IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBs (AS DEFINED BELOW) WHO ARE ALSO QPs (AS DEFINED BELOW) OR (2) NON-U.S. PERSONS (AS DEFINED BELOW) LOCATED OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page and you are therefore advised to read this page carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer (as defined in the Prospectus), CBM (as defined in the Prospectus), Barclays Bank PLC, Merrill Lynch International, Raiffeisen Bank International AG or The Royal Bank of Scotland plc (together, the "**Joint Lead Managers**") 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. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, 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) 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 ATTACHED PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR U.S. ADDRESS. 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. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE ATTACHED DOCUMENT.

Confirmation of your representation: In order to be eligible to view the attached Prospectus or make an investment decision with respect to the securities being offered, prospective investors must be either (1) qualified institutional buyers ("**QIBs**") (within the meaning of Rule 144A ("**Rule 144A**") under the Securities Act) who are also qualified purchasers ("**QPs**") (within the meaning of Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended) or (2) non-U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) located outside the United States. This Prospectus is being sent to you at your request, and by accessing this Prospectus you shall be deemed to have represented to the Issuer, CBM and the Joint Lead Managers that (1) either (a) you and any customers you represent are QIBs who are also QPs or (b) you and any customers you represent are outside of the United States and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories and possessions, any State of the United States or the District of Columbia and (2) you consent to delivery of such Prospectus by electronic transmission.

You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this 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 Prospectus to any other person.

The materials relating to this 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 any of the Joint Lead Managers or their respective affiliates is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by any of the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

The attached Prospectus may only be distributed to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) 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.

The attached Prospectus has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, CBM, the Joint Lead Managers, any person who controls them or any director, officer, employee or agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

CREDIT BANK OF MOSCOW

US$500,000,000 7.70% Loan Participation Notes due 2018
to be issued by, but with limited recourse to,
CBOM Finance p.l.c.
for the sole purpose of financing a loan to
CREDIT BANK OF MOSCOW (open joint-stock company)

Issue Price: 100%

CBOM Finance p.l.c., a public company with limited liability incorporated under the laws of Ireland, having its registered office at 5 Harbourmaster Place, IFSC, Dublin 1, Ireland and registered under number 425241 (the "**Issuer**"), is issuing an aggregate principal amount of US$500,000,000 7.70% Loan Participation Notes due 2018 (the **"Notes"**) to be issued by, but with limited recourse to the Issuer for the sole purpose of financing a loan (the **"Loan"**) to CREDIT BANK OF MOSCOW (open joint-stock company) (the "**Borrower**" or "**CBM**") on the terms of a loan agreement dated 29 January 2013(the "**Loan Agreement**") between the Issuer and CBM. The Notes are constituted by, are subject to, and have the benefit of, a trust deed to be dated 1 February 2013 (the "**Trust Deed**") between the Issuer and BNY Mellon Corporate Trustee Services Limited as trustee (the "**Trustee**") for the benefit of the Noteholders (as defined in the *"Terms and Conditions of the Notes"*). Under the Trust Deed, the Issuer will charge, in favour of the Trustee, by way of a first fixed charge as security for its payment obligations in respect of the Notes and under the Trust Deed, certain of its rights and interests under the Loan Agreement and the Account (as defined in the Trust Deed). In addition, the Issuer will assign absolutely certain of its administrative rights under the 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 the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received and retained (net of tax) from CBM by, or for the account of, the Issuer pursuant to the Loan Agreement excluding, however, any amounts paid in respect of Reserved Rights (as defined in the Trust Deed). The Issuer will have no other financial obligation under the Notes.

Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to CBM except through action by the Trustee under any of the Security Interests (as defined in the *"Terms and Conditions of the Notes"*).

On each Interest Payment Date (as defined below) (being 1 February and 1 August in each year, commencing on 1 August 2013 and ending on 1 February 2018), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan Agreement is equal to 7.70% per annum. See *"Overview – Overview of the Offering"*.

Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of CBM in respect of the payment obligations of CBM under the Loan Agreement and the Issuer under the Notes.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 8 OF THIS PROSPECTUS BEFORE INVESTING IN THE NOTES.

The Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank of Ireland**"), as competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The Central Bank of Ireland only approves this 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 (the "**Market**") of the Irish Stock Exchange Limited (the "**Irish Stock Exchange**") or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List (the "**Official List**") and trading on its regulated market. This Prospectus constitutes a "Prospectus" for the purposes of the Prospectus (Directive 2003/71/EC) Regulations 2005, as amended (the "**Prospectus Regulations**") which implement the Prospectus Directive in Ireland. Reference in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Market of the Irish Stock Exchange.

The Notes and the Loan have not been, and 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, subject to certain exceptions, may not be offered and 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**")). The Notes may be offered and sold (i) within the United States to persons who are qualified institutional buyers (each, a "**QIB**"), as defined in Rule 144A under the Securities Act ("**Rule 144A**") and are also qualified purchasers (each, a "**QP**") as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940 (the "**Investment Company Act**"), as amended, in reliance on the exemption from registration provided by Rule 144A and (ii) to non U.S. persons in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain other restrictions, see *"Subscription and Sale"* and *"Transfer Restrictions"*.

Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in a permanent global Note (the "**Unrestricted Global Note**") in registered form, without interest coupons attached, which will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and shall be deposited on or about 1 February 2013 (the "**Closing Date**") with a common depositary for, and in respect of interests held through Euroclear Bank SA/NA ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in a permanent global Note (the "**Restricted Global Note**" and, together with the Unrestricted Global Note, the "**Global Notes**") in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with a custodian for, and registered in the name of Cede & Co. as nominee for The Depository Trust Company ("**DTC**"). Notes will be issued in minimum denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. See "*Terms and Conditions of the Notes – 2 Form and Denomination*". Interests in the Restricted Global Note will be subject to certain restrictions on transfer. See "*Form of the Notes"* and *"Transfer Restrictions*". Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

The Notes are expected to be rated B1 by Moody's Investors Service Ltd. ("**Moody's**") and BB- by Fitch Ratings Ltd. ("**Fitch**"). CBM's current foreign senior unsecured debt rating by Moody's is B1 and CBM's current long term issuer default rating by Fitch is BB-. CBM's long term counterparty default and short term counterparty default ratings by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") are B+ and B, respectively. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Fitch, Moody's and Standard & Poor's are established in the European Union and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**"). In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation.

Joint Lead Managers

Barclays **BofA Merrill Lynch** **Raiffeisen Bank International** **The Royal Bank of Scotland**

The date of this Prospectus is 29 January 2013.

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This Prospectus constitutes a prospectus for the purpose of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, CBM, the Notes and the Loan which, according to the particular nature of the Issuer, CBM, the Notes and the Loan, 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 CBM, and of the rights attaching to the Notes. Each of CBM and the Issuer (the **"Responsible Persons"**) having taken all reasonable care to ensure that such is the case, accept(s) responsibility for the information contained in this Prospectus. To the best of the knowledge of the Responsible Persons, each of which has taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

In addition, CBM, having made all reasonable enquiries, confirms that (i) this Prospectus contains all information with respect to CBM, the Loan and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Prospectus are in every material respect true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Prospectus are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts with respect to CBM, the Loan or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by CBM to ascertain such facts and to verify the accuracy of all such information and statements. CBM and the Issuer have derived substantially all of the information contained in this Prospectus concerning the Russian banking market and its competitors, which may include estimates or approximations, from publicly available information from the following sources:

- the Central Bank of Russia (**"CBR"**);
- the Federal State Statistics Service of the Russian Federation ("**Rosstat**");
- Expert RA Rating Agency ("**Expert RA**");
- InfoLine Retail Russia TOP-100;
- Interfax Information Services ("**Interfax**");
- Markswebb Rank & Report;
- RBC Rating; and
- Senteo International.

CBM and the Issuer accept responsibility that such information has been accurately reproduced and, as far as CBM and the Issuer are aware and are able to ascertain, no facts have been omitted which would render the information inaccurate or misleading. However, CBM and the Issuer have relied on the accuracy of such information without carrying out an independent verification.

Some of the information contained in this Prospectus has been derived from the official data of Russian government agencies and the CBR. Some of the official data published by Russian federal, regional and local governments may not be complete or researched to the standard of Western countries. Some official data released by the Russian government may be inaccurate. Official statistics, including those produced by the CBR, may also be produced to a different standard than those used in Western countries. In addition, the data released by the CBR related to market shares referred to in this Prospectus is based on Russian Accounting Standards ("**RAS**"), and market shares with respect to loans and deposits have been determined by gross value. Any discussion of matters relating to Russia in this Prospectus must, therefore, be subject to uncertainty due to the potential incompleteness or inaccuracy of available official and public information.

See "*Risk Factors – Other Risks – Publicly available data may be unreliable*".

CBM's legal name is CREDIT BANK OF MOSCOW (open joint-stock company) and the address of its registered office and its head office is 2 (Building 1) Lukov Pereulok, Moscow 107045, the Russian Federation. The telephone number of the registered office and head office is +7 (495) 797-4-222. CBM is regulated by the CBR and holds general banking licence No. 1978 issued by the CBR on 20 January 2000. The Issuer's legal name is CBOM Finance p.l.c. registered as a public company with limited liability under the Companies Act 1963-2005 of Ireland under number 425241, and its registered address is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland. The Issuer may be reached by

telephone at +353 1 680 6000. This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, CBM, the Trustee or the Joint Lead Managers to subscribe for or purchase any of the Notes.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Consequently, this document is being distributed only to, and is directed at persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons 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. Persons into whose possession this Prospectus may come are required by the Issuer, CBM and the Joint Lead Managers to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this Prospectus and other offering material relating to the Notes is set out under "*Subscription and Sale*", "*Form of the Notes*" and "*Transfer Restrictions*".

Neither the Issuer nor CBM intends to provide any post-issuance transaction information regarding the Notes or the performance of the Loan. No person is authorised to provide any information or to make any representation not contained in this Prospectus, and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, CBM, the Trustee or the Joint Lead Managers. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Without limitation to the generality of the foregoing, the contents of CBM's website as at the date hereof or as at any other date do not form any part of this Prospectus (and, in particular, are not incorporated by reference herein).

Neither the delivery of this Prospectus nor the offering, 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 or CBM after the date the Notes are admitted to trading on the Irish Stock Exchange.

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 Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained. CBM, the Issuer and the Joint Lead Managers 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 Prospectus has been filed with and approved by the Central Bank of Ireland as required by the Prospectus Regulations. The Prospectus, as approved by the Central Bank of Ireland, will be filed with the Irish Companies Registration Office in accordance with Regulation 38(1)(b) of the Prospectus Regulations.

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

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

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE JOINT LEAD MANAGERS OR ANY OF THEIR RESPECTIVE AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF OR THE TRUSTEE 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 THE JOINT LEAD MANAGERS OR ANY OF THEIR RESPECTIVE AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF, WHETHER AS TO THE PAST OR THE FUTURE. NEITHER THE JOINT LEAD MANAGERS NOR ANY OF THEIR RESPECTIVE AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF OR THE TRUSTEE ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT.

EACH PERSON RECEIVING THIS PROSPECTUS ACKNOWLEDGES THAT SUCH PERSON HAS NOT RELIED ON THE JOINT LEAD MANAGERS OR ANY OF THEIR RESPECTIVE AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF IN CONNECTION WITH ITS INVESTIGATION OF THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR ITS INVESTMENT DECISION. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF CBM 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.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR LICENSE HAS BEEN FILED UNDER CHAPTER 421 B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421 B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO UNITED KINGDOM RESIDENTS

This Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) 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, and other persons to whom it may lawfully be communicated, falling within article 49(2)(a) to (d) of the Order (all such persons together being referred to as **"relevant persons"**). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

NOTICE TO RUSSIAN FEDERATION RESIDENTS

Under Russian law, the Notes are securities of a foreign issuer. The Notes are not eligible for initial offering and 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 in the Russian Federation. The information provided in this 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.

FORWARD-LOOKING STATEMENTS

Some statements in this Prospectus may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning CBM's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. CBM uses the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "may", "are expected to", "could", "will", "will continue", "should", "would be", "seeks", "approximately", "estimates", "predicts", "projects", "aims" or "anticipates", and other similar expressions to identify forward-looking statements. These forward-looking statements are contained in "Risk Factors", "Business" and other sections of this Prospectus. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause circumstances or CBM's results, performance or achievements to be materially different from any future circumstances, results, performance or achievements expressed or implied by such statements. Such forward-looking statements relate to, among other things:

- overall business conditions;
- changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations);
- economic and political conditions in Russia;
- the timing, impact and other uncertainties of future actions;
- inflation, interest rate fluctuations, foreign currency and exchange rate fluctuations and other capital market conditions in Russia;
- the condition and performance of the Russian economy, including the Russian banking sector;
- the effects of, and changes in, the policy of the federal government of Russia and regulations promulgated by the CBR;
- the effects of competition in the geographic and business areas in which CBM conducts its operations;
- the effects of changes in laws, regulations and taxation or accounting standards or practices in the jurisdictions where CBM conducts its operations;
- CBM's ability to maintain or increase market share for its products and services and control expenses;
- CBM's ability to meet its funding obligations and develop and maintain additional sources of financing;
- CBM's ability to continue to diversify its client base;
- the impact of the growth of CBM's loan portfolio on its revenue potential and overall asset quality;
- CBM's ability to comply with the CBR's mandatory economic ratio requirements and continue to participate in the system of mandatory insurance of retail bank deposits in Russia;
- the future growth of CBM's business;
- acquisitions or divestitures by CBM or in the business areas in which CBM conducts its operations;
- technological changes; and
- CBM's ability to manage the risks associated with the aforementioned factors.

These forward-looking statements speak only as at the date of this Prospectus. Accordingly, but subject to the requirements of the Central Bank of Ireland, CBM is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to CBM, or persons acting on CBM's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

AVAILABLE INFORMATION

Neither the Issuer nor CBM is currently required to file periodic reports under Sections 13 or 15 of the Exchange Act with the U.S. Securities and Exchange Commission (the "**SEC**"). To permit compliance with Rule 144A in connection with resales and transfers of Notes, the Issuer and the Borrower have agreed that, for so long as any of the Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer and the Borrower will provide to any holder or beneficial owner of such restricted securities, or to any prospective purchaser of such restricted securities designated by a holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act, if at the time of such request the Issuer or the Borrower, as the case may be is not a reporting company under Section 13 or Section 15(d) of the Exchange Act or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. See "*Terms and Conditions of the Notes – 15 Provision of Information*".

DOCUMENTS INCORPORATED BY REFERENCE

The audited financial statements of the Issuer as at and for the years ended 31 December 2011 and 2010 together with the audit reports thereon, have been filed with the Irish Stock Exchange and shall be deemed to be incorporated in, and to form part of, this Prospectus. Such financial statements can be located at www.ise.ie/app/announcementdetails.aspx?ID=11448278.

FATCA

The U.S. foreign account tax compliance rules ("**FATCA**") were enacted in 2010 to prevent U.S. tax evasion by requiring foreign banks and investment funds to provide information to the United States Internal Revenue Service (the "**IRS**") about U.S. customers and investors. This is achieved through a comprehensive information reporting regime that requires foreign financial institutions (such as CBM and the Issuer) to conduct diligence on their account holders and investors to determine whether their accounts are "U.S. accounts", and either provide detailed information about these U.S. accounts to the IRS or suffer a 30% withholding tax on certain payments. The U.S. Treasury Department has not yet released final regulations clarifying the statutory language of FATCA, so the scope and application of FATCA is uncertain at this time. It is possible that FATCA could operate to impose U.S. withholding tax on (i) beginning in 2014, payments to CBM and the Issuer in respect of U.S. securities, including interest and dividends, (ii) beginning in 2017, payments to CBM and the Issuer of gross proceeds from the disposition of such securities, and (iii) beginning no earlier than 2017, (a) certain "pass-thru payments" to CBM and the Issuer, if CBM or the Issuer (as the case may be) are not compliant with FATCA, or (b) certain "pass-thru payments" from the Issuer to certain Noteholders, if the Issuer is FATCA compliant. It is also possible that CBM and the Issuer could incur material costs in implementing information-gathering systems to comply with FATCA. Given the lack of final regulations or other binding guidance, it is impossible for CBM to evaluate the potential effect of FATCA at this time.

ENFORCEMENT OF FOREIGN JUDGMENTS

CBM is an open joint-stock company incorporated under the laws of the Russian Federation and most of its assets are located in the Russian Federation. In addition, as at the date of this Prospectus a substantial majority of CBM's directors and executive officers are residents of the Russian Federation. As a result, it may not be possible for Noteholders and/or the Trustee to:

- effect service of process upon CBM or any such person outside the Russian Federation;
- enforce against any of them, in courts of jurisdictions other than the Russian Federation, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions; and/or
- enforce against any of them, in Russian courts, judgments obtained in jurisdictions other than the Russian Federation, including judgments obtained in the courts of England and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in Russia only (i) if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered, and (ii) a federal law of the Russian Federation provides for the recognition and enforcement of such foreign court judgments. No such federal law has been passed and no such treaty exists between the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments which may require new proceedings to be brought in the Russian Federation in respect of a judgment already obtained abroad. Although the Russian courts have recognised and enforced at least two foreign court judgments (including the judgment of an English court), on the basis of a combination of the principle of reciprocity and, in the case of enforcement of an English court judgment, the existence of a number of bilateral and multilateral treaties to which both United Kingdom and the Russian Federation are parties, there is no assurance that this approach will be exercised in respect of other court judgments obtained in the United Kingdom. In addition, the enforcement of any such judgment (if any) may be significantly delayed due to the limited experience of Russian courts in the enforcement of foreign court judgments.

The Loan Agreement will be governed by English law and will provide for disputes, controversies and causes of action ("**Disputes**") brought by any party thereto to be settled by arbitration in accordance with the LCIA Arbitration Rules (the "**Rules**"). The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

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

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

The Arbitration Procedural Code provides for the procedure for Russian courts to refuse to recognise and enforce any arbitral award. The Arbitration Procedural Code and other Russian procedural legislation could change; therefore, other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, the requirement of international treaties may be met with resistance or a lack of understanding by a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcement of any foreign judgment or any foreign arbitral award in the Russian Federation.

INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

Pursuant to Internal Revenue Service Circular 230, we hereby inform you that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the marketing of the Notes. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

CERTAIN ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), imposes fiduciary standards and certain other requirements on employee benefit plans subject thereto (collectively, "**ERISA Plans**"), including collective investment funds, separate accounts, and other entities or accounts whose underlying assets are treated as assets of such plans pursuant to the U.S. Department of Labor "plan assets" regulation, 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA (the "**Plan Assets Regulation**"), and on those persons who are fiduciaries with respect to ERISA Plans.

Under a "look-through rule" set forth in the Plan Assets Regulation, if an ERISA Plan or a plan that is not subject to ERISA but that is subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "**Code**") (collectively, "**Plans**"), invests in an "equity interest" of an entity that is neither a "publicly offered security" nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless an exception applies. Under one such exception to this look-through rule, the underlying assets of an entity in which a Plan makes equity investment will not be considered "plan assets" if benefit plan investors own less than 25 per cent. of the value of each class of equity interest in the entity. For purposes of this 25 per cent. determination, the value of equity interests held by persons (other than benefit plan investors) that have discretionary authority or control with respect to the assets of the entity or that provide investment advice for a fee (direct or indirect) with respect to such assets (or any affiliate of such a person) is disregarded. An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features. The term "**Benefit Plan Investor**" is defined as (a) an employee benefit plan as described in Section 3(3) of ERISA) that is subject to part 4 of subtitle B of Title I of ERISA, (b) a plan to which Section 4975 of the Code applies, or (c) any entity whose underlying assets include "plan assets" by reason of any such plan's investment in the entity. Where the value of an equity interest in an entity relates solely to identified property of the entity, that property is treated as the sole property of a separate entity.

Because the Notes do not represent an interest in any property of the Issuer other than the Loan, they may be regarded for ERISA purposes as equity interests in a separate entity whose sole assets are the Loan and loans in connection with previous issuance of loan participation notes. Further, neither the Issuer nor the Trustee will be able to monitor the Noteholders' possible status as benefit plan investors. Accordingly, the Notes are not permitted to be acquired by any benefit plan investor.

Governmental plans, certain church plans and certain non-U.S. plans, while not subject to the prohibited transaction provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to federal, state, local, non-U.S. laws or regulations that are substantially similar to the foregoing provisions of ERISA or the Code ("**Similar Law**"). Fiduciaries of such plans should consult with their counsel before purchasing any of the Notes or any interest therein.

BY ITS PURCHASE AND HOLDING OF A NOTE OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED AT THE TIME OF ITS PURCHASE AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTE OR INTEREST THEREIN, (I) IT IS NOT AND IS NOT USING THE ASSETS OF AND WILL NOT BE A BENEFIT PLAN INVESTOR; (2) IF IT IS AN EMPLOYEE BENEFIT PLAN SUBJECT TO SIMILAR LAW, THE PURCHASE AND HOLDING OF THE NOTE OR ANY INTEREST THEREIN DOES NOT AND WILL NOT VIOLATE ANY SUCH SIMILAR LAW; AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER SUCH NOTE OR ANY INTEREST THEREIN TO ANY PERSON UNLESS THE SAME FOREGOING REPRESENTATIONS AND WARRANTIES APPLY TO SUCH PERSON. NO ACQUISITION BY OR TRANSFER TO A BENEFIT PLAN INVESTOR

OF ANY NOTE WILL BE EFFECTIVE, AND NONE OF THE ISSUER, THE REGISTRAR, ANY TRANSFER AGENT OR THE TRUSTEE WILL RECOGNISE SUCH ACQUISITION OR TRANSFER OF SUCH NOTE. IN THE EVENT THAT THE ISSUER DETERMINES THAT ANY SUCH NOTE IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER OF SUCH NOTE.

The foregoing discussion should not be construed as legal advice. Any potential purchaser of Notes should consult its legal counsel with respect to issues arising under ERISA, Section 4975 of the Code and any Similar Law and make its own independent decisions.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

CBM's financial information set forth herein has, unless otherwise indicated, been extracted, without material adjustment, from CBM's audited consolidated financial statements for the years ended 31 December 2011, 2010 and 2009 (the "**2011 Annual Financial Statements**", "**2010 Annual Financial Statements**" and "**2009 Annual Financial Statements**", respectively, and together, the "**Annual Financial Statements**") and CBM's unaudited consolidated condensed financial statements for the nine months ended 30 September 2012 (the "**Interim Financial Statements**" and, together with the Annual Financial Statements, the "**Financial Statements**") set forth on pages F-l through F-232 of this Prospectus. The Audited Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as promulgated by the International Accounting Standards Board and the Interim Financial Statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("**IAS 34**").

The Annual Financial Statements have been audited and the Interim Financial Statements have been reviewed.

The Russian Rouble is the measurement currency for the Financial Statements. The Financial Statements and financial information included elsewhere in this document have, unless otherwise noted, been presented in roubles.

The accounts used by CBM's management to plan, manage and monitor the performance of the business on a day-to-day basis are based on information prepared in accordance with RAS. In addition, CBM analyses financial information relating to its subsidiaries based on RAS. CBM typically produces financial statements in accordance with IFRS on a quarterly basis, approximately 7-13 weeks after the end of the relevant period.

CBM's Independent Auditors

The Financial Statements of CBM as at 31 December 2011, 2010 and 2009, and for the years then ended, included in the Prospectus have been audited by ZAO KPMG ("**KPMG**"), as stated in their reports appearing herein. With respect to the Interim Financial Statements included herein, KPMG have reported that they applied limited procedures in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". However, their separate report included herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. The address of KPMG is Naberezhnaya Tower Complex, Block C, 10 Presnenskaya Naberezhnaya, Moscow 123317, Russian Federation. KPMG is a corporate member of the Audit Chamber of Russia (*Auditorskaya Palata Rossii*).

Impact of Changes in Presentation

In connection with the preparation of the 2011 Annual Financial Statements, CBM reclassified certain promissory notes issued by CBM to corporate banking customers from debt securities issued to deposits by customers in order to reflect more accurately the economic substance of the transactions. This reclassification did not have a significant impact on the financial results of CBM and in particular had no impact on CBM's net interest income, operating income or net profit in the statement of income or on CBM's total assets, total liabilities or net assets in the statement of financial position for any of the periods or as at any of the dates presented in this Prospectus.

The 2010 and 2009 Annual Financial Statements were not required to be, and were not, restated as a result of this reclassification. However, the 31 December 2010 comparative information in the Statement of Financial Position in the 2011 Annual Financial Statements was revised to reflect this reclassification in order to present the relevant items on a comparable basis. In particular, in such comparative information as at 31 December 2010, RUB 1,532,248 was subtracted from debt securities issued and was added to deposits by customers.

