capitalisation and expansion of refinancing mechanisms;
- simplifying the methods by which banks can raise finance, and increasing the efficiency of the ways in which banks collaborate with their customers (for example, in the way that customers and the bank communicate with each other); and
- developing competition in the Russian banking sector, including simplifying issuance of securities by credit organisations, optimisation of mergers and acquisitions procedures, expansion of refinancing instruments by the CBR and introduction of non-withdrawal deposits.

Anti-money laundering legislation

In order to build up an effective domestic system for combating money laundering, in August 2001, Russia adopted the Anti-Money Laundering Law and subsequently passed certain legislation to implement this law. As a result of the implementation of anti-money laundering reforms, in October 2002, Russia was removed from the “black list” of non cooperative countries and territories maintained by the FATF. The CBR monitors Russian banks’ compliance with the anti-money laundering requirements by issuing regulations and inspecting banks’ activities. In particular, Russian banks are required to comply with various customer identification, reporting and other related procedures. In line with the development of the anti-money laundering system, the CBR introduced certain restrictions relating to the banks’ operations involving foreign entities and individuals residing in certain off-shore areas. The CBR has compiled a list of such off-shore areas. In particular, the CBR restrictions apply to the establishment by Russian banks of correspondent relationships with foreign banks registered in these off-shore areas.

Under Russian law, the Financial Monitoring Service is the main governmental authority which acts as a financial intelligence unit for the purposes of the FATF Forty Recommendations and, together with the CBR, exercises control over compliance by banks with the Anti-Money Laundering Law. Furthermore, Russian banks are obligated to report through the CBR to the Financial Monitoring Service on the transactions as specified in the Anti-Money Laundering Law.

Failure by Russian banks and their officers to comply with the requirements of the Anti-Money Laundering Law may result in the imposition of sanctions, including the revocation of a banking licence (with a subsequent liquidation of the bank) and criminal penalties for individuals.

Deposit insurance legislation

The Federal Law No. 177-FZ “On the Insurance of the Deposits of Individuals in Banks of the Russian Federation” dated 23 December 2003, as amended (the “**Deposit Insurance Law**”), introduced a system of insuring deposits of individuals. Insurance of deposits of individuals is now mandatory for all Russian banks that hold a CBR licence to attract deposits from individuals (the “**retail banking licence**”).

Banks that hold a valid retail banking licence will need to apply to the CBR to become registered as a participant in the Mandatory Deposit Insurance System. There are a number of tests that banks are expected to meet before being admitted: (i) the CBR must be comfortable that its financial accounts and reports are true; (ii) the bank must be in full compliance with the CBR mandatory ratios (capital adequacy, liquidity etc.); (iii) the CBR should be satisfied as to its solvency position; and (iv) the CBR should not have cancelled such bank’s banking licence. If a bank fails to comply with the above tests and/or chooses not to participate in the deposits’ insurance system, it will not be able to attract deposits from and open accounts for individuals.

Under the Deposit Insurance Law, the protection for each client is limited to RUB 700,000 per bank and banks are required to make quarterly payments into a deposit insurance fund. The insurance payment from the deposit insurance fund will be payable to depositors if a bank's licence has been revoked or if the CBR has imposed a moratorium on payments by the bank. The basis of the deposit insurance contribution is the quarterly average of daily balances of retail 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 every 18 months. When the size of the insurance fund reaches 5 per cent. of total retail deposits of all Russian banks, all succeeding contribution premiums cannot exceed 0.05 per cent. of the contribution basis, and when the size of the insurance fund exceeds 10 per cent. of all Russian banks' retail deposits, no contributions need to be made, but they resume once the insurance fund falls below the 10 per cent. threshold.

The Deposit Insurance Law provides for the establishment of a new regulator, the DIA, which, among other things, collects deposits, manages the funds in the mandatory insurance pool, determines the insurance premiums and monitors insurance payments. The DIA maintains a register of all banks admitted to the Deposit Insurance System.

Reporting on Credit Histories

On 30 December 2004, the President signed the Federal Law No. 218-FZ "On Credit Histories", as amended (the "**Credit Histories Law**"). Most of the provisions of the Credit Histories Law came into force on 1 June 2005. Pursuant to the Credit Histories Law, the "credit history" of a borrower (whether an individual or a legal entity) consists of certain data, as defined by the Credit Histories Law, which describe the borrower's performance under loan or credit arrangements and which are stored with a "credit history bureau" (a Russian legal entity included in the State Register of Credit History Bureaus, whose principal activity is to collect, process and store credit history data and issue "reports", as defined in the Credit Histories Law). As at 8 June 2010, the FSFM had registered 32 credit history bureaus.

The Credit Histories Law defines the procedures for the submission of data to credit history bureaus, disclosure by bureaus of such data to authorised users, and the rights and obligations of borrowers and bureaus. It also sets out the procedures for the registration of credit history bureaus and the transfer of credit history data upon their liquidation.