Certain Definitions

In this Prospectus, all references to:

- "**CBR**" are to the Central Bank of Russia;

- "**CIS**" are to the Commonwealth of Independent States and its member states (excluding Russia) as at the date of this Prospectus, being Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan;
- "**EBRD**" are to the European Bank for Reconstruction and Development;
- "**EU**" are to the European Union;
- "**FSFM**" are to the Russian Federal Service for Financial Markets or its predecessor;
- "**IFC**" are to the International Finance Corporation;
- "**Interest Earning Assets**" are to the sum of gross loans to customers, amounts receivable under reverse repurchase agreements, financial assets 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 by customers, other borrowed funds, debt securities issued, deposits and balances from banks and other financial institutions, subordinated debt and amounts payable under repurchase agreements;
- "**Net Interest Margin**" is calculated as net interest income before provision for loan impairment, as a percentage of the average Interest Earning Assets;
- "**NPL**" means non-performing loan, which CBM defines as a loan in respect of which principal and/or interest is overdue by more than 90 days; and
- "**Russia**" and "**Russian**" pertain to the Russian Federation.

Certain Currencies

In this Prospectus, the following currency terms are used:

- "**RUB**", "**Russian Roubles**", "**Roubles**" or "**roubles**" means the lawful currency of the Russian Federation;
- "**US$**" or "**U.S. dollar**" means the lawful currency of the United States; and
- "**EUR**", "**Euro**" "**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 establishing the European Economic Community, as amended.

References in the Prospectus to "billions" are to thousands of millions.

Rounding

Certain figures included in this 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 an arithmetic aggregation of the figures that precede them.

Exchange Rate Information

The table below sets forth, for the periods and dates indicated, the high, low, period end and period average exchange rate between the Rouble and the U.S. dollar, based on the official exchange rate quoted by the CBR for the relevant year. Fluctuations in the exchange rate between the Rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Financial Statements and other financial information presented in this Prospectus.

	RUB per $1.00			
	High	Low	Period end	Period average[1]
Year				
2007	26.58	24.26	24.55	25.58
2008	29.38	23.13	29.38	24.86
2009	36.43	28.67	30.24	31.72
2010	31.78	28.93	30.48	30.37
2011	32.68	27.26	32.20	29.35
2012	34.04	28.95	30.37	31.07
2013 (up to and including 26 January 2013)	30.42	30.05	30.05	30.29

Source: www.cbr.ru (CBR)

Note:

(1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

No representation is made that the Rouble or U.S. dollar amounts referred to herein could have been or could be converted into Roubles or U.S. dollars, as the case may be, at these rates, at any particular rate or at all. **The exchange rate between the Rouble and the U.S. dollar has fluctuated significantly during the periods covered by the Financial Statements. The CBR rate on 26 January 2013 was RUB 30.05 = US$1.00.**

Average Balance Sheet and Interest Rate Data

This Prospectus includes information on the average balances of Interest Earning Assets and Interest Bearing Liabilities of CBM as at and for the nine months ended 30 September 2012 and 30 September 2011, and for the years ended 31 December 2011, 31 December 2010 and 31 December 2009, as well as the average rate of interest income or expense for such assets and liabilities. Unless otherwise expressly stated, the consolidated average balances of assets and liabilities presented in this Prospectus represent the average of the opening, quarter-end and closing balances for the applicable period. Calculation of these average balances on weekly or daily basis could result in materially different average results. Prospective investors are cautioned that the average balances and related data presented in this Prospectus are based on materially less frequent average methods than those used by other banks in the United States, Western Europe and other jurisdictions in connection with similar offers of securities.

The average interest rates disclosed in this Prospectus are calculated by dividing aggregate interest income or expense for the relevant line item by the average balance for the same item for the applicable period. Average interest rates are distinct from the effective interest rates presented in the consolidated financial statements of CBM. The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the entire expected life of the instrument. The present value calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate. See Note 3 to each of the Interim Financial Statements and the 2011, 2010 and 2009 Annual Financial Statements.

CBM presents information on effective interest rates because IFRS requires that this rate be used in the preparation of its consolidated financial statements. Operationally, CBM uses this information as well as average interest rates as both are considered useful business tools.

Translations

The language of this 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. All translations in this Prospectus are direct and accurate translations of the original text.

TABLE OF CONTENTS

	Page
OVERVIEW	1
RISK FACTORS	8
DESCRIPTION OF THE TRANSACTION	40
USE OF PROCEEDS	42
CAPITALISATION AND INDEBTEDNESS OF CBM	43
SELECTED CONSOLIDATED FINANCIAL INFORMATION	44
SELECTED STATISTICAL INFORMATION	47
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	51
BUSINESS	100
RISK MANAGEMENT	117
MANAGEMENT	132
SHAREHOLDERS	142
RELATED PARTY TRANSACTIONS	145
THE BANKING SECTOR IN RUSSIA	148
BANKING REGULATION IN RUSSIA	156
THE ISSUER	173
FORM OF THE LOAN AGREEMENT	175
TERMS AND CONDITIONS OF THE NOTES	210
TRANSFER RESTRICTIONS	224
FORM OF THE NOTES	229
TAXATION	233
SUBSCRIPTION AND SALE	243
GENERAL INFORMATION	248
INDEX TO FINANCIAL STATEMENTS	F-1

OVERVIEW

This overview highlights certain information concerning the business of CBM, the Notes and the Loan. It does not contain all information that may be important to an investor in the Notes or an investment decision in relation to the Notes. This overview should be carefully read in conjunction with, and is qualified in its entirety by reference to, the more detailed information in this Prospectus, including the Annual Financial Statements and Interim Financial Statements. Investors should also consider the matters set forth in "Risk Factors" before deciding to invest in the Notes. Certain statements in this Prospectus include forward-looking statements which also involve risk and uncertainties as described under "Forward-Looking Statements."

Overview of CBM

Established in 1992, CBM is a universal commercial bank, the main purpose of which is to provide high quality banking products and services to its corporate and retail clients. CBM provides its clients with a comprehensive range of banking services, including corporate and retail lending, cash collection and delivery, guarantees and letters of credit, trade and structured finance, factoring, leasing, deposit-taking, settlements, plastic card services and foreign exchange operations.

CBM currently operates exclusively in Moscow and the Moscow region (other than a small part of its cash collection and delivery business which is conducted in regions neighbouring the Moscow region), as it considers these markets to be the most promising for its future business development. As at 30 September 2012, CBM had 61 branches, 13 cash offices, 672 ATMs and 4,175 payment terminals. According to RBC Rating, as at 30 July 2012, CBM was ranked 7th in Moscow based on number of ATMs and 2nd in Moscow based on number of payment terminals. As at 30 September 2012, CBM was the 20th largest bank in Russia based on net assets and the 24th largest bank in Russia based on the size of its equity capital, in each case according to Interfax-100, based on Russian Accounting Standards. According to RBC Rating, as at 30 September 2012 CBM was rated 16th among Russian banks based on the size of its loan portfolio and 20th among Russian banks based on amount of customer deposits.

Corporate banking is CBM's core business area, representing 79.1% of total gross loans to customers as at 30 September 2012, as compared with 81.6%, 82.8% and 83.3% of total gross loans to customers as at 31 December 2011, 2010 and 2009, respectively. CBM's strategy includes aiming to increase the size of its retail banking business as a percentage of its overall business. However, CBM expects corporate banking to continue to represent the majority of CBM's overall business for the foreseeable future.

CBM is one of the market leaders in providing cash collection and delivery services to businesses in Moscow and the Moscow region. It was the 3rd largest cash collection and delivery service provider in Moscow, according to an Interfax survey conducted in 2011. A large portion of CBM's client base is comprised of large Moscow-based wholesale and retail trading companies which make use of CBM's cash collection and delivery services because of their cash-intensive businesses.

As of the date of this Prospectus, CBM's shareholders are Mr. Roman Avdeev (85%), EBRD (7.5%), IFC (2.9%) and the IFC Russian Bank Capitalization Fund (4.6%). Mr. Avdeev acquired 100% of CBM in 1994, and in August 2012, EBRD and IFC each acquired a 7.5% equity stake in CBM by purchasing newly-issued shares of CBM. In December 2012, IFC transferred a 4.6% equity stake to the IFC Russian Bank Capitalization Fund, which forms a group of companies with IFC.

As at 30 September 2012, CBM's total assets were RUB 279.2 billion, as compared with RUB 232.4 billion as at 31 December 2011, RUB 165.5 billion as at 31 December 2010 and RUB 87.1 billion as at 31 December 2009. CBM's net income for the nine months ended 30 September 2012 was RUB 3.8 billion compared to RUB 2.4 billion for the nine months ended 30 September 2011. CBM's net income was RUB 3.9 billion, RUB 3.0 billion and RUB 780 million for the years ended 31 December 2011, 2010 and 2009, respectively. CBM's total equity was RUB 36.7 billion, RUB 25.6 billion, RUB 13.8 billion and RUB 11.0 billion as at 30 September 2012, and 31 December 2011, 2010 and 2009, respectively.

As at the date of this Prospectus, CBM is rated by Fitch, Moody's and Standard & Poor's. CBM's long-term global and local currency deposit rating and financial strength rating by Moody's are B1 and E+, respectively. CBM's long term issuer default and short term issuer default ratings by Fitch are BB- and B, respectively. CBM's long term counterparty default and short term counterparty default ratings by Standard & Poor's are B+ and B, respectively.

CBM is headquartered in Moscow, and is registered as an open joint-stock company operating under general banking licence No. 1978 issued by the CBR.

Competitive Strengths

CBM's management believes that CBM has a number of competitive advantages in the Russian banking market, including:

- resilient business model focused on corporate banking and cash collection and delivery;
- established position in the Moscow banking market, including a developed point-of-sale network for servicing retail banking clients;
- quality and liquidity in loan and securities portfolios;
- long-term relationships with strategic international partners;
- history of strong shareholder support;
- flexible and innovative approach to services; and
- experienced management team.

Strategy

The following are the key elements of CBM's medium-term strategy:

- continue to focus on core corporate banking business;
- leverage corporate banking strengths to expand retail banking business;
- maintain geographical focus on Moscow and the Moscow region;
- continue to improve operational efficiency; and
- continue to diversify funding sources.

Recent Developments

In October 2012, CBM signed a one-year RUB 800 million revolving credit facility agreement with OJSC "Russian Bank for Small and Medium Enterprises Support" ("**SME Bank**"), part of the Vnesheconombank group. The funds are being used by CBM for SME lending.

In November 2012, CBM entered into a RUB 1 billion revolving credit facility with SME Bank with repayment due in 2015. The purpose of the credit facility is to provide microfinance loans to CBM's SME clients.

In November 2012, CBM repaid in full its one-year US$131 million B loan under its A/B structured syndicated loan provided by a consortium of 13 foreign banks with IFC as the arranger.

On 30 November 2012, CBM signed a one-year syndicated loan facility agreement in the amount of US$308 million arranged by Banc of America Securities Limited, Barclays Bank PLC, Commerzbank Aktiengesellschaft, GAZPROMBANK (Open Joint-stock Company), ING Bank N.V., Landesbank Berlin AG, Raiffeisen Bank International AG, Joint Stock Commercial Bank "ROSBANK" (Open joint-stock company), Standard Chartered Bank and VTB Bank (Deutschland) AG. The interest rate is 2.4% over 6-month LIBOR. The funds were received on 6 December 2012. The proceeds of the loan will be used by CBM for financing trade transactions of its clients.

In December 2012, CBM issued subordinated domestic bonds in an amount of RUB 3 billion with a fixed coupon of 12.25% and maturity in June 2018.

Overview of the Offering

THE NOTES

The Issuer	CBOM Finance p.l.c.
Joint Lead Managers	Barclays Bank PLC, Merrill Lynch International, Raiffeisen Bank International AG, The Royal Bank of Scotland plc.
The Notes	US$500,000,000 7.70% Loan Participation Notes due 2018.
Issue Price	100% of the principal amount of the Notes.
Issue Date	1 February 2013.
Maturity Date	1 February 2018.
Trustee	BNY Mellon Corporate Trustee Services Limited.
Principal Paying Agent and Transfer Agent	The Bank of New York Mellon, London Branch.
Registrar	The Bank of New York Mellon (Luxembourg) S.A.
U.S. Paying Agent and Transfer Agent	The Bank of New York Mellon, New York Branch.
Yield	7.70% per annum. This calculation is based on the coupon rate, length of time to maturity and market price. It assumes that the interest paid over the life of the Notes is reinvested at the same rate.
Interest and Interest Payment Dates	On each Interest Payment Date (being 1 February and 1 August in each year commencing on 1 August 2013 and ending on 1 February 2018), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan Agreement is equal to 7.70%, per annum.
Form and Denomination of the Notes	Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in the Unrestricted Global Note in registered form, without interest coupons attached, which will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and shall be deposited on or about the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg. Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in the Restricted Global Note in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with a custodian for, and registered in the name of Cede & Co. as nominee for DTC. Notes will be issued in minimum denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. See *"Terms and Conditions of the Notes – 2 Form and Denomination"*. Interests in the Notes will be subject to certain restrictions on transfer. See *"Form of the Notes"* and *"Transfer Restrictions"*. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.
Status of the Notes	The Notes constitute secured, limited recourse obligations of the Issuer and shall at all times rank rateably, without preference amongst themselves. Recourse in respect of the Notes is limited to the assets securing the Notes. The Notes are secured in the manner described in the Trust Deed and under *"Terms and Conditions of the Notes – 1 Status and Limited Recourse"*.

Limited Recourse	The Notes will constitute the obligation of the Issuer to apply the net proceeds from the issue of the Notes solely for the purpose of financing the Loan to CBM pursuant to the terms of the Loan Agreement. The Issuer will only account to the Noteholders for all amounts equivalent to those (if any) received and retained (net of tax) from CBM under the Loan Agreement or held on deposit in the Account (as defined in the Trust Deed) less amounts in respect of the Reserved Rights (as defined in the Trust Deed), all as more fully described under *"Terms and Conditions of the Notes"*. All moneys received by the Trustee under the Trust Deed shall be applied in accordance with the priority of payments (as more fully set out in the Trust Deed).
Security	The Issuer's payment obligations under and in respect of the Notes will be secured by a first fixed charge in favour of the Trustee for the benefit of itself and the Noteholders of (i) certain of the Issuer's rights and interests as lender under the Loan Agreement, and (ii) the Issuer's rights, title and interest in, and all sums held on deposit in, the Account (as defined in the Trust Deed) (in each case, other than the Reserved Rights), all as more fully described under *"Terms and Conditions of the Notes"*. In addition, the Issuer with full title guarantee will assign absolutely certain administrative rights under the Loan Agreement (save for the rights charged or excluded as described above) to the Trustee for the benefit of itself and the Noteholders, as more fully described under *"Terms and Conditions of the Notes"*. As long as any of the Notes remain outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement.
Withholding Tax	All payments in respect of interest and principal on the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of Ireland or the Russian Federation, save as required by law. If any such taxes, duties, assessments or governmental charges are payable, the Issuer shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such deduction or withholding been required. The sole obligation of the Issuer in this respect will be to account to the Noteholders for the sums equivalent to the sums received from CBM. See *"Terms and Conditions of the Notes"*. In such circumstances, CBM will be required to increase the sum payable under the Loan Agreement to the extent necessary to ensure that the Issuer receives a net sum sufficient to pay to the Noteholders such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such deduction or withholding been made or required to be made.
Redemption at the Option of the Issuer	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time upon giving notice to the Noteholders in accordance with Condition 14 *(Notices),* at their outstanding principal amount together with accrued and unpaid interest to, and including, the date of redemption and any additional amounts in respect thereof in the event that CBM elects to prepay the Loan for tax reasons or in the event that it becomes unlawful for the Issuer to fund the Loan or to allow the Loan or the Notes to remain

	outstanding under the Loan Agreement. See Condition 6 *(Redemption and Purchase)*.
Redemption at the option of the Noteholders	If a Put Event (as defined in Condition 6(C) *(Redemption at the option of the Noteholders))* occurs, each Noteholder shall have the option to require the Issuer to redeem each Note held by the relevant Noteholder on the Put Settlement Date (as defined in Condition 6(C) *(Redemption at the option of the Noteholders)* at its principal amount together with accrued interest to (but excluding) the Put Settlement Date.
Listing	Application has been made to list the Notes on the Irish Stock Exchange. It is expected that admission to listing will become effective and dealings are expected to commence on or about the Issue Date.
Clearing	The Notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg.
Security Codes	*Restricted Notes* / *Unrestricted Notes* ISIN: US12504PAA84 / XS0879105558 Common Code: 087946762 / 087910555 CUSIP: 12504PAA8
Use of Proceeds	An amount equal to the gross proceeds of the issue of the Notes will be used by the Issuer for the sole purpose of financing the Loan to CBM. The proceeds of the Loan will be used by CBM for general banking purposes. See *"Use of Proceeds"*.
Governing Law	The Notes, the Agency Agreement and the Trust Deed and any non-contractual obligations arising out of or in connection therewith will be governed by, and construed in accordance with the laws of England.
Ratings	It is expected that the Notes will be rated BB- by Fitch and B1 by Moody's. CBM's current foreign senior unsecured debt rating by Moody's is B1 and CBM's current long term issuer default rating by Fitch is BB-. CBM's long term counterparty default and short term counterparty default ratings by Standard & Poor's are B+ and B, respectively. Credit ratings assigned to the Notes do not necessarily mean that the Notes are a suitable investment. **A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.** Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or CBM could adversely affect the price that a subsequent purchaser would be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Selling Restrictions	The Notes have not been nor will be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person (as defined in Regulation S under the Securities Act), except to QIBs who are also QPs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes may be offered and sold in other jurisdictions (including, but not limited to, the United States, United Kingdom, Austria,

	Hong Kong, Ireland, the Russian Federation, Singapore and Switzerland) only in compliance with applicable laws and regulations. See *"Subscription and Sale"*.
ERISA Considerations	The Notes may be regarded for ERISA purposes as equity interests in a separate entity whose sole assets are the Loan and loans in connection with previous issuances of loan participation notes. Accordingly, the Notes should not be acquired by any benefit plan investor. Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made certain representations as to its status under ERISA. See "*Certain ERISA Considerations*" and "*Transfer Restrictions*".
Further Issues	The Issuer may from time to time, with the consent of CBM but 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 be consolidated and form a single series with the Notes. In the event of such further issuance, the Loan will be correspondingly increased. See "*Terms and Conditions of the Notes – 16 Further Issues*".
Risk Factors	An investment in the Notes involves a high degree of risk. See *"Risk Factors"*.
THE LOAN	
Lender	CBOM Finance p.l.c.
Borrower	CREDIT BANK OF MOSCOW (open joint-stock company), an open joint-stock company registered under the laws of the Russian Federation, with its registered office and business headquarters at 2 (Building 1) Lukov Pereulok, Moscow 107045, Russian Federation.
Status of the Loan	The Loan and all payment obligations expressed to be assumed by CBM thereunder constitute direct, general, unconditional, unsubordinated and unsecured obligations of CBM 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.
Principal Amount of the Loan	US$500,000,000.
Interest on the Loan	7.70% per annum, payable semi-annually in arrear on 1 February and 1 August in each year starting on 1 August 2013.
Negative Pledge and Other Covenants	Clause 10 (*Covenants by the Borrower*) of the Loan Agreement contains, *inter alia*, a negative pledge in relation to the creation of Liens (as defined in the Loan Agreement) by CBM and its Material Subsidiaries (as defined in the Loan Agreement) and covenants limiting, *inter alia*, mergers and disposals by CBM, transactions between CBM and its Affiliates (as defined in the Loan Agreement) and maintenance of capital adequacy by CBM. See "*Form of the Loan Agreement*".
Event of Default/Relevant Event	If an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the Trust Deed) shall have occurred and be continuing, the Trustee may, subject as provided in the Trust Deed, (i) in the case of an Event of Default, require the Issuer to declare all amounts payable under the Loan Agreement by CBM to be due and payable and do all such other acts in connection therewith that the Trustee may direct or (ii) in the case of a Relevant Event, enforce any rights under the security created in the Trust Deed in favour of the Noteholders.

Withholding Tax	All payments in respect of interest and principal to be made by CBM under the Loan Agreement will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of Ireland or the Russian Federation, save as required by law. If any such taxes, duties, assessments or governmental charges are payable, CBM shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Issuer of such amounts as would have been received had no such deduction or withholding been required.
Prepayment	The Loan may be prepaid by the Borrower, in the event that (i) it becomes unlawful for the Issuer to fund the Loan or allow the Loan to remain outstanding under the Loan Agreement or allow the Notes to remain outstanding and, in such case, the Issuer requires the Loan to be repaid in full; (ii) if the Borrower elects to repay the Loan in the event it is required to pay additional amounts of interest, principal or any other payment due on the Loan on account of Irish or Russian withholding taxes; or (iii) if and to the extent a Put Event (as described in Condition 6(C) *(Redemption at the option of the Noteholders)* occurs and the Noteholders rights to require the Notes to be redeemed are exercised.
Governing Law	The Loan and any non-contractual obligations arising out of or in connection therewith will be governed by, and construed in accordance with the laws of England.

RISK FACTORS

Prospective investors should consider carefully, among other things, the risks set forth below and other information contained in this Prospectus prior to making any investment decision with respect to the Notes. CBM notes that in a number of situations, which it cannot always control, these risks may materialise and may negatively affect CBM's ability to comply with its payment obligations under the Loan Agreement and, as a result, the debt service by the Issuer on the Notes. These risk factors, individually or together, could have a material adverse effect on CBM, the Issuer and/or their respective businesses, operations and financial conditions and/or the rights under the Notes of the holders of the Notes. In addition, the value of the Notes could decline due to any of these risks, and investors may lose some or all of their investment.

Prospective investors should note that the risks described below are the principal risks which CBM believes are relevant to prospective investors, but they are not the only risks each of CBM or the Issuer, as the case may be, faces. There may be additional risks of which CBM or the Issuer is not currently aware, and any of these risks could have a negative effect on CBM's ability to comply with its payment obligations under the Loan Agreement or the debt service by the Issuer on the Notes. Prospective investors are urged to consult with their own legal, financial and tax advisors before making an investment in the Notes.

Risks Relating to CBM's Business and Industry

The instability of the global and the Russian credit markets and banking sectors, and the ongoing European sovereign debt crisis could have a material adverse effect on CBM's business, liquidity and financial condition

The credit markets have faced significant volatility, dislocation and liquidity constraints since the onset of the sub-prime mortgage crisis in the United States in 2007 and the subsequent global financial crisis. Falling house prices and increasing foreclosures and unemployment impacted the global credit markets, resulting in significant mark-to-market write downs of asset values by financial institutions, including government sponsored entities and major commercial and investment banks. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases, ceased, to provide funding to borrowers, including other financial institutions. Overall, the uncertainty in the global markets, combined with corresponding domestic factors in 2009, led to very high volatility in the Russian stock markets and at times gave rise to much higher than normal interbank lending rates. For example, in January 2008, the average interbank rouble lending rate was 2.8%, while in January 2009, it increased to 16.3% (calculated using data published by the CBR on its website www.cbr.ru from time to time ("**CBR data**")). In 2010 and 2011, the average interbank lending rate was 3.1% and 3.9%, respectively, and in the first nine months of 2012, was 5.4% (calculated using CBR data).

Investment capital inflows into Russia also decreased significantly as a result of the global financial crisis, reducing liquidity. In 2008, the Russian economy experienced a net capital outflow in the private sector of US$133.7 billion (calculated using CBR data). However, following signs of some economic recovery, net capital outflows reduced to US$56.1 billion in 2009, and to US$34.4 billion in 2010, before increasing to US$80.5 billion in 2011, according to the CBR. In the nine months ended 30 September 2012, net capital outflows were US$57.9 billion (calculated using CBR data). According to Rosstat, the volume of foreign investment into Russia was US$81.9 billion in 2009, which increased by 40% to US$114.7 billion in 2010 and further increased by 66.2% to US$190.6 billion in 2011. In the nine months ended 30 September 2012, the volume of foreign investment into Russia was US$114.5 billion, a decrease of 14.4% from US$133.78 billion in the nine months ended 30 September 2011.

The global financial crisis led to reduced liquidity and increased credit risk premiums for certain market participants, resulting in a reduction of available financing across the world, and consequently, a sharp fall in the supply of long and medium term financing for Russian companies and in the Russian domestic market. CBM's loan to deposit ratio changed from 127.8% as at 31 December 2009 to 111.0% as at 31 December 2010, 108.4% as at 31 December 2011 and 124.2% as at 30 September 2012. The principal source of funding for CBM is deposits by customers, which accounted for 67.8% of CBM's total liabilities as at 30 September 2012. According to the CBR's statistics, in 2008 the growth of retail deposits in the Russian banking market halved to 14.5% as compared to growth of 35.4% for 2007, and corporate deposits growth slowed to 40.5% in 2008, from 67.5% in 2007. In the

autumn of 2008, several Russian financial institutions suffered severe liquidity problems and had to sell their shares to state controlled or private institutions in exchange for financial support. Some banks had their licences revoked by the CBR.

The volatility and market disruption in the global banking sector has continued through 2011 and 2012. In particular, global financial markets have experienced increased volatility since the second half of 2011, a period which has seen the sovereign rating downgrades of, amongst others, the United States, France, Austria, Greece, Ireland, Portugal, Spain and Italy and continued concerns over the stability of the European monetary system and the stability of certain European economies, notably Greece, Ireland, Portugal, Spain and Italy. Repeated summits of, and attempts by, European leaders to find a lasting solution to market concerns about such countries' ability to repay their debt have not yet resulted in a bail-out package and there remain continuing doubts concerning the stability of the European monetary system and economy. Any restructuring of sovereign debt, and the impact of that on global or Russian markets could have an adverse effect on CBM's business, financial condition, results of operations, prospects and the value of the Notes.

Should the ongoing European debt crisis lead to a meaningfully worsening global macroeconomic situation and/or impact commodity prices and global trade flows, Russia's overall economic and financial position in the medium term could also be negatively affected. The lack of liquidity experienced in the Russian banking system during the height of the global financial crisis may return, or the federal government of the Russian Federation (the "**Russian Government**") may fail to implement state support measures to support the Russian banking sector, as it did following the onset of the global financial crisis in the second half of 2008. See "*Banking Regulation in Russia – Measures to Support the Banking and Finance System*". Any further turmoil in the global or Russian banking sectors, including the default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions could cause severe stress in the financial system generally and could adversely affect the markets in which CBM, its counterparties, clients, suppliers and creditors operate, in ways which are difficult to predict. This could adversely affect CBM's financial condition, results of operations and/or prospects as a result of decreases in CBM's net interest income, decreases in the demand for CBM's credit products, significantly increased loan provision charges, loan losses and write-offs.

There is significant competition in the Russian banking market, particularly from state-owned banks

The Russian banking market is highly competitive. According to the CBR, as at 1 December 2012, 1,094 banks and non-bank credit organisations were registered in Russia and the 20 largest banks held 70.1% of total banking assets.

CBM faces significant competition in substantially all the business segments and regions in which it operates. As a result of the effects of the global financial crisis, CBM now faces far greater competition from state controlled banks such as Sberbank, VTB and Gazprombank, in addition to competition from both Russian private banks and subsidiaries of non-Russian financial institutions. Due to direct ratings support of the Russian Federation, state controlled banks have access to cheaper sources of funding from international capital markets and are major beneficiaries of government programmes, including anti-crisis aid. Using these advantages, these banks can attract the largest clients by offering credit products with lower interest rates, and, as a result, maintain or increase their market share, without compromising net interest margins. The largest Russian banks are concentrated in Moscow (where CBM's business is concentrated), while large regional banks conduct most of their business in the central cities of their respective regions. Competition for client business among Russian banks is intense, which has led, among other things, to the narrowing of spreads between deposit and loan interest rates, affecting Russian banks' profitability. For example, although CBM's Net Interest Margin increased from the nine months ended 30 September 2011 to the nine months ended 30 September 2012, increased competition in the Russian banking sector was a factor causing CBM's Net Interest Margin to decrease from 2009 to 2010 and from 2010 to 2011.

In addition, due to the fact that Russia's banking system is highly fragmented, significant merger and acquisition activities may take place in the short or medium-term which may result in the emergence of new strong competitors for CBM. Some consolidation has already taken place in the sector, including the acquisition by VTB of TransCreditBank and Bank of Moscow. Consolidation among privately-owned Russian banks includes the acquisition by NOMOS Bank of a controlling interest in Bank of Khanty-Mansiysk in 2010 and the acquisition by Otkritie Bank of a 19.9% interest in NOMOS Bank in 2012. If further consolidation takes place and CBM fails to attract additional capital or engage in mergers and acquisitions in order to remain competitive, it could have a material

adverse effect on CBM's market shares, business, financial condition, results of operations and/or prospects.

CBM's financial position and results of operations could be affected by declines in net interest margins andlor excess liquidity in the Russian banking sector

CBM's results of operations depend to a large extent on its net interest income. Net interest income represented 73% of CBM's operating income for the nine months ended 30 September 2012, and 77.3%, 70.1% and 66.1% of CBM's operating income for the years ended 31 December 2011, 2010 and 2009, respectively.

In 2008 and early 2009, an accelerating domestic consumer price index and a global re-pricing of credit risk as a result of the turmoil in the international financial markets led to increasing interest rates in both lending and deposit taking across the Russian banking sector. Starting from the second half of 2009, interest rates began to decline, and this decline continued through the first part of 2010. CBM's Net Interest Margin (calculated on a quarterly basis as described in "*Selected Statistical Information – Average Balance Sheet and Interest Rate Data*") was 5.1% for the nine months ended 30 September 2012, 4.8% for the year ended 31 December 2011, 5.5% for the year ended 31 December 2010 and 6.4% for the year ended 31 December 2009.

From the last quarter of 2010 interest rates slowly but continuously increased and by mid-2011 reached pre-global financial crisis levels. Rates on new customer deposits were relatively stable during this period. These trends were sharply reversed in the last quarter of 2011 when spillovers from the Eurozone sovereign debt crisis resulted in liquidity pressures for Russian banks and an increase in the borrowing costs for Russian banks issuing their own securities or subordinated debt, or wholesale borrowing from other banks. In order to attract additional funds and avoid outflow of customer deposits, banks significantly increased customer deposit rates. Rates on lending were also subsequently raised in an attempt to maintain margins. Inflationary pressures subsided in 2011 which allowed the CBR to ease monetary policy simultaneously providing extensive liquidity support to the Russian banking system. However, there is still increased pressure on margins resulting from interest rates on customer deposits increasing at a higher rate as compared to lending rates and as a result of competition from state-controlled banks, which have the benefit of significantly larger liquid resources at their disposal than Russian privately-owned banks and subsidiaries of foreign banks. See "*– There is significant competition in the Russian banking market, particularly from state-owned banks*" above. These factors, together with the necessity to maintain customer deposit interest rates at high levels, have resulted in increased pressure on margins and profitability. In addition, competitive pressures or fixed rates in existing loan commitments or facilities may mean that CBM will be restricted in its ability to increase interest rates charged to customers in response to changes in interest rates that affect wholesale borrowing from other banks, which may put pressure on, or have a material adverse effect on, CBM's interest margin. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for the Nine Month Periods Ended 30 September 2012 and 2011 – Net Interest Income*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for the Years Ended 31 December 2011, 2010 and 2009 – Net Interest Income*".

CBM may not be able to accurately assess the credit risk of potential borrowers

Credit risk assessment is generally difficult for Russian banks due to a lack of reliable information in Russia about potential corporate or retail borrowers. In particular, it is difficult to make long-term forecasts with respect to a borrower's financial position. The financial performance of Russian companies is generally more volatile and their credit quality is less predictable than those of similar companies in more mature markets and economies. Further, many clients do not prepare audited accounts in accordance with International Financial Reporting Standards ("**IFRS**") or Generally Accepted Accounting Principles in the United States ("**U.S. GAAP**"). With respect to retail clients, there is often less credit history available for such clients as compared to larger corporate clients. Financial information disclosed by retail clients to CBM may not be accurate or complete and CBM may be unable to independently confirm such information. In addition, Russia's network of independent credit agencies is not as developed as those in Western countries. As a result, such clients may become over-extended due to other credit obligations of which CBM is unaware and/or may complete applications for credit inaccurately or fraudulently.

Despite the credit risk determination procedures that CBM has in place, it may be unable to evaluate correctly the current financial condition of each prospective borrower and to determine its long-term economic outlook, a task which is significantly more difficult in current economic circumstances. In

addition, the lack of frequent and reliable information about borrowers in Russia may result in CBM not becoming aware of events of default of its borrowers. If the credit risk of potential borrowers is or was not assessed correctly or if the financial condition of a significant number of CBM's corporate clients deteriorates because of a general economic downturn globally and/or in Russia, an economic decline in certain sectors of the Russian economy or for any other reason, it may have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

Adverse general economic conditions may lead to a deterioration of the quality of CBM's loan portfolio

CBM is subject to risks regarding the credit quality of, and the recovery of loans to and amounts due from, customers and market counterparties. The downturn in the Russian economy pursuant to and subsequent to the global financial crisis has affected, and may continue to affect, many Russian companies' and individuals' ability to repay their loans, particularly foreign currency denominated loans. In the future, factors including, without limitation, unemployment in Russia, inflation, reduced corporate liquidity and profitability, increased corporate and personal insolvencies and/or fluctuating interest rates may reduce CBM's clients', and market counterparties', ability to repay loans. Any deterioration in the performance of the Russian economy or a reduction in levels of personal income, individual purchasing power and consumer confidence, either generally or specifically in respect of the banking sector, could have a material adverse effect on the development of CBM's business, financial condition, results of operations and/or prospects.

Any changes in the credit quality of CBM's borrowers and counterparties could accordingly reduce the value of CBM's assets, and require an increase in CBM's write-downs and allowances for impairment losses. Where circumstances or risks occur that CBM does not identify or anticipate in developing its risk management methods for non-performing loans ("**NPLs**"), this may mean that NPL levels, provisioning levels, renegotiated loans and write-offs could be greater than expected, which could have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

A decline in the value of, or illiquidity of, the collateral securing CBM's loans may adversely affect CBM's loan portfolio

A substantial portion of CBM's loans to legal entities in the Russian Federation is secured by collateral over assets such as real estate, machinery and equipment, motor vehicles, inventories, receivables, guarantees and sureties, securities and promissory notes. See "*Risk Management – Credit Risk – Collateral*". The downturns in the relevant markets and a general deterioration of economic conditions in Russia may result in declines in the value of collateral securing a number of loans. As collateral values may decline, the collateral may not be sufficient to cover uncollectible amounts of the secured loans. Furthermore, CBM tolerates a certain level of risk in its collateral requirement to maintain its competitive position in the market place. The decline in the value of collateral securing CBM's loans or CBM's inability to obtain additional collateral has, and may continue to, require CBM to reclassify relevant loans, establish additional allowances for loan impairment losses and increase reserves, which could adversely affect CBM's business, financial condition, results of operations and/or prospects.

A portion of CBM's loans is secured by collateral consisting of ownership rights in certain businesses. The primary purpose of such collateral is to enable CBM to sell such rights in the case that a borrower fails to meet its obligations under a loan agreement. Typically CBM accepts pledges of ownership rights in addition to other pledged assets rather than as a sole form of collateral. As a result of its acceptance of ownership rights as collateral, if events of default occur and borrowers fail to pay amounts due in a timely fashion, CBM may, in certain circumstances, acquire controlling or minority stakes in and be required to manage, or contribute to the management of, defaulting companies which operate in sectors that are not core to CBM's business and in respect of which CBM has limited operational or management expertise. CBM may not have an adequate number of personnel with sufficient experience to assume control of and manage these companies and may also fail to manage these businesses efficiently. This, along with downturns in the industries in which CBM's clients operate and any future deterioration of economic conditions in Russia, may result in CBM's inability to divest ownership of these assets or declines in the value of these businesses to levels below the amounts of the outstanding principal and accrued interest on the loans secured by this collateral, thereby resulting in further losses and possible write-offs or impairments to CBM.

Furthermore, foreclosure under Russian law may be complex and time-consuming. See "*– Risks Relating to the Russian Legal System and Legislation – It may be difficult for CBM to enforce security and sureties under Russian law*". Even if CBM is successful in foreclosing on collateral, it may be

difficult to find buyers for such collateral, and, consequently, the collateral may be sold for significantly less than its appraised value. Failure to recover the expected value of collateral may expose CBM to losses, which may adversely affect CBM's business, financial condition, results of operations and/or prospects.

CBM is exposed to liquidity risk

CBM is exposed to liquidity risk arising out of the mismatches between the maturities of CBM's assets and liabilities, which may result in CBM being unable to meet its obligations in a timely manner.

CBM meets a significant portion of its funding requirements using customer accounts and deposits. The majority of CBM's customer accounts and deposits are from retail customers. As at 30 September 2012, retail customer deposits represented 58.9% of CBM's total deposits by customers, as compared to 58.2%, 53.3% and 69.6% as at 31 December 2011, 2010 and 2009, respectively. The Russian Civil Code (the "**Civil Code**") entitles retail depositors to withdraw deposits, including term deposits, at any time. The withdrawal of these retail deposits may impact the ability of CBM to meet its funding requirements.

In addition, some of CBM's Russian corporate clients have significant liquidity requirements, which have been further increased by the lack of liquidity available from financial markets as a result of the global financial crisis and subsequent instability in the financial markets. Accordingly, they often withdraw their deposits and are not in a position to place significant funds with CBM on a long-term basis. The withdrawal of these corporate deposits may also impact the ability of CBM to meet its funding requirements. As at 30 September 2012, RUB 21.2 billion, or 31.3% of CBM's total corporate customer accounts had a maturity classified as on-demand. Despite holding liquidity reserves in excess of the regulatory minimum, unanticipated decreases in corporate customer deposits and/or unexpected withdrawals of retail deposits as described above may result in liquidity gaps that CBM may not be able to cover without incurring additional expenses, if at all. The liquidity gap may affect the ability of CBM to carry out its strategy effectively. This could lead to a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

The remainder of CBM's funding is raised in the domestic and international capital, syndicated loan and interbank markets. Adverse market conditions in 2008 and 2009 significantly reduced CBM's access to funding from these markets at commercially justifiable costs. CBM's ability to raise funding from domestic and international markets in amounts sufficient to meet its liquidity needs could be further adversely affected by a number of factors, including in particular any further deterioration in Russian and international economic conditions and the state of the Russian financial and market systems.

If the sources of short and, in particular, long-term funding, including from the CBR, the Russian Government, the international capital markets, inter-bank lending markets or CBM's shareholders, are not available, or if maturity mismatches between CBM's assets and liabilities occur, this could lead to a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

The interests of CBM's controlling shareholder may conflict with those of Noteholders

CBM's principal beneficial owner is Mr. Roman Avdeev, who owns 85% of CBM's shares. See "*Shareholders*". Mr. Avdeev is also a member of CBM's Supervisory Board. See "*Management – Supervisory Board*". Although Mr. Avdeev has not done so in the past, he could cause CBM to substantially change its business or management direction or operations generally, or otherwise act to his benefit, to pursue acquisitions or other transactions or to pay large dividends or make other distributions or payments to himself, even though any such transactions may involve increased risk for the Noteholders. In addition, in the past CBM has been dependent on Mr. Avdeev's ability to make periodic capital contributions to CBM, and his ability to continue to make such capital contributions may be subject to change. The interests of Mr. Avdeev as shareholder may therefore, in some circumstances, conflict with the interests of the Noteholders, and any such conflict could have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects and the value of the Notes.

The industry and key client concentration in CBM's loan and deposit portfolio could adversely affect CBM's business and financial condition

A large portion of CBM's client base is comprised of large Moscow-based wholesale and retail trading companies. While these companies operate in a range of sectors within the Russian economy, significant portions of them are concentrated in particular sectors. As at 30 September 2012, the five largest economic sectors represented in CBM's corporate banking loan portfolio collectively accounted for 41.4% of CBM's total gross loan portfolio. These sectors were: consumer electronics, appliances and computers; food and farm products; residential and commercial construction and development; industrial equipment and machinery; and clothing, shoes, textiles and sporting goods. For the years ended 31 December 2011, 2010 and 2009, the five largest economic sectors represented in CBM's corporate banking loan portfolio, accounted for 43.9%, 38.6% and 44.1%, respectively, of CBM's total gross loan portfolio. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Total Assets – Loans to Customers – Distribution of Loans by Economic Sectors*". A downturn in any of these sectors could result in CBM's clients facing difficulties in servicing their loans. CBM has established exposure limits to any single sector of the economy at 20% of its gross corporate loan portfolio and believes that its provisioning levels and collateral arrangements are adequate. However, any default by CBM's borrowers operating in these industries could have a material adverse effect on CBM's business and financial condition.

As at 30 September 2012, CBM's exposure to its 20 largest borrowers or groups of related borrowers collectively was RUB 53.1 billion, or 25.4% of CBM's gross loan portfolio, and its exposure to its 10 largest borrowers collectively was RUB 31.8 billion, or 15.2% of CBM's gross loan portfolio. The current accounts and term deposits of CBM's 20 largest depositors collectively represented 26.7% of CBM's total current accounts and term deposits by customers as at 30 September 2012, and its 10 largest depositors collectively accounted for 20.2% of CBM's total current accounts and term deposits by customers. Any impairment in the ability of such borrowers to repay their loans or any decision by these customers to withdraw their funds from current accounts and term deposits could have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

A part of CBM's business is with related parties

CBM routinely engages in transactions with related parties. CBM's controlling shareholder is Roman Avdeev, with whom CBM maintains a number of balances and conducts certain transactions from time to time. CBM also enters into banking transactions in the normal course of its business with shareholders, management, subsidiaries and companies with which it has shareholders in common. These transactions include loans, deposit taking and settlements. CBM provides loans to the members of CBM's management from time to time for different purposes, including mortgage loans, car loans, general-purpose loans and overdrafts. As at 30 September 2012, loans to related parties represented 0.03% of CBM's total gross loans to customers and deposits from related parties represented 1.8% of CBM's total deposits by customers.

Whilst it is CBM's policy to conduct transactions with related parties on the same terms and conditions as it applies to non-related party transactions, such related party transactions may present conflicts of interest, which could have a material adverse effect on CBM's business, financial condition and results of operations. See "*Related Party Transactions*".

CBM's capital position may deteriorate

CBM's risk-based total capital adequacy ratio, calculated in accordance with the the International Convergence of Capital Measurement and Capital Standards of 1988 and amendment to incorporate market risks in November 2005 ("**Basel I**"), amounted to 14.8% as at 30 September 2012, as compared to 14.4% as at 31 December 2011. CBM's Tier 1 capital adequacy ratio as at 30 September 2012 was 13.4%, as compared to 12.3%, 8.8% and 12.3% as at 31 December 2011, 2010 and 2009, respectively. The Basel Committee on Banking Supervision (the "**Basel Committee**") recommends a minimum risk-based total capital adequacy ratio of 8%, calculated in accordance with Basel I. CBM's capital adequacy ratio calculated under CBR regulations as at 1 November 2012 was 11.48%, as compared to the CBR mandatory ratio of 10%. If CBM's capital position declines, its ability to implement its business strategy may be adversely affected, and if CBM's capital adequacy ratio calculated pursuant to CBR requirements were to fall below 10%, CBM would violate the CBR mandatory ratio, which may lead to punitive measures or loss of its banking licences in the case of continuous violation of CBR mandatory ratios, which in turn, may have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects. Moreover, if CBM's capital adequacy ratio calculated pursuant to CBR requirements was to fall below 2%, or if CBM's

own capital calculated pursuant to CBR requirements were to fall below RUB 300 million (with certain exceptions which apply until 1 January 2015 after which date the RUB 300 million requirement will universally apply to all banks), the CBR is required under Russian law to withdraw CBM's banking license, and to initiate bankruptcy proceedings against CBM.

Although CBM's majority shareholder Mr. Avdeev has since early 2010 made several contributions to CBM's capital in the form of subordinated loans, in circumstances where additional capital contributions may be necessary in the future in order to ensure compliance with regulatory or contractual financial ratios, Mr. Avdeev and CBM's other shareholders may be unwilling or unable to make or to approve such contributions. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Funding*" and "*Shareholders – Policy Agreement*".

If CBM requires additional capital in the future, there is no guarantee that it will be able to obtain this capital. If CBM is unable to raise further capital to support its growth or if its capital position otherwise declines, its ability to implement its business strategy, and its proposed lending expansion, may be materially adversely affected. CBM's ability to obtain additional capital may be restricted by a number of factors, including CBM's future financial condition, results of operations and cash flows, approvals of each of its shareholders, any necessary government regulatory approvals, and general market conditions for capital raising activities by commercial banks and other financial institutions.

In addition, covenants in certain of CBM's credit facilities require CBM to maintain a total capital adequacy ratio calculated in accordance with Basel I of at least 12% and a ratio of equity to total assets of at least 5%, each of which covenant is checked on a quarterly basis. A breach by CBM of these covenants could have a material adverse effect on CBM's business, financial performance, results of operations and/or prospects.

Furthermore, the risk-adjusted capital adequacy guidelines promulgated by the Basel Committee in June 2004 (as updated, "**Basel II**"), are being implemented in certain jurisdictions including member states of the EU, and in December 2010 the Basel Committee published a revised set of guidelines ("**Basel III**" and, together with Basel I and Basel II, the "**Basel Accords**"), the implementation of which began on 1 January 2013. The implementation of Basel II or Basel III in Russia has not occurred to date, and the effect that these revised guidelines will have on the capital requirements of CBM and on its capital position is uncertain. See "*Banking Regulation in Russia – Capital Requirements – Basel implementation in Russia*". If any future alterations to the capital adequacy standards under Basel II or Basel III (or CBR regulations implementing Basel II or Basel III) with regard to limits on the deployment and use of capital require CBM to maintain higher capital levels or limit the use of significant portions of their capital, this could have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

CBM may face counterparty risk from other financial institutions

In light of the unprecedented lack of liquidity and high cost of funds that characterised the interbank lending market during the acute stage of the global financial crisis at the end of 2008 and in the first half of 2009 and the recent volatility and market disruption witnessed by the banking sector globally, CBM remains subject to the risk of deterioration of the commercial soundness of other financial service institutions within and outside of Russia. Financial service 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 intermediates, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom CBM interacts on a daily basis, all of which could have an adverse effect on CBM's ability to raise new funding.

CBM routinely executes a high volume of transactions with numerous counterparties in the financial services industry, including brokers and dealers and commercial banks, resulting in a significant credit concentration. As a result, CBM is exposed to counterparty risk and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the stability of one or more financial service institutions could lead to further significant systematic liquidity problems, or losses or defaults by other financial institutions which could materially and adversely affect CBM's business, financial condition, results of operations and/or prospects.

CBM's business and operations are subject to market risks, including currency risk, interest rate risk and securities portfolio risk

To the extent that the Rouble depreciates against foreign currencies, CBM becomes subject to higher interest payments on its foreign currency denominated liabilities when calculated in Rouble terms. CBM plans to continue to access the international capital markets and syndicated loan markets, which subjects it to risks inherent in currency fluctuations and the uncertainty of these markets as a reliable funding source. In order to better balance the foreign currency structure of its assets and liabilities, CBM extends foreign currency loans to customers that are engaged in businesses with foreign currency components. As at 30 September 2012, 83.2% of CBM's loans to customers (net of allowance for impairment) were denominated in Roubles, 12.6% in U.S. dollars and the remaining 4.2% in other currencies. Although CBM uses currency forwards to hedge its foreign currency exposure, volatility in the money market and significant exchange rate fluctuations may have a material adverse effect on CBM's business and financial condition. CBM's foreign currency position is managed by CBM's Treasury, which reports to the Analytical Division and ALCO. CBM has established an internal limit on its open foreign currency position of 3% of CBM's capital.

CBM faces interest rate risk resulting from mismatches in the amounts, interest rates and maturities of its assets and liabilities. Although CBM monitors interest rate fluctuations and its asset liability tenor in order to mitigate such interest rate risk, interest rate movements on both the domestic and international markets may have a material adverse effect on CBM's business and financial condition.

CBM faces securities portfolio risk arising from its investment and trading in securities for its own account. These risks relate to the movement of market prices in the underlying instruments, including the risk of unfavourable market price movements relative to CBM's long or short positions, a decline in the market liquidity of the relevant instruments, volatility in market prices, interest rates or foreign currency exchange rates relating to these positions and the risk that instruments CBM uses to hedge certain positions do not track the market value of those positions. In the nine months ended 30 September 2012, CBM experienced a net gain on financial instruments at fair value through profit or loss of RUB 215 million, as compared to a net loss of RUB 962 million during the nine months ended 30 September 2011. In 2011, 2010, and 2009, respectively, CBM experienced a net loss of RUB 857 million, a net gain of RUB 83 million and a net gain of RUB 429 million on financial instruments at fair value through profit or loss. During the nine months ended 30 September 2012, CBM had a net gain on available-for-sale securities of RUB 16 million, as compared to a net gain of RUB 44 million in the nine months ended 30 September 2011. In 2011, 2010, and 2009, respectively, CBM had a net gain of RUB 40 million, a net gain of RUB 339 million and a net gain of RUB 62 million on available-for-sale securities. CBM has established various limits on operations with securities, including instrument specific limits and limits on the activities of individual traders, in order to balance profit and risk in its portfolio. However, interest rate and price movements on both the domestic and international markets may have a material adverse effect on the value of CBM's securities portfolio, which in turn may have a material adverse effect on CBM's overall business, financial condition, results of operations and/or prospects.

See "*Risk Management – Market Risk*".

CBM is a highly-regulated entity and it could fail to comply with applicable legal requirements

CBM is subject to strict regulation in the Russian Federation by governmental organisations, particularly the CBR and the Federal Service for Financial Markets (the "**FSFM**"). The requirements, including capital adequacy requirements, imposed by CBM's regulators are designed to ensure the integrity of the financial markets and to protect clients and other third parties with whom CBM deals. These requirements are not designed to protect holders of the Notes and may limit the Bank's activities and increase its costs of doing business. A breach of regulatory guidelines could expose CBM to potential liability and other sanctions, including the loss of its banking licences.