Credit history bureaus may disclose credit history data only to:

- a borrower itself;
- banks or other legal entities which are users of such data (with the borrower's consent);
- courts and, with the consent of a prosecutor general, certain enforcement agencies; and
- the Central Credit History Catalogue administered by the CBR to allow the centralised search of all credit history data.

Since 1 September 2005, banks have been required to enter into agreements with at least one credit history bureau and provide it, subject to the borrower's consent, with the relevant information relating to the borrowers.

Regulation of mortgage-backed securities

As part of the development of consumer lending legislation in Russia, the Federal Law No. 152-FZ "On Mortgage-Backed Securities" and amendments to the Civil Code, Tax Code and the Federal Law No. 102 FZ "On Mortgage" 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 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.

Insolvency regime

Apart from the administrative proceedings which may be implemented by the CBR (as discussed below), banks are subject to special bank insolvency rules set out in the Federal Law No. 40-FZ dated 25 February 1999 "On Insolvency (Bankruptcy) of Credit Organisations" (as amended) (the "**Bank Insolvency Law**"). Pursuant to the Bank Insolvency Law, bankruptcy proceedings against a bank may not be initiated prior to the revocation of its banking licence. If a bankruptcy petition is filed with a court and the banking licence of the allegedly insolvent bank is not revoked the court must request from the CBR an opinion on whether there are feasible grounds for the revocation of the bank's banking licence. If the CBR issues a negative opinion or fails to respond within one month, the bankruptcy petition must be dismissed. In the latter case, the CBR is liable for any losses a creditor will incur in the result of non revocation of the banking licence.

Pursuant to the Banking Law, a licence of a bank or other credit organisation may be revoked if (i) it is established that the information upon which the licence has been issued is untrue and misleading, (ii) such bank or other lending organisation delays starting its operation for one year from the issue of the banking licence, (iii) it is established that information included by such bank or other credit organisation in its disclosure documents is significantly untrue and misleading, (iv) the credit organisation fails to submit to the CBR its monthly report for more than 15 days, (v) such bank or other credit organisation conducts (at least once) banking operations without an appropriate licence, (vi) the such bank's or other credit organisation's activities do not comply with the Russian legislation on banking activities provided that certain sanctions were repeatedly imposed on the bank within one year, (vii) such bank or other credit organisation does not comply with court decisions on the collection of funds from its client accounts on several occasions within one year, (viii) the revocation of the banking licence is requested by the temporary administration appointed for such bank or other credit organisation in cases provided by the Bank Insolvency Law, (ix) such bank or other credit organisation fails to submit updated information required to be reflected in the state register of legal entities and (x) such bank or other credit organisation managing the collateral provided to secure mortgage-backed securities fails to comply with the requirements of the Russian legislation on mortgage-backed securities.

Under the Banking Law, the CBR must revoke a banking licence of a bank, if (i) its capital adequacy ratio falls below 2 per cent., (ii) the amount of the bank's own capital is less than the bank's minimal share capital requirement established by the CBR, (iii) the bank fails to adjust its share capital to own capital according to requirements of the CBR within 45 days of the CBR's notification, (iv) the bank fails to satisfy the claims of its creditors or make mandatory payments (e.g., taxes and duties) in the aggregate amount of RUB 100,000 within 14 days of their maturity, (v) the amount of the bank's own capital as at 1 January 2007 was RUB 180 million or more and the bank fails to keep the own capital amount at the same level during three consecutive months and does not apply to the CBR to change its status to a non-banking organisation, (vi) the

amount of the bank's own capital as at 1 January 2007 was less than RUB 180 million and the bank fails to increase its own capital to the required amount by a certain date or fails to keep its own capital amount at the same level during three consecutive months and does not apply to a change of status to a non banking organisation, (vii) the amount of the bank's own capital as at 1 January 2007 was RUB 180 million or more and the bank fails for 12 months to keep its own capital amount at the minimum level required by the Banking Law, except for a fall due to a change of the methodology for the appraisal of the bank's own capital, and does not apply to a change of status to a non banking organisation and (viii) the amount of the bank's own capital as at 1 January 2007 is less than RUB 180 million and the bank fails for 12 months to keep its own capital amount at the minimum level required by the Banking Law, except for a fall due to a change of the methodology for the appraisal of the bank's own capital, and does not apply to a change of status to a non banking organisation.

Upon revocation of the banking licence, the CBR must appoint a temporary administration for the bank. The temporary administration oversees the operations, identifies debtors of the bank and collects its assets. The temporary administration performs its functions until appointment of the liquidator or the bankruptcy manager for a term not exceeding six months.