Banking operations in Russia require licences from the CBR. Operations in securities require licences from the FSFM. CBM has obtained such licences in connection with its banking operations and operations in securities. In order to obtain, maintain and renew such licences, it is necessary to comply with the terms of the respective licence. Although CBM has been successful in obtaining CBR and the FSFM licences in the past, there can be no assurance that CBM 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 Bank's request for licences. The loss of or breach of the terms of, or the failure to obtain, a CBR or FSFM licence in the future could result in cash-flow difficulties and penalties such as the imposition of fines on CBM, which may, in turn, affect

CBM'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/or prospects. The loss of CBM's general banking licence will result in its inability to perform any banking operations.

CBM is exposed to the risk that the CBR may impose sanctions on CBM for noncompliance with certain mandatory economic ratios or other regulations. Such sanctions could include a fine, the initiation of temporary administration of CBM 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 general banking licence may be revoked after the repeated imposition on the bank of other sanctions during the same calendar year.

Many Russian laws and regulations (including certain licence requirements) are construed in a way that provides for significant administrative discretion in application and enforcement. As a result, the applicable law may be difficult to ascertain and apply, even after reasonable effort. Reliable texts of regional and local laws and regulations may be unavailable and are rarely updated or catalogued. In addition, the laws and regulations are subject to different and changing interpretations and administrative applications. Regulatory agencies may impose additional requirements for a licence or deny licence applications.

In addition, the regulatory authorities have the right to conduct periodic inspections of CBM's operations and properties. Any such future inspections may result in a determination that CBM has violated laws, decrees or regulations, and CBM may be unable to refute such determination or remedy the violations. CBM's failure to comply with existing or future laws and regulations, the terms and conditions of its licences and permissions 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 CBM's licences, permissions, approvals and authorisations, or in requirements that CBM 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 CBM's operations, could increase its costs and materially adversely affect its business, financial condition, results of operations and/or prospects.

While CBM has in the past complied with applicable regulations in all material respects, there is no assurance that it will always be successful in doing so in the future. Certain failures on the part of CBM to comply with such regulations could result in the withdrawal of a licence that CBM requires to run its business successfully, which would have a material adverse effect on its business, financial condition, results of operations and/or prospects.

See "– *Risks Relating to the Russian Legal System and Legislation – Russian banking and financial regulation has been undergoing significant changes*".

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

Although CBM invests substantial time and effort in its risk management strategies and procedures, such strategies and procedures for risk management may nevertheless fail under certain circumstances, particularly when confronted with risks that it has not identified or anticipated. Some of CBM's risk management methods are based upon observations of historical market behaviour. CBM applies statistical techniques to these observations to arrive at quantifications of its market risk exposures. See "*Risk Management*". Moreover, in developing its statistical models, CBM may not identify or anticipate some circumstances and quantifications and may not take all risks into account. If CBM's measures to assess and mitigate risks prove insufficient, its losses may be greater than expected and this could have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

CBM may fail to manage its growth adequately

CBM's business has grown rapidly and significantly in recent years, and CBM's strategy includes aiming to continue to increase the size of its overall business, including its loan portfolio and expansion of its branch network in Moscow and the Moscow region, in a relatively short period of time. CBM's loans to customers (net of allowance for loan impairment) increased from RUB 58.3 billion as at 31 December 2009 to RUB 103.9 billion as at 31 December 2010, to RUB 159.0 billion as at 31 December 2011, and to RUB 204.3 billion at 30 September 2012. The total number of CBM's employees increased from 1,830 as at 31 December 2009, to 2,414 as at 31 December 2010, to 3,322 as at 31 December 2011 and to 3,975 as at 30 September 2012. The number of CBM's

branches increased from 41 as at 31 December 2009 to 51, 60 and 61 as at 31 December 2010, 31 December 2011 and 30 September 2012, respectively.

As a result of the significant growth in CBM's loan portfolio, CBM's credit exposure has increased significantly. This increase will require continued and improved monitoring by CBM's management of credit quality and the adequacy of CBM's provisioning levels. See "*Risk Management – Credit Risk*". The anticipated further increase in lending in line with CBM's overall growth strategy may further increase credit risk. Continued growth of CBM's loan portfolio could put additional pressure on CBM's loan monitoring and control procedures. A failure by CBM to manage its growing loan portfolio while maintaining the quality of its assets through effective credit risk policies could require further provisioning and have a material adverse effect on CBM's financial condition or results of operations.

The growth of CBM's business will require continued investment in its financial and information management systems, employee recruiting and training, marketing and the monitoring of the consistency of customer service, as well as increased operating costs. In addition, overall growth in CBM'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 CBM's expanded branch network. Notwithstanding expenditures to this end, CBM may not be able to achieve projected results on any investment it makes in its business or any expansion of its network. The failure of CBM to adequately manage its growth may have a material adverse effect on CBM's overall business, financial condition, results of operations and/or prospects.

Furthermore, this growth in CBM's business may create significant operational challenges, including the recruitment, training and retention of suitable staff and the effective monitoring of employees' performance, the ability of CBM's information technology systems to adequately handle the rate of growth of CBM's operations, the ability to design, implement and follow appropriate risk management procedures in respect of a much larger loan portfolio and the ability to properly monitor CBM's financial performance. Failure by CBM to maintain its growth while at the same time maintaining adequate focus on existing business divisions may have a material adverse effect on its business, financial condition, results of operations and/or prospects.

CBM faces increased risk exposure associated with its strategy to expand its retail banking business

CBM's business strategy includes a focus on expanding its retail business. As at 30 September 2012, loans to retail customers comprised 20.9% of CBM's total gross loans to customers, as compared to 18.4%, 17.2% and 16.7% as at 31 December 2011, 2010 and 2009. The targeted share of retail banking in CBM's loan portfolio is approximately 30%, which CBM aims to achieve within the medium term.

The growth of CBM's retail banking business could result in a higher level of impaired loans and, as a result, higher levels of provisioning, as retail customers are more likely to default on their loans. As at 30 September 2012, NPLs to retail clients accounted for 4.0% of the retail gross loan portfolio, compared with 4.3% of the retail gross loan portfolio as at 31 December 2011, 6.5% as at 31 December 2010, and 13.0% as at 31 December 2009. A recession or other negative developments in Russia's economy could affect retail borrowers more significantly than larger borrowers and lead to material asset quality deterioration. In addition, retail clients are typically less financially transparent than larger borrowers as there is generally less financial information available for such clients. As a result, CBM may not be able to accurately assess the risks, including credit risks, associated with its borrowers and may need to change its estimates of impairment and implement additional risk management policies and procedures. Any inadequacy in CBM's policies and controls may have a material adverse effect on its business, results of operations, financial condition and prospects.

While CBM's retail banking segment generated a profit of RUB 488 million in the nine months ended 30 September 2012 and a profit of RUB 316 million in 2011, in 2010 and 2009 this segment generated losses of RUB 410 million and RUB 685 million respectively, as CBM invested in and developed its retail banking business. There can be no assurance that CBM's retail banking segment will continue its current level of profitability going forward.

Furthermore, the global financial crisis stimulated Russian legislative initiatives which strengthen the protection of retail clients under Russian law and could place corresponding restrictions on CBM's retail banking business, thereby adversely affecting its business, financial condition, results of operations and/or prospects. See "*– Risks Relating to the Russian Legal System and Legislation –*

Russian banking and financial regulation has been undergoing significant changes". If there is a substantial increase in CBM's retail banking business, it will be more vulnerable to the effect of such laws.

CBM may lack sufficient insurance coverage

While Russian banking and other laws do not require banks to maintain a variety of insurance on their material assets or liabilities, other than the mandatory insurance of retail deposits, CBM voluntarily insures its property and operating assets at levels that are in line with the standard in the Russian market. In addition, CBM complies with the insurance covenants in its financing arrangements with international financial institutions, such as EBRD and IFC. CBM's insurance includes a bankers blanket bond ("**BBB**") policy, valuables policy, property insurance and damage policies, a third-party liability policy and a general liability policy. The general liability policy, among other things, protects against unlawful acts of employees, loss of property, loss from fraud transaction with payments, securities and false banknotes. However, CBM's insurance does not cover all of CBM's assets and liabilities. The Russian insurance industry is poorly developed, and many forms of insurance offered in economically developed countries are unavailable to CBM on the terms common in such countries, including insurance coverage for business interruption. CBM may incur uninsured losses of assets and face claims not covered or inadequately covered by such insurance. Until CBM obtains sufficient insurance coverage, there is a risk that any such losses or claims could have a material adverse effect on its operations and financial position.

CBM's business entails operational risks

CBM is exposed to several types of operational risk, including unauthorised transactions by employees or operational errors, including clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems and the risk that CBM will be used for money laundering and financing of terrorist activities. Given CBM's high transaction volume and developing IT systems, errors may be repeated or compounded before they are discovered and rectified. CBM maintains a system of controls designed to keep operational risk at appropriate levels, and following the onset of the global financial crisis CBM centralised to a large extent the powers of branch managers as a means of strengthening its operational risk management. However, there can be no assurance that CBM will not suffer losses from failure of these controls to detect or contain operational risk in the future. See "*Risk Management – Operational Risk*".

CBM's IT systems may malfunction or be insufficient to support future operations

CBM's business depends significantly on the proper functioning of its IT systems and the ability to increase their capacity sufficiently to support CBM's operations. CBM has invested and continues to invest considerable time and money in upgrading its technologies, centralising its information systems, creating appropriate duplicating capacities, developing internal audit functions and controlling the operation of its hardware and software, taking into account international best practices. However, CBM cannot guarantee that such upgrades or the restructuring of its IT systems will be carried out to completion, not cause any significant disruptions or temporary loss of functionality, or fully eliminate the possibility of a systems failure that may, for some time, adversely affect its operational activities and lead to expenses that may adversely affect its financial performance. In addition, CBM's systems do not provide fully automated processing of data for all products and services. Lack of immediately available consolidated financial and operating data may hinder the ability of CBM's management to make decisions, to react promptly to changes in market conditions and to detect fraud and non compliance with internal procedures. If CBM'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 CBM's business, financial condition, results of operations and/or prospects.

CBM's measures to prevent money laundering andlor terrorist financing may not be completely effective

During the last five years, the CBR has excluded several small 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 "**Money Laundering Law**"). Notwithstanding the current anti-money laundering regulations, the risk remains, however, that Russian financial institutions could be used as vehicles for money laundering.

CBM complies with applicable anti-money laundering and anti-terrorist financing laws and regulations. CBM's anti-money laundering measures are based on relevant Russian legislation. In particular, Russian anti-money laundering laws contain numerous requirements with respect to identification of clients, as well as documentation and reporting to the relevant authorities of transactions subject to mandatory control and other suspicious transactions. CBM has procedures and documents aimed at preventing money laundering and financing of terrorist activities, including a general anti-money laundering policy, internal control procedures that include a refusal policy whereby CBM refuses to conduct business with suspicious entities or individuals and rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities, as well as procedures for reporting to the Federal Service for Financial Monitoring. See "*Risk Management – Operational Risk – Procedures for Prevention of Money Laundering and Terrorist Financing*".

CBM has not been subject to any investigation with respect to its involvement in money laundering or terrorist financing. However, there can be no assurance that third parties will not attempt to use CBM as a conduit for money laundering or terrorist financing without CBM's knowledge, nor that the measures described above will be completely effective. If CBM fails to comply with anti-money laundering or and anti-terrorism financing laws or if it is otherwise associated with money laundering or terrorist financing, this could have a material adverse effect on its reputation, business, financial condition, results of operations and/or prospects.

The preparation of CBM's consolidated financial statements under IFRS requires CBM's management to make judgments, estimates and assumptions and the inaccuracy of these estimates and assumptions could have a material adverse impact on CBM's consolidated financial statements

The preparation of CBM's consolidated financial statements under IFRS requires CBM's management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and of income and expenses during the relevant reporting period. These judgments, estimates and assumptions are based on a number of factors, including information available at the time and historical experience. Although estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates, and such differences may be material. Estimates that have the most significant effect on the amounts recorded in the consolidated financial statements include loan impairment estimates, building revaluation estimates and deferred tax asset estimates. Should circumstances change, the outcome may be materially different from what was envisaged at the time such judgments, estimates and assumptions were made. Should this occur, it could have a material adverse effect on CBM's consolidated financial statements, including its reported net income and balance sheet.

CBM'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

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.

Since 1 January 2004, all credit organisations in the Russian Federation have prepared 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 CBM 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, CBM 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 NPLs, which do not contain all of the information contained in CBM's IFRS consolidated financial statements and are not prepared in accordance with IFRS. CBM 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, CBM is required to file quarterly reports with the FSFM. These reports include certain information about CBM, 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 CBM than there is for comparable companies in other jurisdictions, such as the United States and the United Kingdom.

As a result of the relatively recent introduction of international accounting standards in the Russian Federation, Russian companies and corporate groups, including CBM, may not have fully developed and implemented the required methodologies for the preparation of international financial statements, including the internal control frameworks, development methodologies or risk assessment activities on which the preparation of international financial statements depends.

CBM may face difficulties in recruiting and retaining experienced personnel

CBM's continuing success depends, in part, on its ability to continue to attract, retain and motivate qualified and experienced banking and management personnel in Russia, in particular highly qualified personnel. Competition in the Russian banking industry for personnel with relevant expertise is intense due to the relatively small number of available qualified individuals. In order to attract and recruit qualified and experienced employees and to minimise the possibility of their departure to other banks, CBM provides packages of compensation and non-financial incentives that are consistent with evolving standards in the Russian labour market, which are experiencing an upward trend due to the easing of the global financial crisis. However, the inability to recruit and retain qualified and experienced personnel in Russia or manage CBM's current personnel successfully could have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

Risks Relating to the Russian Federation

Emerging markets such as Russia are subject to different risks as compared to more developed markets, and turmoil in any emerging market could adversely affect the value of investments in Russia

Emerging markets such as Russia are subject to different risks as compared to 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 Russia 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 Russia and adversely affect the economy 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 Russia, as well as result in a decrease in the price of the Notes.

Investments in Russia may be adversely affected by fluctuations in the global economy

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Since Russia is one of the world's largest producers and exporters of oil, natural gas and metal products, the Russian economy is especially sensitive to commodity prices on the world markets. Thus, a decline in the prices for commodities, as well as the imposition of tariffs could slow or disrupt the Russian economy.

The sudden decrease in prices for natural resources in 2008 resulted in a significant decrease of governmental revenues, which had a negative effect on the Russian economy. Subsequently, commodity prices have continued to be volatile and future fluctuations in the global markets could substantially limit CBM's access to capital and could adversely affect the financial condition of CBM's clients, which could result in increased loan losses to CBM as a consequence of, among other things, decreased corporate deposits from these clients, a reduction in the volume of foreign currency held and/or foreign trade operations engaged in by these clients, decreases in the value of collateral (including immovable property, land, equipment, intangibles and machinery) underlying the obligations of these clients and defaults by these clients on their obligations. These developments could have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

Economic risks could adversely affect the value of investments in Russia

During the 1990s, while simultaneously enacting political reforms, the Government attempted to implement economic reforms and stabilise the economy. These policies have involved liberalising prices, reducing defence expenditures and subsidies, privatising state controlled enterprises, reforming natural monopolies, reforming the tax and bankruptcy systems and introducing legal structures designed to facilitate private, market based activities, foreign trade and investment.

Despite these policies, the Russian economy has suffered abrupt downturns. On 17 August 1998, the Government defaulted on its short-term rouble denominated treasury bills and other rouble denominated securities, and the CBR abandoned the rouble currency band and issued a temporary moratorium on certain hard-currency payments to foreign counterparties. These events led to a severe devaluation of the rouble, a sharp increase in the rate of inflation, significant deterioration of the country's 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.

From April through July 2004, the Russian banking sector experienced its first significant disruption since the financial crisis of August 1998, following the revocation by the CBR of the banking licences of several Russian banks. As a result of various market rumours and, in some cases, certain regulatory and liquidity problems, several privately owned Russian banks experienced liquidity shortfalls and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate clients, which further reduced liquidity.

The global financial crisis negatively affected the growth of gross domestic product ("**GDP**") in Russia and led to severe liquidity problems in the Russian banking sector, rouble depreciation against the US dollar and Euro, and a decline in foreign currency and gold reserves. Furthermore, there were periodic suspensions of trading in the Russian stock markets as well as extreme volatility in Russian equity markets generally and sharp declines in the share prices of Russian financial institutions.

In January 2011, Fitch changed its sovereign rating outlook for the Russian Federation from positive to stable based on perceived increased political uncertainty and the global economic outlook, and held the outlook as stable in January 2012 and August 2012. In addition to anticipated slower asset growth on the Russian banking market, the Russian Federation may face reductions in GDP growth and reduced growth in industrial production. A combination of these factors may result in a significant deterioration in the financial fundamentals of Russian banks, including liquidity, asset quality, and profitability.

The physical infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained over the past 20 years. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. For example, in May 2005, an electricity blackout affected much of Moscow for one day, disrupting normal business activity and in August 2009, an accident occurred at the Sayano Shushenskaya hydroelectric power plant, killing more than 70 people, causing billions of roubles in damage and leading to severe power shortages for both residential and industrial consumers locally. The deterioration of Russia's physical infrastructure negatively affects its national economy, disrupts the transportation of goods and supplies, imposes additional costs on businesses and can interrupt business operations. Further deterioration in the physical infrastructure could have a material adverse effect on the value of investments in Russia.

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

The consumer price index in the Russian Federation as measured by Rosstat was 11.9% in 2007, 13.3% in 2008, 8.8% in 2009, 8.8% in 2010 and 6.1% in 2011 and 5.1% in nine months ended 30 September 2012. Despite this recent reduction, a return to heavy and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and the erosion of consumer confidence. Any one of these events could lead to decreased demand for CBM's products and services and have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

Political risks could adversely affect the value of investments in Russia

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst the executive, legislative and judicial branches of government, which

negatively impacted Russia's business and investment climate. Although the political situation in Russia has been more stable since 2000, future policy and regulation may be less predictable than in less volatile markets any future political instability could result in a worsening overall economic situation, including capital flight and a slowdown of investment and business activity. Following Russian parliamentary elections in December 2011 and the presidential elections in March 2012, controversy concerning alleged voting irregularities during such elections led to organised protests in several Russian cities, including Moscow. In addition, any change in the Government or the Government's programme of reform in Russia or lack of consensus between the Russian President, the Prime Minister, the Government, Russia's Parliament and powerful economic groups could lead to political instability and a deterioration in Russia's investment climate that might limit the ability of CBM to obtain financing in the international capital markets or otherwise have a material adverse effect on its business, financial condition, results of operations and/or prospects.

According to some commentators, politically motivated actions, including claims brought by the Russian authorities against several major Russian companies, have called into question the security of property and contractual rights, progress of the market and political reforms in Russia, the independence of the judiciary in Russia and the certainty of legislation. This has, in turn, resulted in significant fluctuations in the market price of Russian securities and had a negative impact on foreign direct and portfolio investment in the Russian economy, over and above the general market turmoil recently. Any similar actions by the Russian authorities which result in a further negative effect on investor confidence in Russia's business and legal environment could have a further material adverse effect on the Russian securities market and prices of Russian securities or securities issued or backed by Russian entities including the Notes.

Russia is a federative state consisting of 83 constituent entities, or "subjects". The Russian Constitution reserves some governmental powers for the federal government, some for the subjects and some for areas of joint competence. In addition, eight "federal districts" (*federal'nye okruga*), which are overseen by a plenipotentiary representative of the Russian President, supplement the country's federal system. The delineation of authority among and within the subjects is, in many instances, unclear and contested, particularly with respect to the division of tax revenues and authority over regulatory matters. Subjects have enacted conflicting laws in areas such as privatisation, land ownership and licensing. For these reasons, the Russian political system is vulnerable to tension and conflict between federal, subject and local authorities. This tension creates uncertainties in the operating environment in Russia, which may prevent businesses from carrying out their strategy effectively.

In addition, ethnic, religious, historical and other divisions have on occasion given rise to tensions and, in certain cases, military conflict. Russian military and paramilitary forces have been engaged in the Chechen Republic and other republics in the region in the recent past and continue to maintain a presence there. In August 2008, Russia and Georgia were involved in an armed conflict. The conflict ended with Russian recognition of the independence of South Ossetia and Abkhazia. The Russian stock exchanges experienced heightened volatility, significant overall price declines and capital outflow following such events. Moreover, various acts of terrorism have been committed within the Russian Federation. The most recent manifestation of terrorist acts in Moscow was the 24 January 2011 suicide bombing in Domodedovo International Airport which killed at least 37 people. The risks associated with these events or potential events could materially and adversely affect the investment environment and overall consumer and entrepreneurial confidence in the Russian Federation, which in turn could have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

Banking activity risks could affect the value of investments in Russia

Russian companies may face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, relatively high taxes, limited lending by the banking sector to the industrial sector and other factors. A re-emergence of liquidity constraints that have disrupted the Russian banking sector in the past, or a deterioration of the Russian banking system generally, could have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

The Russian banking sector is less developed compared to its Western counterparts. It is unclear how legal and regulatory developments will affect the competitive banking landscape in Russia. The regulatory environment in which CBM operates could change in a manner that has a material adverse effect on CBM's ability to compete.

In addition, factors such as the limited liquidity in the Russian securities market and market making could all negatively affect CBM's securities trading business. In recent times, certain Russian banks have experienced difficulties that have caused them to become insolvent and have their licenses revoked, such as International Industrial Bank, or to recognise large loan impairment provision losses that required steps to replenish their capital, as in the case of Bank of Moscow. Similar problems at other Russian banks may cause doubts among investors or depositors about the effectiveness of banking supervision in Russia and the reliability of bank financial statements, even under IFRS. This could result in investors or depositors, as the case may be, reducing their exposure to Russian bank equities, debt or deposits, including those of CBM, which could be materially adverse to CBM's business, financial condition, results of operations and/or prospects.

Devaluation of the rouble against the U.S. dollar and exchange controls 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 2000 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 financial crisis and the significant fall in prices in oil and commodities that are the principal generators of Russia's export earnings. This process of depreciation was significantly influenced by the CBR as part of its policy to maintain low volatility. Between 1 August 2008 and 1 March 2009, the rouble depreciated by 34% against the U.S. dollar (from RUB 23.42 per US$1.00 to RUB 35.72, according to the CBR). The exchange rate has fluctuated significantly over the past three years, ranging from RUB 36.43 per US$1.00 on 19 February 2009 to RUB 28.67 per US$1.00 on 13 November 2009; from RUB 31.78 per US$1.00 on 8 July 2010 to RUB 28.94 per US$1.00 on 13 April 2010; from RUB 32.68 per US$1.00 on 5 October 2011 to RUB 27.27 per US$1.00 on 6 May 2011; and from RUB 34.04 per US$1.00 as at 5 June 2012 to RUB 30.37 per US$1.00 as at 30 December 2012.

The Rouble remains largely non-convertible outside of the Russian Federation. A market exists within the Russian Federation for the conversion of Roubles into other currencies, but it is limited in size and is subject to rules limiting such conversion. Any depreciation of the rouble against the U.S. dollar could negatively affect CBM in a number of ways, including, among other things, by increasing the actual cost to CBM of financing its U.S. dollar based liabilities and by making it more difficult for Russian borrowers to service their U.S. dollar loans. Volatility in the Russian currency market may have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects and on the value of the Notes.

According to the CBR, foreign currency and gold reserves fell from approximately US$597.0 billion on 1 August 2008 to US$384.1 billion on 1 March 2009. By December 2009 reserves had increased to US$447.7 billion and were US$528.2 billion by 1 December 2012, but are still likely to fluctuate going forward. Although Russia'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. Volatility in the Russian currency market or considerable depreciation of the Rouble in the medium or long term may adversely affect CBM's business, financial condition, results of operations and/or prospects.

Social risks could adversely affect the value of investments in Russia

Emerging markets such as Russia are prone to social risks and increased lawlessness, including significant criminal activity. High levels of official corruption reportedly exist in locations where CBM conducts its business, including the bribing of officials for the purpose of initiating investigations by government agencies. For example, should CBM enter into legal proceedings to recover a bad debt, such debtor may engage in illegal measures, including corruption, to obstruct proceedings in relation to such claim. Whilst CBM's internal monitoring of operational risks, and "know your customer" procedures are designed to recognise suspicious and illegal activity, there can be no assurance that corruption or other illegal activity will not affect CBM's business in the future. See "*Risk Management – Operational Risk*" and "*Risk Management – Operational Risk – Procedures for Prevention of Money Laundering and Terrorist Financing*". Corruption and other illegal activities could disrupt CBM's ability to conduct its business effectively, and claims that CBM was involved in such corruption or illegal activities could generate negative publicity, either of which could harm CBM's business.

In addition, rising unemployment, forced unpaid leave, wages in arrears, and weakening economies, especially in single-industry cities, has in the past led to and could in the future lead again to labour and social unrest, a mood of protest, and a rise in nationalism against migrant workers. Such labour

and social unrest could disrupt ordinary business operations, which also could materially adversely affect CBM's business, financial condition, results of operations and/or prospects.

Risks Relating to the Russian Legal System and Legislation

Legal risks could affect the value of investments in Russia

The risks associated with the Russian legal system include: inconsistencies among laws, presidential decrees, and government and ministerial orders and resolutions; conflicting local, regional and federal laws and regulations; the untested nature of the independence of the judiciary and its sensitivity to economic, or political influences; a high degree of discretion on the part of governmental authorities; corruption within governmental authorities; the relative inexperience of judges and courts in interpreting laws; and the unpredictability of enforcement of foreign judgments and foreign arbitral awards.

The laws regulating ownership, bankruptcy, internal control and corporate governance are relatively new and largely remain untested in the courts. Disclosure and reporting requirements do not guarantee that material information will always be available. The concepts of conflict of interests and fiduciary duties on the part of the management or directors to their companies or the shareholders are not well developed. In addition, substantive amendments to several fundamental Russian laws, including those relating to the tax regime, corporations and licensing, are made on a relatively frequent basis.

The relatively recent nature of much Russian law, the lack of consensus about the scope, content and pace of economic and political reform, and the rapid evolution of the Russian legal system in ways that may conflict with market developments may each result in ambiguities, inconsistencies and anomalies, in the enactment of laws and regulations without a clear constitutional or legislative basis and ultimately in investment risks that do not exist in more developed legal systems. Russian bankruptcy laws often differ from comparable laws in the United States and Western European countries and may be subject to varying interpretations. For example, although Federal Law No. 127-FZ dated 26 October 2002 "On Insolvency (Bankruptcy)", as amended (the "**Bankruptcy Law**") establishes a procedure to declare an entity bankrupt and liquidate its assets, many of the bankruptcy proceedings that have occurred have not been conducted in the best interests of creditors whose claims are ranked higher than those of shareholders. All of these weaknesses could adversely affect the value of investments in Russia.

The independence of the Russian judiciary and its immunity from economic and political influences remains largely untested. The Russian court system is understaffed and underfunded. Judges and courts are generally inexperienced in business and corporate law. Russia is a civil law jurisdiction where judicial precedents generally have no binding effect on subsequent decisions. Many court decisions are not readily available to the public. The Russian judiciary can be slow or unjustifiably swift, and enforcement of court orders can be very difficult. Moreover, parties often use legal claims in furtherance of political objectives. The Government may attempt to invalidate court decisions by retroactively applying relevant legislative changes. All of these factors make judicial decisions in Russia unpredictable and effective redress uncertain.

The uncertainties also extend to property rights. During its transition from a centrally planned to a market economy, Russia has enacted laws to protect private property against expropriation and nationalisation. However, due to lack of experience in enforcing these provisions and to political pressure, courts might not enforce these protections in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of CBM's entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

It may be difficult for CBM to enforce security and sureties under Russian law

CBM enters into security and/or surety arrangements that cover, in whole or in part, a substantial portion of its loans to legal entities and individuals. See "*Risk Management – Credit Risk – Collateral*". Under Russian law, security (which includes pledges and mortgages) and sureties (other than bank guarantees) are considered secondary obligations, which automatically terminate if the underlying obligation becomes void. Furthermore, enforcement of security under Russian law generally requires either an agreement of the parties for an out of court enforcement procedure (which is subject to certain specific requirements and is relatively new) or in certain cases a court order followed by a public sale of the collateral. In some cases, a court may delay such public sale for a period of up to one year upon a pledgor's application. A mortgage is a pledge over real

property, such as land and buildings, which requires state registration to be valid. Russian law has no system for perfecting collateral other than mortgages and pledges of equity in Russian joint-stock and limited liability companies, which may lead to unexpected or conflicting claims by secured creditors over such collateral. Each of these risks could adversely affect CBM's financial position and results of operations.

A substantial portion of CBM's loans to its corporate and retail clients is supported by sureties from individuals and other corporate clients. In addition, a certain portion of CBM's loans to corporate customers is assured by the borrower's agreement that a certain volume of its cash receivables will flow through accounts over which CBM has direct debit rights. However, if the surety's financial condition deteriorates or if the borrower does not honour an assurance arrangement (under Russian law, a borrower is entitled to close its bank account open with a Russian bank at any time at its discretion), CBM may not be able to recover on sureties or assurance arrangements which may lead to losses, materially adversely affecting its business, financial condition, results of operations and/or prospects.

Risks related to compliance with Russian regulatory requirements

Banking operations in Russia require licences from the CBR. Operations in securities require licences from the FSFM. CBM has obtained such licences in connection with its banking operations and operations in securities. In order to obtain, maintain and renew such licences, it is necessary to comply with licence requirements (terms of the respective licence).

Many Russian laws and regulations (including certain licence requirements) are construed in a way that provides for significant administrative discretion in application and enforcement. As a result, the applicable law may be difficult to ascertain and apply, even after reasonable effort. Reliable texts of regional and local laws and regulations may be unavailable and are rarely updated or catalogued. In addition, the laws and regulations are subject to different and changing interpretations and administrative applications. Regulatory agencies may impose additional requirements for a licence or deny licence applications.

As a result of these factors, even the best efforts to comply with the laws and regulations (including licence requirements) may not always result in full compliance. In addition, breaches of Russian law may involve severe penalties and consequences that could be considered as disproportionate to the violation committed, for example, withdrawal (termination) of a licence. The loss of a licence (e.g., through a failure by CBM to fully comply with licence requirements or to obtain or renew such licences) could result in CBM's inability to continue some or all of its activities or in the imposition of fines by the CBR or other licensor. Any such loss, breach or failure could, in turn, affect CBM's ability to fulfil payment obligations, either generally or under specific transactions, and could have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

Russian banking and financial regulation has been undergoing significant changes

Like most of Russia's legislation on business activities, Russia's laws on banks and banking activity were adopted in the early 2000s. In addition to Federal Law No. 86-FZ dated 10 July 2002 "On the Central Bank of the Russian Federation (Bank of Russia)", as amended (the "**CBR Law**"), Federal Law No. 395-I dated 2 December 1990 "On Banks and Banking Activity", as amended (the "**Banking Law**"), and Federal Law No. 39-FZ dated 22 April 1996 "On the Securities Market", as amended (the "**Securities Market Law**"), Russia has adopted and continues to develop new banking and financial market legislation. Significant recent changes in Russian banking regulation include the following:

- Pursuant to Federal Law No. 177-FZ dated 23 December 2003 "On Insuring the Deposits of Natural Persons Made with Banks of the Russian Federation", as amended (the "**Deposit Insurance Law**"), which establishes a deposit insurance system in which all Russian banks must participate or lose their ability to accept retail deposits and open bank accounts for individuals, secured deposits maintained by individuals with Russian banks are insured for an amount of RUB 700,000. The Deposit Insurance Law strengthens competition in the retail deposit market as all Russian banks that choose to participate in the deposit insurance scheme will have the ability to offer protected deposits. The majority of banks that filed participation requests, including CBM in 2004, were admitted to the deposit insurance scheme. The Ministry of Economic Development of Russia has recently prepared a draft law on amendments to the Deposit Insurance Law and the CBR Law, which contemplate significant changes to the system of mandatory insurance of retail deposits. The draft introduces, among other things, a concept

of differentiated rates for banks participating in the system. If the draft amendments are signed into law, banks that offer annual margins on retail deposits that are more than 2% higher than the base yield amount as calculated monthly by the CBR will be required to make additional payments into a deposit insurance fund. The amount of such additional payments will depend on the actual annual margin offered by the relevant bank and will vary from 40% to 200% of the base rate (as it is defined in the Deposit Insurance Law).

- In March 2010, the Banking Law was amended to protect retail clients and as a result, all credit organisations are now prohibited from: (i) increasing interest rates, shortening the tenures of loan agreements or charging additional fees and commissions with respect to retail loans, or (ii) decreasing interest rates, shortening the tenure of deposit agreements or charging additional fees and commissions in respect to retail term deposits. On 3 September 2012, draft amendments to the Banking Law, prohibiting loan transactions with excessively onerous terms, were introduced in the State Duma of the Russian Federation. However, as at the date of this Prospectus, the first reading of the draft has not been scheduled. According to these amendments, the real effective interest rate of a loan provided to an individual borrower cannot exceed the real effective interest rate of double the average real effective interest rate for loans of the respective type (being an average real effective interest rate calculated by the CBR for the preceding quarter). If such an excess exists, upon a claim by the borrower, the court can reduce the amount of interest and other charges applicable under the corresponding loan agreement. Under the draft law, the CBR is required to establish a list of the respective types of loans and methodology of a quarterly calculation of their average full values.

- The CBR has also been developing regulations on bank capital and bringing them into line with international standards. See "*Banking Regulation in Russia – Capital Requirements*". In particular, the CBR has recently amended its regulations regarding the calculation of risk weighted assets for the purpose of the capital adequacy ratio (N1). Such amendments, which became effective from 1 July 2012, together with the adoption of the CBR regulations in September 2012 regarding the calculation of market risks (effective from 1 February 2013), are expected to affect the Russian banking industry generally.

- In September 2012, the CBR also published draft regulations to introduce new capital adequacy requirements for Russian banks as part of the implementation of Basel III in Russia. According to the draft CBR regulations, the reporting of Basel III capital adequacy ratios will be required beginning on 1 April 2013 and will be enforced by the CBR beginning on 1 October 2013. Among other things, the draft CBR regulations provide for certain types of subordinated loans to be gradually excluded from capital calculations over the next 10 years and to be entirely excluded by 1 May 2023. Further, there is a proposal to broaden the CBR's supervisory powers and in particular authorise the CBR to determine risk management rules of banks. The implementation of Basel II or Basel III in Russia has not occurred to date, and the effect that these revised guidelines will have on the capital requirements of CBM and on its capital position is uncertain. See "*– Risks Relating to CBM's Business and Industry – CBM's capital position may deteriorate*".

- In November 2009 and March 2010, the Supreme Arbitration Court of the Russian Federation issued two judgments declaring that charging an account fee to retail borrowers is a violation of Russian consumer protection laws. In Information Letter No. 147 issued on 13 September 2011, the Supreme Arbitration Court further indicated that a credit institution can only lawfully receive fees from a borrower if it is providing a separate service to the borrower other than the loan. Historically, CBM, in common with other major Russian banks, charged a range of fees and commissions in connection with its loans to retail and corporate customers, in addition to the interest rate payable on the loans. Following the issuance of Information Letter No. 147, CBM has changed its policy and approach with regard to charging such lending fees, although there remains a risk that certain fees charged by CBM to its loan customers could be challenged. If fees charged by CBM were to be deemed to be in violation of Russian consumer protection laws, CBM could be required to return such fees to the relevant clients and pay monetary penalties, which could have a material adverse effect on CBM's business, financial condition and/or results of operations.

- The CBR is considering amending its regulations regarding loan loss provisions with respect to loans granted by banks and if such amendments were to be adopted by the CBR, the applicable rules may become more rigorous.

- The State Duma is currently considering a draft of large-scale amendments to the Civil Code of Russia, which although generally aiming to clarify and streamline the existing rules and institutions, if adopted in the current form, may impose additional obligations on Russian banks. Among other amendments, it is proposed that a credit organisation become fully liable for an unauthorised debit of funds from a client's account, including when the credit organisation cannot verify that an unauthorised person issued the debit instruction. The credit organisation would bear the burden to prove that a client was not sufficiently diligent. It is difficult to forecast how the changes in banking and financial regulation will affect the Russian banking system, and no assurance can be given that the regulatory system will not change in a way that will increase CBM's expenses.
- In December 2012, the Russian Ministry of Finance proposed a draft law on "Consumer Loans", which is intended to bring more transparency into, and a higher level of regulation of, the interaction between Russian banks and retail borrowers. Among other things, the draft law, if enacted, would limit the amount of fees and penalties which an individual borrower may be charged on a loan, introduces cooling-off periods in connection with loans and requires detailed disclosure by banks of lending terms to retail borrowers. If the draft law is enacted, compliance with its requirements would expose Russian banks to additional costs. See "*Banking Regulation in Russia – Financial Consumer Protection*".

The recent and proposed changes in the Russian banking and financial market regulation are aimed at bringing the regime more in line with that of more developed countries. However, because of these changes, banks operate in a new and relatively unclear regulatory environment. Although CBM believes that it conducts its business in compliance with the applicable laws and regulations, no assurance can be given that its actions will not be challenged by the relevant authorities and held illegal. Further, it is difficult to forecast how the changes in the banking and financial market regulation will affect the Russian banking system and the Russian securities market, and no assurance can be given that the regulatory system will not change in a way that will impair CBM's ability to provide a full range of banking services or to compete effectively, thus adversely affecting CBM's credit ratings, business, financial condition, results of operations and/or prospects.

Introduction of a proposed lending limit for economically related borrowers may restrict CBM's lending activities

On 10 September 2004, the CBR issued Letter No. 106-T, which recommends that Russian banks implement an exposure limit for economically related borrowers. Under this regulation, borrowers are considered "economically related" if the decline in the financial condition of one borrower affects or may affect the financial condition of another borrower and may result in such other borrower's inability to perform its obligations to CBM. In its Letter No. 04-15 1/3693 dated 3 September 2007, the CBR confirmed that given that Letter No. 106-T provides for only a recommendation, the CBR will not take any actions against the banks in case of a breach of such recommendation. Further, the CBR has initiated amendments to Russian banking legislation which will clarify the definition of "related borrowers" to include both legally and economically related borrowers. See "– *Russian banking and financial regulation has been undergoing significant changes*".

Although CBM has a relatively diversified client base, the economic relationships between some of its clients are significant and may materially exceed the proposed exposure limit of the CBR. Though such exposure limit is only recommendatory, breaches of the CBR's recommendations may adversely affect CBM's relationships with the CBR. In addition, once this exposure limit becomes mandatory, it may adversely affect CBM's lending volume and require reorganisation of its lending business to ensure compliance.

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

Notwithstanding significant recent liberalisation of the Russian currency control regime pursuant to Federal Law No. 173-FZ "On Currency Regulation and Currency Control" dated 10 December 2003, as amended (the "**Currency Law**"), 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 operations specified in the Currency Law, including transactions between Russian authorised banks and other permitted operations). Moreover, certain limitations not applicable to CBM apply to CBM's clients, such as the requirement to notify the Russian tax authorities regarding the opening of a bank account abroad. These or any new currency control restrictions that may be adopted in the

future may restrict CBM's and its clients' operational flexibility, which could have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

Corporate governance standards in Russia differ significantly from those in other jurisdictions

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

The Banking Law contains certain periodic disclosure requirements, including the requirement to publish annual financial statements in accordance with RAS. Because CBM's systems and processes are tailored for Russian statutory requirements, it takes CBM longer than most Western companies to prepare its IFRS consolidated financial statements and its IFRS consolidated periodic internal accounts.

In accordance with the Banking Law, the CBR regulations, the regulations of the Ministry of Finance and the FSFM, CBM must issue various reports on a daily, monthly, quarterly and annual basis and publish and file such reports with the CBR. In addition, CBM files reports with the FSFM on a monthly, quarterly and annual basis. Quarterly reports, which are prepared in accordance with RAS, include certain financial information, including CBM's balance sheet, profit and loss statement, information on capital adequacy, allowances for problem loans and other assets, but do not contain all of the information contained in CBM's IFRS financial statements. Material differences exist between financial information prepared under RAS and IFRS. Therefore, prospective investors are cautioned not to place undue reliance on such information when evaluating the financial performance of CBM.

Despite recent initiatives to improve corporate transparency in Russia and recent amendments to modify CBM's corporate documents, there is still relatively less publicly available information about CBM than there is available for comparable banks in, for example, the United Kingdom, the United States or Western Europe. CBM believes that its corporate governance procedures include many of those used in best international practice, in part due to the influence of EBRD and IFC in their capacity as shareholders. However, the relatively less transparent nature of corporate governance in Russia as well as violations of disclosure and reporting requirements or breaches of fiduciary duties could have a material adverse effect on CBM's business, financial condition and results of operations and/or prospects on the value of the Notes.

Changes in Russian tax law could adversely affect CBM's business

Generally, taxes payable by Russian companies are substantial and include, among others: income tax, value added tax ("**VAT**"), property tax and payroll related insurance payments. Laws related to these taxes, such as the Tax Code of the Russian Federation (the "**Tax Code**"), have been in force for a relatively short period of time in comparison with tax legislation in more developed market economies, and the Russian Government's implementation of such legislation is often unclear or inconsistent. Historically, the system of tax collection has been relatively ineffective, resulting in continuous changes being introduced into existing laws and the interpretation thereof.

Although the quality of the Russian tax legislation has generally improved with the introduction of the Tax Code, the possibility exists that Russia may impose arbitrary and/or onerous taxes and penalties in the future, which could adversely affect CBM's business. Russia's inefficient tax collection system increases the likelihood of such events. A large number of changes have been introduced to various chapters of the Tax Code since its adoption.

Since Russian federal, regional and local tax laws and regulations are subject to frequent change and, in addition, some of the sections of the Tax Code are comparatively new, interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax regulations may exist both among and within government bodies at the federal, regional and local levels, increasing the number of existing uncertainties and leading to the inconsistent enforcement of these tax laws and regulations in practice.

Furthermore, the taxpayers, the Ministry of Finance and the Russian tax authorities often interpret tax laws differently. There can be no assurance that the Russian tax authorities will not take positions contrary to those set out in the private clarification letters issued by the Ministry of Finance to specific taxpayers' queries. In some instances, the Russian tax authorities have applied new interpretations of tax laws retroactively, issued tax claims for periods for which the statute of limitations had expired and reviewed the same tax period several times. During the past several years the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments issued by them as a result of tax audits of companies operating in various industries, including the financial industry.

As taxpayers and the Russian tax authorities often interpret tax laws differently, taxpayers often have to resort to court proceedings to defend their position against the Russian tax authorities. In the absence of binding precedent or consistent court practice, rulings on tax or other related matters by different courts relating to the same and similar circumstances may also be inconsistent or contradictory.

The Russian tax system is, therefore, impeded by the fact that, at times, it continues to be characterised by inconsistent judgment of local tax authorities and the failure by Russian tax authorities to address many of the existing problems. It is, therefore, possible that transactions and activities of CBM that have not been challenged in the past may be challenged in the future, which may have a material adverse effect on CBM's business, financial condition and results of operations and/or prospects and the trading price of the Notes.

In its decision No. 138-O of 25 July 2001, the Russian Constitutional Court introduced the concept of a "taxpayer acting in bad faith" without clearly stipulating the criteria for its application. Similarly, this concept is not defined in Russian tax law or other Russian laws. Nonetheless, the Russian tax authorities have made increasing use of this concept, including denying the taxpayers' right to rely on the letter of the tax law. Based on the available practice the Russian tax authorities and courts often exercised significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Resolution No. 53, which introduced a concept of an "unjustified tax benefit". This concept is defined mainly by reference to circumstances such as absence of business purpose or transactions where the form does not match the substance, and which could lead to the disallowance of tax benefits resulting from the transaction or the re-characterisation of the transaction for tax purposes. To date, there has been little guidance or interpretation of this concept by the Russian tax authorities or by the courts, but it is apparent that the Russian tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the explicit intention of Resolution No. 53 was to combat the abuse of tax law, it can be seen from the cases relating to Resolution No. 53 that have been brought to courts that the Russian tax authorities have started applying the "unjustified tax benefit" concept in a broader manner than may have been intended by the Supreme Arbitration Court. Importantly, there are some cases where this concept has been applied by the Russian tax authorities in order to disallow benefits granted by double tax treaties. To date the courts have ruled in favour of the taxpayers in the majority of cases where this concept was applied, but there is no assurance that the courts will follow these precedents in the future. Furthermore, Resolution No. 64 of the Plenum of the Supreme Court of the Russian Federation of 28 December 2006 "Concerning the Practical Application by Courts of Criminal Legislation Concerning Liability for Tax Crimes" is indicative of the trend to broaden the application of criminal sanctions for tax violations.

Furthermore, the Russian Government in its Main Directions of the Russian Tax Policy for 2013 and the planned period of 2014-2015 expressed its intention to introduce a "controlled foreign companies" rule into the Tax Code. It is currently unclear how and when these amendments will be enacted (if at all) and what effect these provisions may have on CBM. The imposition of additional tax liabilities as a result of the application of this rule to transactions carried out by CBM may have a material adverse effect on CBM's business, financial condition and results of operations and/or prospects and the trading price of the Notes.

Tax returns together with related documents are subject to review and investigation by the Russian tax authorities, which are enabled by Russian law to impose severe fines and interest charges on taxpayers. Generally, tax returns remain open and subject to inspection by the Russian tax authorities for the period of three calendar years immediately preceding the year in which the decision to

conduct a tax inspection is taken. Tax audits can however go beyond this general three year term to cover the tax period for which an amended tax return (if any) has been filed.

The fact that a year has been reviewed by the Russian tax authorities does not entirely close that year, or any tax returns applicable to that year, from further review during the three-year limitation period. In particular, a repeat tax audit may be conducted (i) by a higher level tax authority as a measure of control over the activities of lower level tax authorities, or (ii) in connection with the reorganisation/liquidation of a taxpayer, or (iii) as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable to the revenue. Therefore, previous tax audits may not preclude from subsequent tax claims relating to the audited period. The statute of limitations is not entirely effective with respect to liability for payment of tax in Russia. Such extended tax audit, if it is concluded that the bank had significant tax underpayments for respective previous tax periods, may have a material adverse effect on CBM's business, financial condition and results of operations and/or prospects and the trading price of the Notes. Tax audits may also impose an additional administrative burden on CBM by diverting the attention of its management and financial personnel requiring resources for defending CBM's tax position, including for any tax litigation.

The statute of limitations for tax penalties for a tax offence is three years from the date on which it was committed or from the next date following the date of the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence). On 14 July 2005, the Constitutional Court of the Russian Federation issued a decision that allows the statute of limitations for tax penalties to be extended beyond the three-year term set out in the Tax Code if a court determines that a taxpayer has obstructed or hindered a tax inspection. Moreover, the Tax Code provides for the possibility of an extension of the three-year statute of limitations for tax offences if the taxpayer obstructed the performance of the tax review and this has become an insurmountable obstacle for the tax audit. Because the terms "obstructed", "hindered" and "insurmountable obstacles" are not specifically defined in Russian law, the Russian tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax reviews with obstruction by the taxpayer and use that as a basis to seek additional tax adjustments and penalties beyond the three-year limitation term.

These changing conditions create tax risks in Russia that are more significant than those typically found in jurisdictions with more developed tax systems and complicate tax planning and related business decisions of CBM. In addition, there can be no assurance that the current tax rates will not be increased, that new taxes will not be introduced or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. In addition, CBM is subject to periodic tax inspections that may result in additional tax assessments both in respect of the current and prior tax periods. Any additional tax liability, including liabilities related to CBM's past operations, as well as any unforeseen changes in Russian tax laws or in the interpretation or enforcement of such laws, including the more vigorous enforcement of existing laws, could have a material adverse effect on CBM's future results of operations or cash flows. There also can be no assurance that the Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. In general, it is expected that Russian tax legislation will progressively become more sophisticated. Introduction of new taxes or amendments to current rules of taxation may affect CBM's overall tax efficiency and may result in significant additional tax liabilities. CBM cannot provide Noteholders with any assurance that additional Russian tax exposures will not arise. Such additional tax exposures could have a material adverse effect on CBM's business, financial condition and results of operations and/or prospects, and the value of the Notes.

CBM is subject to tax audits by the Russian tax authorities, which may result in additional tax liabilities

Tax returns together with related documentation are subject to review and investigation by the tax authorities, which are enabled by Russian law to impose severe fines and penalties. Generally, tax returns remain open and subject to inspection by the tax authorities for a period of three years immediately preceding the year in which the decision to conduct a tax audit is adopted. The fact that a year has been reviewed by the tax authorities does not close that year, or any tax returns applicable to that year, from further review during the three year period. In particular, a repeated tax audit may be conducted by a higher-level tax authority as a measure of control over the activities of lower-level tax authorities, or in connection with the reorganisation or liquidation of a taxpayer, or as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable.

The statute of limitations for tax penalties for a tax offence is three years from the date on which it was committed or from the next date following the date of the end of the tax period during which

the tax offence was committed, depending on the nature of the tax offence. However, the statute of limitations for tax penalties is not entirely effective. See "– *Changes in Russian tax law could adversely affect CBM's business*".

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

Russian transfer pricing rules may adversely affect CBM's business, financial condition and results of operations

Russian transfer pricing legislation which was effective before 1 January 2012 was broad in scope and vaguely drafted, generally leaving wide scope for interpretation at the discretion of the Russian tax authorities and courts, and there was limited guidance as to how these rules should have been applied. Moreover, in the event that a transfer pricing adjustment was made by the Russian tax authorities, the transfer pricing rules did not provide for an offsetting adjustment to the related counterparty in the relevant transaction.