However, under the Bank Insolvency Law, a temporary administration may be appointed to the bank prior to the revocation of its banking licence if (i) the bank fails to satisfy claims of creditors or make mandatory payments (e.g., taxes and duties) within seven days from the date of their maturity due to the absence or lack of funds on its correspondent accounts, (ii) the amount of own capital of the bank falls more than 30 per cent. below the maximum amount of own capital of the bank during the last 12 months with simultaneous violation of one of the capital adequacy or related requirements, (iii) the bank violates the current liquidity ratio by more than 20 per cent. during the preceding month; (iv) the bank does not fulfil the requirement of the CBR to change the management of the bank or to undertake financial recovery measures or a reorganisation within the term provided in the Bank Insolvency Law and (v) there are grounds for revocation of the banking licence of the bank as provided in the Banking Law.

Upon appointment of a temporary administration, the authority of the bank's management may be limited or suspended. In the event that the bank's management authorities are suspended, the temporary administration performs the bank's management functions. During the term of its appointment, the temporary administration analyses the bank's financial standing, establishes whether there are grounds for revocation of the banking licence of the bank, participates in the development of measures for the financial recovery of the bank, oversees the bank's operations and issues approvals for the conduct of operations with assets valued at more than 1 per cent. of the total balance sheet value of the bank's assets. Pursuant to the Bank Insolvency Law, the temporary administration may request that the CBR imposes a moratorium on the performance of the creditors' claims of the bank. Such moratorium would cover all monetary obligations that arose prior to the appointment of the temporary administration regardless of the maturity date of such obligations.

The temporary administration may also repudiate contracts of the bank that have not been fulfilled or the fulfilment of which, in the opinion of the temporary administration, will lead to losses in comparison with performance of similar transactions or would impede the recovery of the bank's financial condition.

Furthermore, under the Insolvency Law, the temporary administration may file claims for the invalidation of certain transactions of the bank.

- Suspicious transactions: (i) transactions made after or within one year prior to the court accepting the bankruptcy petition, provided they contemplate unequal consideration (e.g., if the contract price is below the market value); and (ii) transactions made after or within three years prior to the court accepting the bankruptcy petition, provided they were concluded with the intent of impairing creditors' interests, and the other party had known of this debtor's intent; and

- Transactions entailing preferential treatment: transactions made after or within one month (in certain cases, six months) prior to the court accepting the bankruptcy petition, provided they meet one of the statutory criteria (e.g., a pledge agreement intended to secure the debtor's obligations that occurred earlier).

Where the temporary administration is appointed prior to revocation of the bank's licence, the authority of the temporary administration terminates when the reasons for the appointment of the temporary administration envisaged in the Bank Insolvency Law no longer exist. Otherwise, the head of the temporary administration must request the CBR to revoke the bank's banking licence.

Upon revocation of the banking licence, the performance of the bank's obligations in any form is prohibited. The bank must be liquidated either through general proceedings or bankruptcy proceedings. The bank is subject to bankruptcy proceedings if the bank is unable to perform its obligations and/or make mandatory payments in the aggregate amount of RUB 100,000 within 14 days as they fall due and/or the assets of the bank are insufficient to satisfy claims of its creditors. A creditor's claim is admitted if it is established by a court decision and the creditor submits documents confirming that the debtor failed to fulfil the court decision within a month from submission of the court decision to the bailiff's office.

The court should consider the insolvency claims on the merits within two months from the date of admission of the application and decide on whether to declare the bank insolvent and commence the liquidation proceedings.

Under Russian insolvency legislation, if the bank is declared bankrupt, the claims of its creditors are satisfied 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 after the revocation of the credit organisation's banking licence.
- First order of priority - (i) claims in tort, (ii) claims of retail depositors and individuals holding current accounts with the bank, (iii) claims of the DIA in respect of bank deposits and bank accounts transferred to it pursuant to the Deposit Insurance Law and (iv) claims of the CBR transferred to it pursuant to applicable legislation in the event that the CBR was required to repay amounts of deposits by individuals with banks that were declared insolvent and did not participate in the Deposit Insurance System.
- Second order of priority - claims under employment contracts and other social benefits and copyright claims.
- Third order of priority - claims of other creditors including claims of retail depositors with respect to lost profits and financial penalties. Claims of creditors secured by a pledge are satisfied from the sale proceeds of the pledged property prior to claims of all other creditors, save for claims of creditors of the first and second orders of priority.
- Last priority - Claims of creditors under subordinated loans, deposits and bonds are satisfied after the satisfaction of all other claims.

Claims of each category of creditors must be satisfied in full before claims of the next category are considered. Recently Insolvency Law and the Bank Insolvency Law have been significantly amended 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 amendments significantly amend the provisions relating to the challenge by an arbitration manager in a court of suspicious transactions and transactions entailing preferential treatment of certain creditors, as described above. The arbitration manager can challenge a transaction on its own initiative or on a request made by the creditors' meeting or creditors' committee. The amendments provide that the new rules for challenging transactions under the Insolvency Law also apply to bank debtors under the Bank Insolvency Law.

The 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 members of the management board, the directors or the shareholders fail to initiate liquidation of the bank after the emergence of the "evidence of insolvency", the 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 introduced 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 bank's 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.

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