New Russian transfer pricing legislation came into force on 1 January 2012. The list of "controlled" transactions under this new legislation includes transactions performed with related parties and certain types of cross-border transactions. This new legislation has considerably increased the compliance burden for the taxpayers compared to the law which was in effect before 2012 due to, *inter alia*, shifting the burden of proving market prices from the Russian tax authorities to the taxpayer. Although the new legislation is supposed to be in line with international transfer pricing principles developed by the Organisation for Economic Co-operation and Development (the "**OECD**"), there are certain significant differences of how these principles are reflected in the local rules. Special transfer pricing rules apply to transactions with securities and derivatives. It is currently difficult to evaluate what effect these new provisions may have on CBM.

Accordingly, due to the uncertainties in the interpretation of Russian transfer pricing legislation which was in effect before 2012 and the recently introduced new transfer pricing legislation, no assurance can be given that the Russian tax authorities will not challenge CBM's transfer prices and make adjustments which could affect CBM's tax position unless CBM is able to confirm the use of market prices with respect to "controlled" transactions supported by the appropriate transfer pricing documentation. The imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on CBM's business, financial condition and results of operations and/or prospects, and the value of the Notes.

Risks Relating to the Issuer, the Loan, the Notes and the Trading Market

The trading price for the Notes could be adversely affected by changes in certain credit ratings

Outstanding Eurobonds of the Russian Federation are rated "Baa1" by Moody's, "BBB" by Standard & Poor's and "BBB" by Fitch. As at the date of this Prospectus, CBM's long-term global and local currency deposit rating and financial strength rating by Moody's are B1 and E+, respectively. CBM's long term issuer default and short term issuer default ratings by Fitch are BB- and B, respectively. CBM's long term counterparty default and short term counterparty default ratings by Standard & Poor's are B+ and B, respectively.

A significant number of CBM's debt obligations have credit ratings, upon which investors rely in varying degrees, and which may be a prerequisite to certain investors holding such debt obligations. The global financial crisis has witnessed credit rating agencies revising the criteria that they use to determine the credit ratings of debt obligations and/or changing their credit ratings of companies and their rated obligations. Any change in the methodology used by rating agencies could result in a downgrade in the ratings of a company or its rated obligations. Any downgrade in the ratings of a company and/or its rated obligations could make it more difficult and/or expensive for such companies to raise capital going forward and may adversely affect the price of their outstanding debt obligations. CBM's rating is also sensitive to changes in the sovereign rating of the Russian Federation. Any such downgrading in corporate or sovereign ratings may cause the ratings of the Notes to be reassessed or downgraded, which could affect the value of such Notes and increase CBM's cost of raising capital.

Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment and credit ratings assigned to CBM or to other instruments issued by or to fund CBM do not necessarily mean that an investment in CBM or such instruments is suitable. A security 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.

Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any negative change in the credit rating of CBM or the Russian Federation could adversely affect the trading price for the Notes. The significance of each rating should be analysed independently from any other rating.

Noteholders right to receive payments in respect of the Notes will be limited to payments actually received by the Issuer under the Loan Agreement

The Issuer is an SPV with no business other than issuing notes and advancing loans under the Loan Agreement and loan agreements in connection with previous issuances of loan participation notes and has no assets other than such loans. The Issuer has an obligation under the *"Terms and Conditions of the Notes"* and the Trust Deed to pay such amounts of principal and interest, and additional amounts (if any) as are due in respect of the Notes. However, the Issuer's obligation to pay is equal to the amount of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer from CBM pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights (as defined in the Trust Deed). Consequently, if CBM fails to meet its payment obligations under the 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 Notes.

There is no direct recourse of the Noteholders to CBM

Except otherwise expressly provided in "*Terms and Conditions of the Notes*" and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any provision of the Loan Agreement or have direct recourse to CBM as borrower except through action by the Trustee under the Security Interests (as defined in the Trust Deed) granted to the Trustee in the Trust Deed.

In addition, Noteholders should be aware that neither the Issuer nor the Trustee accepts any responsibility for the performance by CBM of its obligations under the Loan Agreement. Neither the Issuer nor the Trustee under the Assigned Rights (as defined under *"Terms and Conditions of the Notes"*) shall be required to monitor CBM's financial performance or status or to enter into proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Payments of principal and/or interest by CBM under the Loan Agreement to, or to the order of, the Trustee or the Principal Paying Agent will satisfy the Issuer's obligations in respect of the Notes. Consequently, Noteholders will have no further recourse against the Issuer or CBM after such payment is made.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

There is currently no active trading market for the Notes and even if a market develops, the market price of the Notes may be volatile

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the 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 CBM. Although application has been made to the Irish Stock Exchange for the Notes to be admitted to trading on the Market of the Irish Stock Exchange, there is no assurance that such application will be accepted or that a liquid market will develop or be maintained for the Notes. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

The market for securities issued by Russian issuers is influenced by economic and market conditions in other Eastern European countries and other emerging and developing markets. In view of disruptions recently experienced in the international and domestic capital markets, there can be no assurance as to the development or liquidity of any market for the Notes.

Even if a market for the Notes develops, the market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the operating results of CBM's competitors, adverse business developments, changes to the regulatory environment in which CBM operates, changes in financial estimates by securities analysts, the actual or anticipated sale of a large number of Notes and other factors, including those set forth in *"Risk Factors"*.

Upon the occurrence of certain circumstances described in the Loan Agreement, CBM may prepay the Loan

Under the terms of the Loan Agreement, CBM may, subject to certain conditions, prepay the Loan if CBM is required to increase its payments for tax reasons regardless of whether the increased payment obligation results 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 Notes. CBM may also prepay the Loan if CBM is required to indemnify the Issuer in respect of certain increased costs to the Issuer (as set out in the Loan Agreement). In the event that it becomes unlawful for the Issuer to allow the Loan to remain outstanding under the Loan Agreement, to maintain or give effect to any of its obligations under the Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Loan, CBM may be required by the Issuer to repay the Loan in full. In case of any prepayment, all outstanding Notes would be redeemable at par with accrued interest or as otherwise specified in the Loan Agreement.

The Notes may be redeemed prior to maturity

In the event that CBM would be obliged to increase the amounts payable in respect of the Notes due to any change in or amendment to the laws or regulations of the Russian Federation or any political sub-division thereof or of any authority therein or thereof having the power to tax or in the interpretation or administration thereof, the Issuer may redeem all outstanding Notes in accordance with the Terms and Conditions of the Notes. It may not be possible for Noteholders to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate.

Transfer of investments in the Notes will be subject to certain restrictions

The Notes have not been and are not expected to be registered: (a) under the Securities Act or any applicable state's or other jurisdiction's securities laws or (b) with the SEC or any other applicable state's or other jurisdiction's regulatory authorities. The offering of the Notes will be made pursuant to exemptions from the registration provisions of the Securities Act and from other securities laws. Accordingly, reoffers, resales, pledges and other transfers of investments in the Notes will be subject to certain transfer restrictions. Each investor is advised to consult legal counsel in connection with any such reoffer, resale, pledge or other transfer. See *"Transfer Restrictions"*.

Because transfers of interests in the Global Notes can be effected only through book entries at DTC, Clearstream, Luxembourg and Euroclear for the accounts of their respective participants, the liquidity

of any secondary market for investments in the Global Notes may be reduced to the extent that some investors are unwilling to invest in notes held in book-entry form in the name of a participant in Clearstream, Luxembourg, Euroclear or DTC, as applicable. The ability to pledge interests in the Notes may be limited due to the lack of a physical certificate. In the event of the insolvency of Clearstream, Luxembourg, Euroclear, DTC or any of their respective participants in whose name interests in the Notes are recorded, the ability of beneficial owners to obtain timely or ultimate payment of principal and interest on the Notes may be impaired.

Foreign judgments and arbitral awards may not be enforceable against CBM

Russian courts may not enforce any judgment obtained in a court established in a country other than the Russian Federation unless there is a (i) treaty in effect between such country and the Russian Federation providing for reciprocal recognition and enforcement of court judgments and (ii) federal law of the Russian Federation providing for recognition and enforcement of foreign court judgments. No such treaty exists between the Russian Federation and the United States or the United Kingdom and no such federal law has been passed. Even in the event that there is such a treaty and a federal law, Russian courts may nonetheless refuse to recognise and enforce a foreign court judgment on the grounds provided in such treaty and in Russian legislation in effect on the date on which such recognition and enforcement is sought. The Arbitrazh Procedural Code of the Russian Federation establishes the procedures for the recognition and enforcement of foreign court judgments and contains an extensive list of grounds for refusal of such recognition and enforcement in the future. Moreover, Russian procedural legislation may change and no assurance can be given that in the future no other ground for refusal of such recognition and enforcement may arise. Consequently, should a judgment be obtained from a non-Russian court, it is highly unlikely to be given direct effect in Russian courts.

The Loan Agreement is governed by English law and provides for disputes, controversies and causes of action brought by any party thereto to be settled by arbitration in accordance with the Rules of the LCIA. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to the relative inexperience of the Russian courts in international commercial transactions, political resistance to the enforcement of awards against Russian companies in favour of foreign investors, the inability of Russian courts to enforce such awards and corruption.

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

CBM's payments under the Loan may be subject to Russian withholding tax

In general, interest payments on borrowed funds made by a Russian legal entity or organisation to a non-resident legal entity or organisation having no registered presence and/or no permanent establishment in the Russian Federation, are subject to Russian withholding tax at a rate of 20%, unless such withholding is reduced or eliminated pursuant to the terms of an applicable double tax treaty.

A Russian organisation or a foreign organisation that operates in Russia through a permanent establishment that pays interest income to a foreign organisation should withhold the tax at each payment, except for the interest payments made to foreign organisations on debt obligations, arising in connection with issuance by foreign organisations of traded bonds, provided that the foreign organisation receiving interest income is tax resident in a jurisdiction having double tax treaty with Russia and has duly confirmed its tax residence at the date of receiving the interest income. This exemption is applied retrospectively from 1 January 2007, and with respect to traded bonds issued until 1 January 2014.

For the purpose of the above exemption, the term "traded bonds" means bonds and other debt obligations listed and/or traded on one or several foreign stock exchanges and/or rights to which are recorded by recognised depository clearing organisations, provided that such foreign stock exchanges and depository clearing organisations are specified in a list that was approved by the FSFM in consultation with the Ministry of Finance on 25 October 2012. The fact that bonds are "traded" must be confirmed by the relevant Russian company based on information provided by foreign stock

exchanges, depository clearing organisations, offering memoranda or other documents relating to the issue of the bonds and publicly available information.

The debt obligation is treated as connected with the issuance of traded bonds by foreign organisations if it is explicitly stated in the agreement governing the relevant debt obligation, and (or) terms and conditions, and (or) prospectus of issuance of quoted bonds or if this fact is confirmed by the actual transfer of funds upon the issuance of traded bonds.

CBM believes that under the provisions of the Tax Code introduced by the Law No. 97-FZ and the Agreement between the Government of Ireland and the Government of the Russian Federation for the Avoidance of Double Taxation with respect to Taxes on Income signed on 29 April 1994 (the "**Convention**") it will be exempt from the obligation to withhold tax from the Issuer's interest income if the Issuer is a tax resident in Ireland and has submitted to CBM a special confirmation of its tax residency prior to the relevant settlement.

The application of the Convention benefits could potentially be affected by the changes in the position of the Russian tax authorities in relation to the nature of the transaction when assessing the applicability of the Convention. In particular, based on the official position of the Ministry of Finance expressed in the Letter No.03-08-13/1 dated 30 December 2011 (the "**Letter**"), special purpose vehicle companies used in Eurobond transactions may not be regarded as beneficial owners of interest income as required by the double taxation treaties, because they in fact act as intermediaries passing all the income to the Eurobond holders.

In circumstances where payments under the Loan Agreement become payable to the Trustee pursuant to the security arrangements described herein, there is uncertainty as to whether the Borrower will be released from the obligation to withhold the Russian withholding tax from interest payments made to the Trustee. In such a case payments of interest under the Loan Agreement to the Trustee may become subject to the Russian withholding tax at a rate of 20%, or such other rate as may be effective at the time of payment. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty under such circumstances. In addition, whilst some Noteholders may be eligible for an exemption from, or a reduction in, the Russian withholding tax under applicable double tax treaties, there is no assurance that in this case the respective treaty relief will be available to them in practice. If interest payments under the Loan are subject to the Russian withholding tax (as a result of which the Issuer would reduce payments made under the Notes by the amount of the tax withheld), CBM will be obliged under the terms of the Loan Agreement to pay such additional amounts as may be necessary to ensure that the net payments received by the Issuer and/or the Noteholders will not be less than the amounts they would have received in the absence of such withholding. It is currently unclear whether the provisions obliging CBM to gross-up interest payments under the Loan will be enforceable under Russian law. There is a risk that gross-up for withholding tax will not take place and that the interest payments made by CBM under the Loan Agreement will be reduced by the amount of the Russian income tax withheld by CBM at the rate of 20%, or such other rate as may be in force at the time of payment. See "*Taxation*".

If CBM is obliged to pay additional amounts under the Loan Agreement, it may (without premium or penalty), subject to certain conditions including the consent of the CBR, prepay the Loan in full. In such case, all outstanding Notes would each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of the redemption. See "*Terms and Conditions of the Notes – 6 Redemption and Purchase*".

Payments in respect of the Notes will be made, except in certain limited circumstances, without a deduction or withholding for or on account of Irish taxes. However, pursuant to the European tax law, interest on the Notes paid to individuals resident in member states of the EU ("**Member States**") or in certain EU dependent or associated territories and certain non-EU countries ("**non-EU countries**") or to certain residual entities as described in the EU Savings Directive on the Taxation of Savings Income in the Form of Interest Payments (Council Directive 2003/48/EC) passed on June 3, 2003 and published on June 26, 2003 (the "**EU Savings Directive**") and relating agreements with certain EU dependant and associated territories and certain non-EU countries, may be subject to withholding tax.

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

If a non-resident Noteholder legal entity which disposes of the Notes after 1 January 2014 other than through a permanent establishment in Russia, sells the Notes in Russia and/or receives proceeds from a source in Russia, there is a risk that the part of the payment that represents interest accrued after 1

January 2014 May be subject to the applicable Russian withholding income tax. A non-resident Noteholder may be entitled to reduce such Russian withholding income tax pursuant to an exemption under an applicable double taxation treaty, but there could be no assurance that such exemption or reduction will be available.

Where proceeds from disposition of the Notes are received from a source within the Russian Federation by an individual Noteholder that is a non-Russian resident for tax purposes, a personal income tax at a rate of 30% would apply to the gross proceeds from the disposition of the Notes decreased by any available documented cost deductions (including the acquisition cost of the Notes). Although such tax may be reduced or eliminated under an applicable tax treaty subject to compliance with the treaty clearance formalities, in practice individuals would not be able to obtain advance treaty relief in relation to proceeds from a source within the Russian Federation whilst obtaining a refund of taxes withheld can be extremely difficult, if not impossible. Furthermore, even though the Tax Code is typically interpreted such as only a licensed broker or an asset manager or other party that is a Russian legal entity or an organisation, or any other person, including a foreign company with a permanent establishment or, arguably, any registered presence in the Russian Federation or an individual entrepreneur registered in the Russian Federation who carry out operations under an asset management agreement, brokerage service agreement, agency agreement, a commission agreement or commercial mandate agreement have to withhold the tax from payments associated with disposition of securities made to a non-Russian individual, there is no guarantee that other Russian companies or foreign companies with a registered presence in the Russian Federation or an individual entrepreneur located in the Russian Federation would not seek to withhold the tax under these circumstances.

The imposition or possibility of imposition of the withholding tax could adversely affect the value of the Notes. See *"Taxation – Russian Taxation – Taxation of the Notes"*. In addition, while some Noteholders might be eligible for an exemption from or a reduction in the Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice under these circumstances.

The U.S. Foreign Account Tax Compliance Act ("FATCA") rules could materially affect CBM, the Issuer and Noteholders

The FATCA rules were enacted in 2010 to prevent U.S. tax evasion by requiring foreign banks and investment funds to provide information to the U.S. Internal Revenue Service (the "**IRS**") about U.S. customers and investors. This is achieved through a comprehensive information reporting regime that requires foreign financial institutions (such as CBM) to conduct diligence on their account holders and investors to determine whether their accounts are "U.S. accounts", and either provide detailed information about these U.S. accounts to the IRS or suffer a 30% withholding tax on certain payments. The U.S. Treasury Department has not yet released final regulations clarifying the statutory language of FATCA, so the scope and application of FATCA is uncertain at this time. It is possible that FATCA could operate to impose U.S. withholding tax on (i) beginning in 2014, payments to CBM in respect of U.S. securities, including interest and dividends, (ii) beginning in 2017, payments to CBM of gross proceeds from the disposition of such securities, and (iii) beginning no earlier than 2017, certain "pass-thru payments" to CBM. It is also possible that CBM could incur material costs in implementing information-gathering systems to comply with FATCA. Given the lack of final regulations or other binding guidance, it is impossible for CBM to evaluate the potential effect of FATCA at this time.

In order to avoid these U.S. federal tax consequences under FATCA, "foreign financial institutions" will be required, for years beginning after 31 December 2013, to collect information on "U.S. accounts" and submit such information to the IRS. CBM and the Issuer may qualify as "foreign financial institutions" under these rules. It is not yet clear what information CBM and the Issuer will be required to provide to the IRS with respect to holders of the Notes. By purchasing the Notes, Noteholders agree to provide an IRS form W-9 or W-8 (as applicable), and whatever other information may be necessary for CBM and the Issuer to comply with these reporting obligations should either CBM or the Issuer qualify as an FFI. FATCA may also apply to certain payments from the Issuer to Noteholders. If an amount of, or in respect of, U.S. withholding tax were to be deducted or withheld from interest or other payments on the Notes as a result of an investor's failure to comply with these rules, neither CBM nor the Issuer nor the Guarantor nor any paying agent nor any other person would be required to pay additional amounts with respect to any Notes as a result of the deduction or withholding of such tax.

The legislative framework governing bankruptcy in the Russian Federation differs substantially from that of Western European countries, which could adversely affect the value of the Notes in the event of CBM's insolvency

Russian bankruptcy law often differs from comparable law in Western European countries and is subject to varying interpretations. There is little precedent to predict how claims on behalf of the Noteholders against CBM would be resolved in case of its bankruptcy. Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity and thus could have a material adverse effect on an investment in the Notes.

In addition, under Russian law, CBM's obligations under the Notes would be subordinated to the following obligations:

- costs related to bankruptcy litigation;
- claims of retail depositors and of individuals who have accounts with us;
- personal injury and "moral harm" obligations;
- severance pay, employment-related obligations and copyright royalty obligations;
- secured obligations; and
- tax and other payment obligations to the government.

In the event of CBM's insolvency, this subordination may substantially decrease the amounts available for repayment of the Notes. In addition, the existence of priority claims may substantially decrease the amount of funds and assets that may be available for making payments under the Loan and, as a result, the Notes.

The EU Savings Directive may impose tax withholding

Under the EU Savings Directive, each Member State is required to provide to the tax authorities of another Member State, details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, each of Luxembourg and Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (the end of that transitional period is dependent upon the conclusion of certain agreements relating to information exchange within certain non EU countries). A number of non EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer, nor CBM, nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

Examiners, preferred creditors and floating charges may give rise to additional risks for the Notes

COMI

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

Examinership

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

The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions, by or on behalf of the company after his appointment and, in certain circumstances, a negative pledge given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

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

The fact that the Issuer is a special purpose entity and that all its liabilities are of a limited recourse nature means that it is unlikely that an examiner would be appointed to the Issuer.

If however, for any reason, an examiner were appointed while any amounts due by the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

(i) the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership; and

(ii) a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views.

Preferred Creditors

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

(i) under the terms of the Trust Deed, the Notes will be secured in favour of the Trustee for the benefit of itself and the Noteholders by security over the Loan Agreement and sums held in Account. Under Irish law, the claims of creditors holding fixed charges may rank behind other creditors (namely fees, costs and expenses of any examiner appointed and certain capital gains tax liabilities) and, in the case of fixed charges over book debts, may rank behind claims of the Irish Revenue Commissioners for Pay As You Earn (**"PAYE"**) and VAT;

(ii) under Irish law, for a charge to be characterised as a fixed charge, the charge holder is required to exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets including any bank account into which such proceeds are paid. There is a risk therefore that even a charge which purports to be taken as a fixed charge, such as the Charge, may take effect as a floating charge if a court deems that the requisite level of control was not exercised; and

(iii) in an insolvency of the Issuer, the claims of certain other creditors (including the Irish Revenue Commissioners for certain unpaid taxes), as well as those of creditors mentioned above, will rank in priority to claims of unsecured creditors and claims of creditors holding floating charges.

The Notes are subject to modification, waivers and substitution

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may agree, without the consent of the Noteholders, (i) to any modification of any provision of the Notes, the Conditions and the Trust Deed or, following the creation of the Security Interests, the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature or is made to correct a manifest error, (ii) any other modification and any waiver or authorisation of any breach or proposed breach of any provision of the Notes, the Conditions and the Trust Deed or, following the creation of the Security Interests, the Loan Agreement which in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders or (iii) the substitution of CBM as principal debtor under the Notes in place of the Issuer, in the circumstances described in *"Terms and Conditions of the Notes – 10 Meetings of Noteholders; Modification; Waiver; Substitution of the Lender"*.

Trading in the Clearing Systems is subject to minimum denomination requirements

The Terms and Conditions of the Notes provide that the Notes shall be issued with a minimum denomination of US$200,000 and integral multiples of US$1,000 in excess thereof. While the Notes are traded in a clearing system, it is possible that processing of trades in the clearing systems may result in amounts being held in denominations smaller than the minimum denominations specified in the Terms and Conditions of the Notes. If Definitive Note Certificates are required to be issued in relation to such Notes in accordance with the provisions of the terms of the Global Notes, a holder who does not have an integral multiple of the minimum denomination in its account with the relevant clearing system at the relevant time may not receive all of its entitlement in the form of the Definitive Note Certificates unless and until such time as its holding becomes an integral multiple of the minimum denomination.

Interest Rate Risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Legal Investment Considerations

The investment activities of certain investors may be subject to law or review or regulation by certain authorities. Each potential investor should determine for itself, on the basis of professional advice where appropriate, whether and to what extent (i) Notes are lawful investments for it, (ii) Notes can be used as collateral for various types of borrowing, and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their own legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk based capital or similar rules.

Changes in law in England and Wales may impact the rights of Noteholders

The terms of the Notes are based on the laws of England and Wales in effect as at the date of this Prospectus. The Issuer and CBM cannot give any assurance as to the impact of any possible judicial decision or change to the laws of England and Wales or administrative practice after the date of this Prospectus.

Other Risks

Publicly available data may be unreliable

CBM has derived substantially all of the information contained in this Prospectus concerning its competitors and market share from publicly available information and has relied on the accuracy of this information without independent verification.

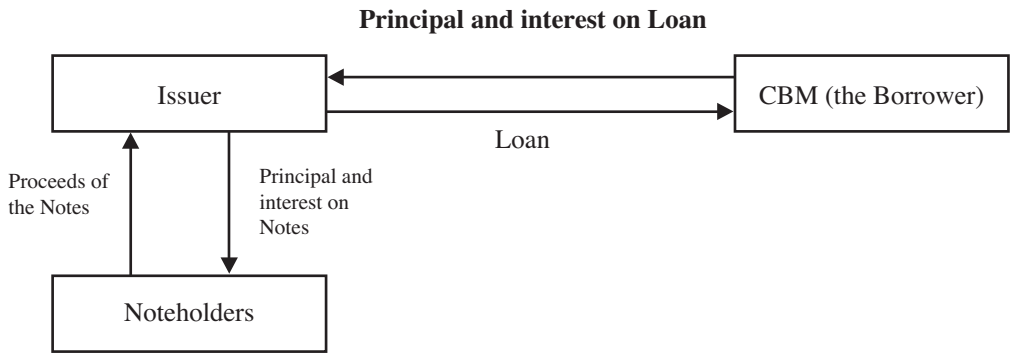
In addition, some of the information contained in this Prospectus has been derived from official data of Russian government agencies and the CBR. Some of the official data published by Russian federal, regional and local governments may not be complete or researched to the standard of Western countries. The veracity of some official data released by the Russian government may be inaccurate. Official statistics, including those produced by the CBR, may also be produced to a different standard than those used in Western countries. Any discussion of matters relating to Russia in this Prospectus must, therefore, be subject to uncertainty due to the potential inaccuracy of available official and public information.

DESCRIPTION OF THE TRANSACTION

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

The transaction will be structured as a Loan to CBM by the Issuer under the Loan Agreement. The Issuer will issue the Notes, which will be limited recourse loan participation notes issued for the sole purpose of funding the Loan to CBM. The Loan will be made on the terms of the Loan Agreement and will have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. The Notes will be constituted by, be subject to, and have the benefit of the Trust Deed. The obligations of the Issuer to make payments under the Notes shall constitute an obligation only to account to the Noteholders for an amount equal to the sums of principal, interest and/or additional amounts (if any) the Issuer actually receives and retains (net of tax) by or for its account from CBM pursuant to the Loan Agreement or that are deposited in the Account, less any amounts in respect of the Reserved Rights.

Set out below is a diagrammatic representation of the structure:



As provided in the Trust Deed, the Issuer shall charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes (a) its rights to all principal, interest and additional amounts (if any) payable by CBM under the Loan Agreement, (b) its right to receive all sums which may be or become payable by CBM under any claim award or judgment relating to the Loan Agreement and (c) its rights, title and interest in and to all sums of money now or in the future deposited in an account with the Principal Paying Agent in the name of the Issuer, together with the debt represented thereby, including accrued interest from time to time on the account (the **"Account"**) ((a), (b) and (c) collectively, the **"Charged Property"**), in each case other than the Reserved Rights (as defined in the Trust Deed) and amounts relating thereto. The Issuer has assigned absolutely certain administrative rights under the Loan Agreement to the Trustee for the benefit of the Noteholders. CBM will be obliged to make payments under the Loan to the Issuer in accordance with the terms of the Loan Agreement to the Account or, following a Relevant Event, as otherwise instructed by the Trustee.

The Issuer has covenanted not to agree to any amendments to, or any modification or waiver of, or authorise any breach or potential breach of, the terms of the Loan Agreement unless the Trustee has given its prior written consent (in each case except in relation to the Reserved Rights).

The Issuer (save as expressly provided in the Trust Deed, the Loan Agreement or with the consent of the Trustee) shall not pledge, charge or otherwise deal with the Loan or the Charged Property or any right or benefit either present or future arising under or in respect of the Loan Agreement or the Account or any part thereof or any interest therein or purport to do so (in each case except in relation to the Reserved Rights). Any amendments, modifications, waivers or authorisations made with the Trustee's consent, but without the Noteholders consent, shall be notified to the Noteholders in accordance with Condition 14 (Notices) of the Terms and Conditions of the Notes and will be binding on the Noteholders.

The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as further described in "*Terms and Conditions of the Notes*".

Payments in respect of the Notes will be made without any deduction or withholding for, or on account of, taxes of Ireland or the Russian Federation except as required by law. See *"Terms and Conditions of the Notes – 8 Taxation"*. In that event, the Issuer will only be required to pay an additional amount to the extent it receives corresponding amounts from CBM under the Loan Agreement. The Loan Agreement provides for CBM to pay such corresponding amounts in these circumstances. In addition, payments under the Loan Agreement will be made without any deduction or withholding for, or on account of, any taxes in the Russian Federation or any jurisdiction from, or through, which any payments are made, except as required by law, in which event CBM will be obliged to increase the amounts payable under the Loan Agreement. See *"Risk Factors – Risks Relating to the Issuer, the Loan, the Notes and the Trading Market"*.

The Issuer will have no other financial obligations under the Notes and no other assets of the Issuer will be available to Noteholders. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the extent of such sums received or recovered and retained (net of tax) by or on behalf of the Issuer or the Trustee from the assets securing the Notes. Noteholders shall look solely to such sums for payments to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets in respect thereof. In the event that the amount due and payable by the Issuer under such notes exceeds the sums so received or recovered and retained (net of tax), the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

CBM may prepay the Loan at its principal amount, together with accrued interest and additional amounts (if any), in the event that CBM is required to increase the amount payable or to pay additional amounts on account of taxes of the Russian Federation or Ireland pursuant to the Loan Agreement or if it becomes unlawful for the Loan or the Notes to remain outstanding, as set out in the Loan Agreement. In each case (to the extent that the Issuer has actually received the relevant funds from CBM), the Issuer will prepay the Notes together with accrued interest and additional amounts (if any) thereon to, and including, the date of prepayment. See *"Form of the Loan Agreement – Clause 5 (Repayment and Prepayment), Clause 5.2 (Prepayment in the Event of Taxes or Increased Costs), Clause 5.3 (Prepayment in the Event of Illegality) and Clause 5.4 (Prepayment upon a Put Event)"* and *"Terms and Conditions of the Notes – 6 Redemption and Purchase"*.

USE OF PROCEEDS

The Issuer will use the gross proceeds of the offering of the Notes for the sole purpose of financing the Loan to CBM. CBM will use the proceeds of the Loan for general banking purposes. In connection with the Loan, CBM will pay the Issuer a facility fee.

Total commissions and expenses relating to the offering of the Notes (represented by the facility fee and other costs) are expected to be approximately US$4,200,000. The net proceeds that CBM will receive from the offering, after deducting estimated commissions and expenses incurred in connection with the offering (represented by the facility fee and other costs), will be approximately US$495,800,000.

CAPITALISATION AND INDEBTEDNESS OF CBM

The following table sets forth CBM's capitalisation as at 30 September 2012 and is extracted from the Interim Financial Statements. For further information regarding CBM's financial position, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Interim Financial Statements included elsewhere in this Prospectus.

	As at 30 September 2012
	RUB thousands
Liabilities	
Deposits by credit institutions	31,593,690
Deposits by the Central Bank of the Russian Federation	3,005,943
Deposits by customers	164,592,962
Debt securities issued	38,036,746
Deferred tax liability	2,427,071
Other liabilities	2,951,214
Total liabilities	**242,607,626**
Equity	
Share capital	13,539,763
Additional paid-in capital	9,019,295
Revaluation reserve for available-for-sale securities	(7,302)
Revaluation surplus for buildings	500,424
Retained earnings	13,585,794
Total equity	**36,637,974**
Total liabilities and equity	**279,245,600**

In October 2012, CBM signed a one-year RUB 800 million revolving credit facility agreement with SME Bank. The funds are being used by CBM for SME lending.

In November 2012, CBM entered into a RUB 1 billion revolving credit facility with SME Bank with repayment due in 2015. The purpose of the credit facility is to provide microfinance loans to CBM's SME clients.

In November 2012, CBM repaid in full its one-year US$131 million B loan under its A/B structured syndicated loan that was provided by a consortium of 13 banks with IFC as the arranger.

In November 2012, CBM signed a one-year syndicated loan facility agreement in the amount of US$308 million arranged by a consortium of 10 banks. The funds were received by CBM on 6 December 2012.

In December 2012, CBM issued subordinated domestic bonds in an amount of RUB 3 billion with a fixed coupon of 12.25% and maturity in June 2018.

Except as set forth above, since 30 September 2012 there have been no material changes in the consolidated capitalisation and indebtedness of CBM.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The financial information set forth below as at and for the nine months ended 30 September 2012 and 2011 and for the years ended 31 December 2011, 2010 and 2009 has been extracted without material adjustment from the Financial Statements. The financial data set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and related notes included elsewhere in this Prospectus and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

Selected Statement of Comprehensive Income Information

	Nine months ended 30 September (Unaudited)		Year ended 31 December		
	2012	**2011**	**2011**	**2010**	**2009**
			RUB thousands		
Interest income	20,424,967	14,791,150	20,980,864	14,544,991	9,584,791
Interest expense	(11,582,206)	(8,824,609)	(12,257,202)	(8,478,432)	(5,671,209)
Net interest income	**8,842,761**	**5,966,541**	**8,723,662**	**6,066,559**	**3,913,582**
Provision for impairment of loans	(1,715,400)	(1,120,418)	(1,283,719)	(1,539,798)	(2,465,362)
Net interest income after provision for impairment	**7,127,361**	**4,846,123**	**7,439,943**	**4,526,761**	**1,448,220**
Fee and commission income	2,799,950	1,864,315	2,718,563	1,757,978	1,191,323
Net gain (loss) on financial instruments at fair value through profit or loss	215,288	(962,651)	(856,946)	83,474	429,497
Net realised gain (loss) on available-for-sale assets	15,660	43,702	39,994	338,527	61,633
Foreign exchange gains, net	(106,647)	381,326	473,386	232,039	212,098
Other operating income	345,293	197,628	182,455	181,488	117,032
Non interest income	**3,269,544**	**1,524,320**	**2,557,452**	**2,593,506**	**2,011,583**
Salaries and employment benefits	(2,538,726)	(1,527,576)	(2,126,118)	(1,373,503)	(1,064,102)
Administrative expenses	(1,774,608)	(1,244,919)	(1,862,731)	(1,287,388)	(868,148)
Reversal of (provision for) impairment of other assets and credit related commitments	(262,688)	(72,943)	(247,039)	(143,438)	(193,314)
Depreciation	(260,381)	(169,281)	(242,048)	(178,163)	(106,625)
Fee and commission expense	(283,352)	(125,054)	(192,366)	(102,363)	(84,653)
State deposit insurance scheme contributions	(270,364)	(189,464)	(269,583)	(153,049)	(82,651)
Other operating expenses	(283,009)	(97,490)	(199,170)	(129,840)	(88,923)
Non-interest expense	**(5,673,128)**	**(3,426,727)**	**(5,139,055)**	**(3,367,744)**	**(2,488,416)**
Income before income taxes	**4,723,777**	**2,943,716**	**4,858,340**	**3,752,523**	**971,387**
Income tax	(961,347)	(587,254)	(972,806)	(731,147)	(191,425)
Net income	**3,762,430**	**2,356,462**	**3,885,534**	**3,021,376**	**779,962**
Other comprehensive income					
Revaluation reserve for available-for-sale securities	57 144	138 870	(101 355)	(372,159)	469,456
Revaluation of buildings	–	–	–	–	625,531
Income tax related to other comprehensive income	(11,429)	27,774	20,271	74,432	(218,998)
Other comprehensive income (loss) for the period, net of tax	**45,715**	**(111,096)**	**(81,084)**	**(297,727)**	**875,989**
Comprehensive income for the period	**3,808,145**	**2,245,366**	**3,804,450**	**2,723,649**	**1,655,951**

Selected Statement of Financial Position Information

	As at 30 September (Unaudited)	As at 31 December		
	2012	2011	2010	2009
	RUB thousands			
Cash and cash equivalents	25,557,226	34,433,419	23,336,426	8,629,775
Obligatory reserves with the Central Bank of the Russian Federation	2,489,994	2,259,170	756,584	401,006
Due from credit institutions	12,530,174	5,301,412	586,968	957,665
Financial instruments at fair value through profit or loss	21,123,909	22,783,760	27,475,153	12,472,290
Available-for-sale securities	6,190,115	2,030,678	4,461,645	3,235,045
Loans to customers	204,345,925	159,019,821	103,852,309	58,290,515
Property and equipment	5,340,485	4,969,932	4,255,117	2,616,418
Other assets	1,667,772	1,572,561	746,441	456,286
Total assets	**279,245,600**	**232,370,753**	**165,470,643**	**87,059,000**
Deposits by the Central Bank of the Russian Federation	3,005,943	–	–	6,129,195
Deposits by credit institutions	31,593,690	24,964,128	27,863,284	11,052,903
Deposits by customers	164,592,962	146,690,886	95,088,028	45,624,691
Debt securities issued	38,036,746	31,118,869	27,251,096	12,385,902
Deferred tax liability	2,427,071	2,074,397	493,903	250,262
Current tax liability	–	15,870	142,237	153,797
Other liabilities	2,951,214	1,898,697	865,000	418,804
Total liabilities	**242,607,626**	**206,762,847**	**151,703,548**	**76,015,554**
Share capital	13,539,763	11,638,088	7,138,088	7,138,088
Additional paid-in capital	9,019,295	3,699,047	162,686	162,686
Revaluation surplus for buildings	500,424	500,424	500,424	500,424
Revaluation reserve for available-for-sale securities	(7,302)	(53,017)	28,067	325,794
Retained earnings	13,585,794	9,823,364	5,937,830	2,916,454
Total equity	**36,637,974**	**25,607,906**	**13,767,095**	**11,043,446**
Total liabilities and equity	**279,245,600**	**232,370,753**	**165,470,643**	**87,059,000**

Selected Financial Ratios and Other Information

	As at or for the nine months ended 30 September (Unaudited)		As at or for the year ended 31 December		
	2012	2011	2011	2010	2009
			%		
Profitability					
Return on average assets[1]	2.0	1.6	2.0	2.4	1.1
Return on average equity[2]	16.1	16.6	19.7	24.4	8.9
Cost-to-income[3]	40.6	41.6	39.8	34.3	36.0
Net Interest Margin[4]	5.1	4.6	4.8	5.5	6.4
Liquidity					
Loans to customers / current accounts and deposits from customers	124.2	117.6	108.4	109.2	127.8
Total liquid assets[5] / total assets	18.9	21.3	25.5	33.4	28.0
Capital Adequacy					
Total capital	14.8	13.3	14.4	13.6	14.0
Tier 1 capital	13.4	11.3	12.3	8.8	12.3
Credit Quality					
NPLs / total loans to customers	1.2	0.9	1.2	1.5	3.0
NPLs and renegotiated loans / total loans to customers	1.7	1.2	1.6	2.7	4.1
Total impairment allowance / overdue loans	133.0	118.9	141.5	128.0	79.7

Notes:

(1) For full years, calculated as net income for the year to the average of total assets at the beginning of the year and at the end of the year. For interim periods, calculated as net income for the period to the average of total assets at the beginning of the period and at the end of the period, multiplied by 4/3.

(2) For full years, calculated as net income for the year to the average of total equity at the beginning of the year and at the end of the year. For interim periods, calculated as net income for the period to the average of total equity at the beginning of the period and at the end of the period, multiplied by 4/3.

(3) Operating expense divided by operating income, excluding net provision charge for loan impairment, fee and commission expense, contribution to the state deposit insurance system and other operating expenses.

(4) For full years, calculated as the ratio of net interest income before provision to average interest-earning assets. For nine month periods, calculated as the ratio of net interest income before provision to average interest-earning assets multiplied by 4/3.

(5) Liquid assets are the sum of cash and cash equivalents, financial instruments at fair value through profit or loss and available-for-sale securities.

SELECTED STATISTICAL INFORMATION

*The following tables present certain of CBM's selected statistical information for the periods indicated. The following information should be read in conjunction with the Financial Statements, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Presentation of Financial and Other Information." The statistical information and discussion and analysis presented below for the nine months ended 30 September 2012 and 2011 and for the years ended 31 December 2011, 2010 and 2009 is presented solely for the convenience of the reader for analytical purposes and on the basis of Industry Guide 3 under the Securities Act (Statistical Disclosure by Bank Holding Companies) ("**Guide 3**"). Limitations in CBM's existing financial reporting system prevent it from generating certain information pursuant to Guide 3. Certain amounts and percentages included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different contexts may vary slightly and figures in certain other contexts may not be an exact arithmetic result of the figures shown herein.*

Average Balance Sheet and Interest Rate Data

The following tables provide an analysis of the average balances of assets and liabilities of CBM for the nine months ended 30 September 2012 and 2011, and for the years ended 31 December 2011, 2010 and 2009. For the purposes of the following tables, the average is calculated on the basis of quarterly closing balances throughout each relevant period.

Average Outstanding Assets and Liabilities

The following tables set out, for the years ended 31 December 2011, 2010 and 2009 and for the nine months ended 30 September 2012 and 2011: (i) the quarterly average outstanding amounts for all major assets and liabilities of CBM; (ii) the quarterly interest income received on each interest-bearing asset and the quarterly average interest expense paid for each interest-bearing liability; and (iii) the collective quarterly average yield for all interest bearing assets and the collective quarterly rate paid for all interest-bearing liabilities.

	For the year ended 31 December								
	2011			2010			2009		
	RUB billions, except percentages								
	Average amount for the period	Interest income / (expense)	Average yield / (rate paid)	Average amount for the period	Interest income / (expense)	Average yield / (rate paid)	Average amount for the period	Interest income / (expense)	Average yield / (rate paid)
Loans to customers	140.9	17.8	12.6%	83.1	11.8	14.2%	46.6	8.1	17.4%
Debt securities	28.2	2.9	10.3%	22.5	2.6	11.6%	10.7	1.4	13.1%
Due from credit institutions and the CBR	11.1	0.3	2.7%	4.3	0.1	2.3%	3.4	0.1	2.9%
Total Interest Earning Assets	**180.2**	**21.0**	**11.7%**	**109.9**	**14.5**	**13.2%**	**60.7**	**9.6**	**15.8%**
Provision for loan impairment	(3.3)			(2.2)			(1.1)		
Other assets	26.3			11.6			7.9		
Total assets	**203.2**			**119.3**			**(67.5)**		
Deposits by customers	(120.4)	(8.3)	6.9%	(65.4)	(5.5)	8.4%	(30.8)	(2.9)	9.4%
Debt securities in issue	(32.2)	(2.7)	8.4%	(21.2)	(2.2)	10.4%	(9.3)	(1.4)	15.1%
Deposits by credit institutions and the CBR	(23.5)	(1.3)	5.5%	(19.3)	(0.8)	4.2%	(17.5)	(1.4)	8.0%
Total Interest Bearing Liabilities	**(176.1)**	**(12.3)**	**7.0%**	**(105.9)**	**(8.5)**	**8.0%**	**(57.6)**	**(5.7)**	**9.9%**
Other liabilities	(2.6)			(1.0)			(1.0)		
Total liabilities	(178.7)			(106.9)			(58.6)		
Net interest earnings		**8.7**			**6.0**			**3.9**	
Net interest spread (1)			**4.7%**			**5.2%**			**5.9%**
Net Interest Margin (2)			**4.8%**			**5.5%**			**6.4%**

Note:

(1) Net interest spread is defined as the difference between the average yield earned on Interest Earning Assets and the average rate paid on Interest Bearing Liabilities.

(2) Net Interest Margin is calculated as the ratio of net interest income before provision to average interest-earning assets.

	For the nine months ended 30 September (Unaudited)					
	2012			2011		
	RUB billions, except percentages					
	Average amount for the period	Interest income / (expense)	Average yield / (rate paid)	Average amount for the period	Interest income / (expense)	Average yield / (rate paid)
Loans to customers	184.1	17.6	12.8%	135.4	12.4	12.2%
Debt securities	27.1	2.3	11.3%	28.9	2.2	10.1%
Due from credit institutions and the CBR	20.2	0.5	3.3%	8.9	0.2	3.0%
Total Interest Earning Assets	**231.4**	**20.4**	**11.8%**	**173.2**	**14.8**	**11.4%**
Provision for loan impairment	(4.2)			(3.2)		
Other assets	26.1			20.5		
Total assets	**253.3**			**190.5**		
Deposits by customers	(156.2)	(8.3)	7.1%	(113.8)	(5.7)	6.7%
Debt securities in issue	(34.5)	(2.1)	8.1%	(32.5)	(2.1)	8.6%
Deposits by credit institutions and the CBR	(28.1)	(1.2)	5.7%	(23.1)	(1.0)	5.8%
Total Interest Bearing Liabilities	**(218.8)**	**(11.6)**	**7.1%**	**(169.4)**	**(8.8)**	**6.9%**
Other liabilities	(4.4)			(2.3)		
Total liabilities	(223.2)			(171.7)		
Net interest earnings		**8.8**			**6.0**	
Net interest spread[(1)]			**4.7%**			**4.5%**
Net Interest Margin[(2)]			**5.1%**			**4.6%**

Note:

(1) Net interest spread is defined as the difference between the average yield earned on Interest Earning Assets and the average rate paid on Interest Bearing Liabilities.

(2) Calculated as the ratio of net interest income before provision to average interest-earning assets multiplied by 4/3.

Changes in Interest Income and Interest Expense

The following table sets out, for the periods indicated, changes in interest income/expense due to changes in volume and interest rates for the major categories of interest-bearing liabilities and interest-earning assets set out in the tables above.

	Nine months ended 30 September 2012/ Nine months ended 30 September 2011 (Unaudited)			2011/2010			2010/2009		
	Change in interest income / expense	Change in volume	Change in rates	Change in interest income / expense	Change in volume	Change in rates	Change in interest income / expense	Change in volume	Change in rates
					RUB billions				
Loans to customers	5.2	5.2	(0.0)	6.0	7.4	(1.4)	3.7	5.1	(1.4)
Debt securities	0.1	(0.1)	0.2	0.3	0.6	(0.3)	1.2	1.4	(0.2)
Due from credit institutions	0.3	0.3	0.0	0.2	0.2	0.0	0.0	0.0	0.0
Total Interest Earning Assets	**5.6**	**5.4**	**0.2**	**6.5**	**8.2**	**(1.7)**	**4.9**	**6.5**	**(1.6)**
Deposits by customers	2.6	2.3	0.3	2.8	3.8	(1.0)	2.6	2.8	(0.2)
Debt securities in issue	0.0	0.2	(0.2)	0.5	0.9	(0.4)	0.8	1.1	(0.3)
Deposits by credit institutions	0.2	0.2	0.0	0.5	0.2	0.3	(0.6)	0.0	(0.6)
Total Interest Bearing Liabilities	**2.8**	**2.7**	**0.1**	**3.8**	**4.9**	**(1.1)**	**2.8**	**3.9**	**(1.1)**

Securities Held – Maturity Profile

The following table sets out the maturity range of CBM's investments in securities, as at 30 September 2012. For the average yield of the debt securities portfolio held by CBM for the nine months ended 30 September 2012 and 2011 and for the years ended 31 December 2011, 2010 and 2009, see "*– Average Balance Sheet and Interest Rate Data – Average Outstanding Assets and Liabilities*".

	As at 30 September 2012 (Unaudited)						
	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No Stated Maturity	Total
				RUB billions			
Federal loan bonds (OFZ bonds)	–	–	–	4.8	0.3	–	5.1
Municipal and sub-federal bonds	–	0.1	0.5	0.2	–	–	0.8
Corporate bonds	–	4.5	3.2	10.4	3.3	–	21.4
Total securities portfolio	**–**	**4.6**	**3.7**	**15.4**	**3.6**	**–**	**27.3**

Deposits

The following tables present, for the nine months ended 30 September 2012, and for the years ended 31 December 2011, 2010 and 2009, the average amount of, and average rate paid by CBM on period-end deposits in the categories indicated.

Average Value of Deposits

	Nine months ended 30 September (Unaudited)	Year ended 31 December		
	2012	2011	2010	2009
	RUB thousands			
Individuals				
Current/demand accounts	5,634,918	3,770,980	2,100,984	1,921,367
Term deposits	85,813,817	64,768,768	37,261,778	17,518,872
Total due to individuals	**91,448,735**	**68,539,748**	**39,362,762**	**19,440,239**
Corporate customers				
Current/settlement accounts	20,177,459	14,366,015	9,821,208	4,383,082
Term deposits	38,151,997	29,425,075	14,386,889	7,012,069
Subordinated	2,061,322	4,029,809	2,727,727	–
Term notes	4,274,618	4,007,643	306,450	–
Total due to corporate customers	**64,665,396**	**51,828,542**	**27,242,274**	**11,395,151**
Total due to individuals and corporate customers	**156,114,131**	**120,368,290**	**66,605,036**	**30,835,390**

Cost of Deposits (Average Rate Paid)

	Nine months ended 30 September (Unaudited)	Year ended 31 December		
	2012	2011	2010	2009
Individuals				
Current/demand accounts	2.0%	1.1%	1.1%	0.5%
Term deposits	9.1%	9.3%	11.5%	14.8%
Total due to individuals	**8.6%**	**8.9%**	**11.0%**	**13.4%**
Corporate customers				
Current/settlement accounts	0.6%	0.6%	0.7%	0.1%
Term deposits	7.1%	6.4%	6.4%	5.0%
Subordinated	6.7%	7.9%	0.2%	–
Term notes	7.0%	6.0%	7.0%	–
Total due to corporate customers	5.1%	4.6%	4.2%	3.1%
Total due to individuals and corporate customers	**7.1%**	**7.0%**	**8.2%**	**9.6%**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of CBM's financial condition and results of operations should be read in conjunction with the Financial Statements and the other information included elsewhere in this Prospectus. This section contains forward-looking statements that involve risks and uncertainties. CBM's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Forward-Looking Statements".

Overview

CBM is a universal commercial bank, offering a wide range of banking services to corporate clients, SMEs and private individuals. The principal business activities of CBM are corporate banking and retail banking. In relation to corporate clients (including SMEs), the range of services includes lending (including the provision of working capital finance, investment loans and a range of corporate funding products), leasing, factoring, documentary transactions, deposits, accounts, payments and cash collection and delivery services. The services that CBM provides to private individuals include deposits and payment cards, car finance, consumer lending, mortgage finance, internet banking and payments/transfers. In addition, CBM participates in the interbank, foreign exchange, international, domestic, government and corporate bonds and debt securities markets.

CBM currently operates exclusively in Moscow and the Moscow region (other than a small part of its cash collection and delivery business which is conducted in regions neighbouring the Moscow region), as it considers these markets to be the most promising for its future business development.

CBM's business is divided into the following five business segments:

- Corporate banking, which comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guaranties, corporate deposit taking, settlements and money transfer, currency conversion.
- Retail banking, which comprises retail demand and term deposit services; retail lending, including consumer loans, car loans and mortgages, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals.
- Treasury, which comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes.
- International business, which comprises borrowings from international financial institutions and trade finance operations.
- Cash operations, which comprises all operations connected with cash, including cash collection and delivery services as well as other cash operations performed by CBM. Cash collection and delivery includes cash collection, cash delivery and related services such as crediting of customers' cash to customer accounts, calculation of cash amounts, delivery of bank cheques and delivery of fractional currency (bank notes and coins). Fees from other cash operations include ATM access fees, fees on recalculation and verification of bank notes and fees for preparation of cash for delivery to clients' cash offices.

As at 30 September 2012, CBM's total assets were RUB 279.2 billion, as compared with RUB 232.4 billion as at 31 December 2011, RUB 165.5 billion as at 31 December 2010 and RUB 87.1 billion as at 31 December 2009. CBM's net income for the nine months ended 30 September 2012 was RUB 3.8 billion compared to RUB 2.4 billion for the nine months ended 30 September 2011. CBM's net income was RUB 3.9 billion, RUB 3.0 billion and RUB 780 million for the years ended 31 December 2011, 2010 and 2009, respectively. CBM's total equity was RUB 36.7 billion, RUB 25.6 billion, RUB 13.8 billion and RUB 11.0 billion as at 30 September 2012, and 31 December 2011, 2010 and 2009, respectively.

Significant Factors Affecting Results of Operations

Economic Conditions in Russia

The majority of CBM's assets and customers are located in, or have businesses related to, Russia. According to Rosstat, Moscow and the Moscow region, where CBM's operations are concentrated, accounted for 27.3% of Russia's overall GDP in 2010. As a result, CBM is substantially affected by

the health of the Russian economy, which is, to a significant degree, dependent on exports of commodities, such as oil, gas, iron ore and other natural resources. See "*Risk Factors – Risks Relating to the Russian Federation*". *According to the International Monetary Fund's World Economic Outlook Database of October 2012, for the year 2011, Russia was the ninth largest economy in the world with GDP of US$1,850.40 billion (RUB 54.4 trillion) and a population of 142.41 million. The following table shows certain Russian economic indicators for the years indicated.*

	As at or for the year ended 31 December		
	2011	**2010**	**2009**
Total nominal GDP (RUB in billions)	54,369	45,166	38,809
Real GDP growth/(decrease)	4.3%	4.3%	(7.8%)
Inflation	6.1%	8.8%	8.8%
GDP per capita (RUB)	381,775	316,067	273,493
Unemployment	6.5%	7.5%	8.4%
Government debt (RUB in billions)	6,503	5,338	4,400
Government debt/GDP	12.0%	11.8%	11.3%

Source: International Monetary Fund.

The Russian economy was severely impacted by the weakening global economic conditions and the turmoil in global financial markets, particularly in the second half of 2008 and first half of 2009. Falling global prices of these commodities in the world market in the second half of 2008 and first half of 2009 resulted in sharp decreases in Russian government revenues and the revenues of Russian companies operating in the natural resources sector, which, in turn, had a significant negative effect on the overall Russian economy. The rouble experienced severe depreciation and the increased credit risk and volatile market conditions resulted in reduced lending activity and increase in interest rates. Declining corporate profitability and disposable income affected borrowers' abilities to service their debt, resulting in a sharp increase in overdue debt and defaults in Russia, as well as reduced solvency of borrowers. The pace and volume of borrowings from the international capital markets slowed down significantly and the Russian banking sector saw a marked decrease in the availability of long-term financing and an increased cost of funding. In the domestic market, escalated competition for funding resulted in higher interests rates and an increase in the cost of capital. See "*Risk Factors – Risks Relating to CBM's Business and Industry – The instability of the global and the Russian credit markets and banking sectors, and the ongoing European sovereign debt crisis could have a material adverse effect on CBM's business, liquidity and financial condition*".

By mid-2009, due to recovery in the global commodity market and as a result of measures undertaken by the Russian government to support the banking system (such as lowering the CBR refinancing rate, providing loans, softening regulatory requirements and bailing out troubled banks), recovery trends emerged in the Russian economy and the banking sector, including positive GDP growth, stabilisation of the rouble, a slowdown in the growth of inflation and signs of stock market recovery. The Russian economy continued to recover through 2010, 2011 and 2012. See "*Banking Regulation in Russia – Measures to Support the Banking and Finance System*".

According to information published by Rosstat, Russia's GDP in real terms declined by 7.9% in 2009 and then returned to growth in 2010, increasing by 4%, and increasing again by 4.3% in 2011. Commodity prices also demonstrated high levels of volatility, although they generally increased in 2011 and the three months ended 31 March 2012, before declining in the second quarter of 2012. The price of Urals crude oil, Russia's export blend of crude, increased from US$32.34 per barrel as at 24 December 2008 to a high of US$125.26 on 1 March 2012, with a closing price of US$96.69 as at 30 June 2012 and of US$113.65 as at 13 September 2012, according to Bloomberg. Russia's annual inflation rate was 8.8% in each of 2009 and 2010, before declining to 6.1% in 2011. Russia's annualised inflation rate for the nine months ended 30 September 2012 was 5.2%.

In 2008 and 2009, several of CBM's borrowers were affected by the deterioration of economic conditions, which affected their ability to service or repay the amounts due to CBM and decreased the value of collateral pledged against loans extended by CBM. This contributed to deterioration in the quality of CBM's loan book and a reduction in the demand for the products and services it offers. Nonetheless, since the onset of the global financial crisis CBM's levels of loan impairment have been relatively low, even after taking into account the effects of loans renegotiated or written off, and CBM's gross loans to customers have increased year on year. The percentage of the NPLs in

CBM's loan portfolio was 3.0% as at 31 December 2009, 1.5% as at 31 December 2010, 1.1% as at 31 December 2011 and 1.2% as at 30 September 2012. CBM's ratio of provision for loan impairment to gross loans to customers was 3.0%, 2.6%, 2.3% and 2.3% as at 31 December 2009, 2010, 2011 and 30 September 2012, respectively. The decline in the NPL and impairment ratios was due in part to the rapid growth in CBM's loan portfolio over this period and the fact that the average age of the loans in the portfolio was decreasing due to new loans having not yet seasoned. CBM's gross loans to customers increased from RUB 60.1 billion as at 31 December 2009 to RUB 106.6 billion as at 31 December 2010, RUB 162.7 billion as at 31 December 2011 and RUB 209.3 billion as at 30 September 2012.

The European debt crisis, which began in 2011, thus far has had limited impact on the Russian economy. Despite leading to meaningful declines in the prices of Russia's key exports, mainly natural resource commodities, including oil and gas, the European debt crisis has not yet affected Russia's relatively healthy fiscal finances including a low debt to GDP ratio, small budget deficit, and high level of international reserves.

Impact of International Financial Markets

While the substantial majority of CBM's assets and customers are in Russia and CBM's business focuses on the Russian market, CBM is also affected by the international financial markets. Investors' lack of confidence in the banking industry globally as a result of the global financial crisis, and more recently, the European sovereign debt crisis, has adversely affected wholesale funding markets, leading to higher borrowing costs and restricting access to liquidity for banks, including CBM. While there have been signs of improvement and recovery since the most acute stage of the global financial crisis in 2008-2009, the volatility in the global financial markets has continued through 2010, 2011 and 2012.

Funding Costs and Interest Rate Environment

During the second half of 2008 and the first half of 2009, the functioning of Russian and international capital markets was severely disrupted, with market liquidity and funding becoming scarce. Investors' lack of confidence in the banking industry globally adversely affected wholesale funding markets, leading to higher borrowing costs and restricting access to liquidity for banks, including CBM. As at 30 September 2012, approximately 27% of CBM's funding was wholesale funding, exposing CBM to risks associated with fluctuations in the wholesale funding markets that affect both the cost and the availability of refinancing. The cost of Government funding as well as the cost of the more limited funding methods available from international banks increased through 2008 and 2009 but started to decrease in 2010 and continued this downward trend in the first quarter of 2011. The banking sector experienced renewed liquidity tightening in the second half of 2011 and continued to do so in 2012, which in turn has led to an increase in costs of funding for Russian banks, including customer deposit interest rate costs.

Net interest income is the largest component of CBM's income and, consequently, changes in interest rates affect CBM's results of operations. During the periods covered by the Financial Statements, movements in short- and long-term interest rates have affected CBM's interest income and interest expense as well as the level of gains and losses on CBM's proprietary securities portfolio. Since the first half of 2009, borrowing conditions for Russian customers have been challenging as a consequence of the global financial crisis. For example, according to the CBR, the average Rouble lending rate on the Russian interbank market more than quadrupled to 16.3% in January 2009 from 3% in January 2008, before moving to 6.1% in November 2012 (with significant fluctuations between 2008 and 2012).

Despite the financial turmoil, however, CBM's Net Interest Margin has remained relatively stable, at 5.5%, 4.8% and 5.1% for the years ended 31 December 2010 and 2011 and for the nine-month period ended 30 September 2012, respectively, which demonstrates CBM's ability to re-price its interest-earning assets and interest-bearing liabilities to offset the movements in interest rates to a certain degree. See "*Selected Statistical Information*". Increased competition for customer deposits due to a lack of other funding sources in early 2009 resulted in higher interest rates being payable on new customer deposits for Russian banks, which, in turn, increased CBM's interest expense during 2009. In order to mitigate the adverse impact of the higher funding rates on its Net Interest Margins, CBM increased the interest rates it charged on loans, as its loan agreements with corporate customers provided for the possibility of interest rate increases in the case of instability in the financial markets and higher funding costs, although CBM's ability to make these corresponding increases was limited to some extent by competitive pressures. Beginning in 2010, interest rates paid on deposits to

customers were consistently lower than they were during the most acute phase of the global financial crisis in the second half of 2008 and the first half of 2009. CBM's average interest rate paid on current accounts and deposits by customers declined from 9.4% in the year ended 31 December 2009 to 8.4% in the year ended 31 December 2010, to 6.9% in the year ended 31 December 2011. In the nine months ended 30 September 2012, CBM's average interest rate paid on current accounts and deposits from customers increased to 7.1% from 6.9% in the year ended 31 December 2011.

In 2009 and 2010, the Russian banking system maintained a strong customer deposit growth rate that substantially outpaced loan growth. This resulted in a substantial increase in liquidity in the market and the lowering of interest rates on both loans and deposits by major banks. During the first half of 2010, real interest rates were stable. However, in the second half of 2010, the rise in inflation resulted in a decrease in real interest rates on loans, and interest rates on deposits became lower than the rate of inflation. This made bank loans more affordable, encouraging demand for loans and increasing activity on the lending market (although the number of high-quality Russian corporate borrowers remained relatively low). Competition for borrowers with good credit standings remained high throughout 2010, 2011 and 2012, which has placed downward pressure on both the interest rates that can be charged on commercial loans and CBM's Net Interest Margins.

CBM's access to new long term sources of funding improved after the end of the most acute period of the global economic crisis in 2008 and 2009, in particular with respect to debt securities issued with a maturity of over one year, the outstanding amount of which was RUB 31.0 billion as at 30 September 2012, as compared to RUB 14.3 billion, RUB 8.0 billion and RUB 2.0 billion as at 31 December 2011, 2010 and 2009, respectively.

Recent Developments

The following developments have occurred between 30 September 2012, the end of the last financial period for which interim financial information has been published, and the date of this Prospectus.

In October 2012, CBM signed a one-year RUB 800 million revolving credit facility agreement with SME Bank. The funds are being used by CBM for SME lending.

In November 2012, CBM entered into a RUB 1 billion revolving credit facility with SME Bank with repayment due in 2015. The purpose of the credit facility is to provide microfinance loans to CBM's SME clients.

In November 2012, CBM repaid in full its one-year US$131 million B loan under its A/B structured syndicated loan provided by a consortium of 13 foreign banks with IFC as the arranger.

On 30 November 2012, CBM signed a one-year syndicated loan facility agreement in the amount of US$308 million arranged by Banc of America Securities Limited, Barclays Bank PLC, Commerzbank Aktiengesellschaft, GAZPROMBANK (Open Joint-stock Company), ING Bank N.V., Landesbank Berlin AG, Raiffeisen Bank International AG, Joint Stock Commercial Bank "ROSBANK" (Open joint-stock company), Standard Chartered Bank and VTB Bank (Deutschland) AG. The interest rate is 2.4% over 6-month LIBOR. The funds were received on 6 December 2012. The proceeds of the loan will be used by CBM for financing trade transactions of its clients.

In December 2012, CBM issued subordinated domestic bonds in an amount of RUB 3 billion with a fixed coupon of 12.25% and maturity in June 2018.

Results of Operations for the Nine Month Periods Ended 30 September 2012 and 2011

CBM generated net income of RUB 3.8 billion during the nine months ended 30 September 2012, an increase of 58.3% as compared to RUB 2.4 billion during the nine months ended 30 September 2011.

The following table sets forth the components of CBM's net income for the periods indicated.

	Nine months ended 30 September (Unaudited)	
	2012	2011
	RUB thousands	
Interest income	20,424,967	14,791,150
Interest expense	(11,582,206)	(8,824,609)
Net interest income	**8,842,761**	**5,966,541**
Provision for impairment of loans	(1,715,400)	(1,120,418)
Net interest income after provision for impairment	**7,127,361**	**4,846,123**
Fee and commission income	2,799,950	1,864,315
Net gain (loss) on financial instruments at fair value through profit or loss	215,288	(962,651)
Net realised gain on available-for-sale assets	15,660	43,702
Foreign exchange gains (losses), net	(106,647)	381,326
Other operating income	345,293	197,628
Non interest income	**3,269,544**	**1,524,320**
Salaries and employment benefits	(2,538,726)	(1,527,576)
Administrative expenses	(1,774,608)	(1,244,919)
Provision for impairment of other assets and credit related commitments	(262,688)	(72,943)
Depreciation	(260,381)	(169,281)
Fee and commission expense	(283,352)	(125,054)
State deposit insurance scheme contributions	(270,364)	(189,464)
Other operating expenses	(283,009)	(97,490)
Non-interest expense	**(5,673,128)**	**(3,426,727)**
Income before income taxes	**4,723,777**	**2,943,716**
Income tax	(961,347)	(587,254)
Net income	**3,762,430**	**2,356,462**
Other comprehensive income		
Revaluation reserve for available-for-sale securities	98,260	(184,282)
Revaluation of buildings	(41,116)	45,412
Income tax related to other comprehensive income	(11,429)	27,774
Other comprehensive income (loss) for the period, net of tax	45,715	(111,096)
Comprehensive income for the period	**3,808,145**	**2,245,366**

Interest Income

CBM's interest income for the nine months ended 30 September 2012 increased by 38.1% to RUB 20.4 billion, compared to RUB 14.8 billion for the nine months ended 30 September 2011. The following table sets forth the principal components of CBM's interest income for the periods indicated:

	For the nine months ended 30 September (Unaudited)			
	2012		2011	
	RUB thousands	% of total	RUB thousands	% of total
Interest income				
Loans to customers	17,630,867	86.3	12,386,624	83.7
Debt securities (Financial instruments at fair value through profit or loss and available-for-sale securities)	2,276,759	11.2	2,227,068	15.1
Due from credit institutions and the CBR	517,341	2.5	177,458	1.2
Total interest income	**20,424,967**	**100.0**	**14,791,150**	**100.0**
Average yield on interest-earning assets[1]	**11.8%**		**10.6%**	

Note:
(1) Calculated as the ratio of total interest income to average interest-earning assets multiplied by 4/3. See "*Selected Statistical Information*".

The increase in CBM's interest income for the nine months ended 30 September 2012 resulted primarily from an increase in interest income from loans to customers, primarily due to growth of CBM's loan portfolio. The average interest rate on interest-earning assets increased to 11.8% for the nine months ended 30 September 2012 from 10.6% for the nine months ended 30 September 2011.

Interest Income on Loans to Customers

The majority of CBM's interest income received in the periods covered by the Financial Statements was attributable to interest income on loans to customers.

For the nine months ended 30 September 2012, interest income on loans to customers represented 86.3% of total interest income, compared to 83.7% for the nine months ended 30 September 2011. Interest income on loans to customers increased by 42.3% to RUB 17.6 billion for the nine months ended 30 September 2012, from RUB 12.4 billion for the nine months ended 30 September 2011. This increase was primarily attributable to an increase in lending volumes. CBM's loans to customers net of provision for loan impairment increased by 26.1% to RUB 204.3 billion as at 30 September 2012, from RUB 159.0 billion as at 31 December 2011. CBM's average yield on loans to customers increased to 12.8% in the nine months ended 30 September 2012 from 12.2% in the nine months ended 30 September 2011.

Interest Income on Debt Securities

Interest income on CBM's debt securities (including for this purpose financial instruments at fair value through profit or loss and available-for-sale securities) was the second largest component of total interest income in the periods covered by the Financial Statements, representing 11.1% of total interest income in the nine months ended 30 September 2012 as compared to 15.1% in the nine months ended 30 September 2011.

Interest income on CBM's debt securities portfolio stayed relatively constant at RUB 2.3 billion and RUB 2.2 billion in the nine months ended 30 September 2012 and 2011, respectively. Both volumes of debt securities and interest rates stayed relatively constant between the two periods.

Interest Income on Amounts Due From Credit Institutions and the CBR

Interest income on amounts due from credit institutions and the CBR represented 2.5% of total interest income in the nine months ended 30 September 2012, compared with 1.2% in the nine months ended 30 September 2011. Interest income on amounts due from credit institutions and the CBR increased to RUB 517 million in the nine months ended 30 September 2012, an increase of 192.1% from RUB 177 million in the nine months ended 30 September 2011. These increases were primarily

due to an increase in interest rates on interbank borrowings, in part as a result of CBM extending a larger amount of longer-term interbank loans which have higher interest rates. The average interest rate paid by CBM on deposits by credit institutions and the CBR increased to 3.3% for the nine months ended 30 September 2012 from 3.0% for the nine months ended 30 September 2011.

Interest Expense

CBM's total interest expense for the nine months ended 30 September 2012 increased 31.2% to RUB 11.6 billion, compared to RUB 8.8 billion for the nine months ended 30 September 2011. The following table sets forth the principal components of CBM's interest expense for the periods indicated:

	For the nine months ended 30 September (Unaudited)			
	2012		2011	
	RUB thousands	% of total	RUB thousands	% of total
Deposits by customers	8,303,701	71.7	5,703,565	64.6
Deposits by credit institutions and the Central Bank of the Russian Federation	1,157,405	10.0	1,010,694	11.5
Debt securities issued	2,121,100	18.3	2,110,350	23.9
Total interest expense	**11,582,206**	**100.0**	**8,824,609**	**100.0**
Average rate paid on interest-bearing liabilities[(1)]	**7.1%**		**6.9%**	

Note:

(1) Calculated as the ratio of total interest expense to average interest-bearing liabilities multiplied by 4/3. See "*Selected Statistical Information*".

The overall increase in CBM's interest expense in the nine months ended 30 September 2012 mainly resulted from an increase in interest expense on deposits by customers of 45.6% to RUB 8.3 billion, compared to RUB 5.7 billion for the nine months ended 30 September 2011. The average interest rate on interest-bearing liabilities increased slightly to 7.1% in the nine months ended 30 September 2012 from 6.9% in the nine months ended 30 September 2011.

Interest Expense on Deposits by Customers

Interest expense on deposits by customers was the largest component of CBM's total interest expense in the periods covered by the Financial Statements, representing 71.7% and 64.6% of total interest expense in the nine months ended 30 September 2012 and the nine months ended 30 September 2011, respectively.

Interest expense on deposits by customers increased by 45.6% to RUB 8.3 billion for the nine months ended 30 September 2012, as compared to RUB 5.7 billion for the nine months ended 30 September 2011, primarily as a result of increased interest rates on bank deposits in the deposit market in the nine months ended 30 September 2012. The average rate paid by CBM on deposits by customers increased to 7.1% for the nine months ended 30 September 2012 from 6.7% for the nine months ended 30 September 2011. Also contributing to the increase was an increase in the volume of deposits from RUB 137.8 billion at 30 September 2011 to RUB 164.6 billion at 30 September 2012. The growth in deposits by individuals during this period was 22.6%, as compared to 15.2% for corporate customers. The growth in retail deposits was due to CBM's efforts to expand its retail business, in line with its business strategy. Interest rates on retail deposits increased as between the two periods due to competitive pressures in the market for attracting retail deposits.

Interest Expense on Deposits by Credit Institutions and the CBR

Interest expense on deposits by credit institutions and the CBR represented 10.0% and 11.5% of total interest expense in the nine months ended 30 September 2012 and 2011, respectively. Interest expense on deposits by credit institutions and the CBR increased 14.5%, to RUB 1.2 billion in the nine months ended 30 September 2012, compared to RUB 1.0 billion for the nine months ended 30 September 2011, due to an increase in the volume of deposits by credit institutions and the CBR, which was partially offset by a decrease in interest rates. The average interest rate paid by CBM on

deposits by credit institutions and the CBR decreased slightly to 5.7% for the nine months ended 30 September 2012 from 5.8% for the nine months ended 30 September 2011.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued represented 18.3% and 23.9% of total interest expense in the nine months ended 30 September 2012 and 2011, respectively.

Interest expense on debt securities issued remained stable at the level of RUB 2.1 billion in the nine months ended 30 September 2012 and the nine months ended 30 September 2011. The average interest rate paid by CBM on debt securities decreased to 8.1% for the nine months ended 30 September 2012 from 8.6% for the nine months ended 30 September 2011, while the volume of debt securities issued decreased slightly to RUB 38.0 billion as at 30 September 2012 from RUB 39.8 billion as at 30 September 2011, as a result of the repayment by CBM in 2012 of two series of domestic bonds and a decrease in the volume of promissory notes issued, which was largely offset by the effects of CBM's Eurobond offering in July 2011 and the issuance of two domestic bond issues in April 2012 and September 2012, respectively.

The average annual interest rate on CBM's debt securities was 8.2% for the nine months ended 30 September 2012, compared to 8.6% for the nine months ended 30 September 2011.

Net Interest Income

Net interest income has historically been the largest component of CBM's operating income. The following table sets forth CBM's net interest income before provision charge for loan impairment for the periods indicated.

	For the nine months ended 30 September (Unaudited)	
	2012	**2011**
	RUB thousands	**RUB thousands**
Interest income	20,424,967	14,791,150
Interest expense	(11,582,206)	(8,824,609)
Net interest income before provision charge for loan impairment	**8,842,761**	**5,966,541**
Net Interest Margin[(1)]	**5.1%**	**4.6%**

Note:

(1) Calculated as the ratio of net interest income before provision to average interest-earning assets multiplied by 4/3. See "*Selected Statistical Information*".

For the nine months ended 30 September 2012, net interest income before provision for loan impairment increased by 48.2%, to RUB 8.8 billion, compared to RUB 6.0 billion for the nine months ended 30 September 2011, primarily due to increased lending volumes. In the nine months ended 30 September 2012, CBM's Net Interest Margin increased to 5.1% from 4.6% in the nine months ended 30 September 2011, primarily due to an increase in the proportion of retail loans in CBM's loan portfolio, which generally generate higher returns than corporate loans.

Provision for Impairment of Loans

Provision for impairment of loans represents the provision charge for loans to customers during a given period. The following tables set forth the breakdown of CBM's provision for impairment of loans for the periods indicated.

	Nine months ended 30 September (Unaudited)	
	2012	2011
	RUB thousands	
Provision / (recovery of provision) for impairment on:		
Loans to corporate customers	**762,513**	**880,109**
Auto loans	27,000	(38,542)
Mortgage loans	19,354	(128,747)
Consumer loans	906,533	407,598
Total loans to individuals	**952,887**	**240,309**
Total provision for impairment of loans	**1,715,400**	**1,120,418**

CBM recognised a provision for loan impairment of RUB 1.7 billion in the nine months ended 30 September 2012, an increase of 53.1% compared with RUB 1.1 billion in the same period in 2011, as a result of an increase in loan volumes. The increase was attributable to an increase in provision for impairment on total loans to individuals, which in turn was primarily attributable to an increase in the volume of loans to individuals to RUB 43.8 million as at 30 September 2012 from RUB 29.9 million as at 31 December 2011.

The level of allowance for loan impairment as a percentage of CBM's NPLs has been increasing steadily since 31 December 2009. As at 31 December 2009, 2010 and 2011 and 30 September 2012 it amounted to 101.7%, 171.6%, 208.6% and 191.2%, respectively, of NPLs.

See "– *Financial Condition – Total Assets – Loans to Customers – Provision for Loan Impairment*" for further information on CBM's provision for impairment of loans.

Non-interest Income

Fee and Commission Income

Fee and commission income is primarily comprised of commissions generated by CBM's cash collection and delivery, guarantees and letters of credit, settlement and wire transfers, insurance contracts processing, other cash operations and the provision of plastic cards.

Fees CBM receives for insurance contracts processing represent commissions received by CBM from its consumer loan customers for the processing of group credit insurance policies issued by insurance companies in favour of such customers. See "*Business – Retail Banking – General Purpose Consumer Loans*". Fees and commissions from insurance contracts processing were introduced by CBM for the first time in the second quarter of 2011.

The following table sets forth the components of CBM's fee and commission income for the periods indicated.

	For the nine months ended 30 September (Unaudited)			
	2012		2011	
	RUB thousands	% of total	RUB thousands	% of total
Cash collection and delivery [1]	709,192	25.3	530,318	28.4
Settlements and wire transfers	622,689	22.2	529,073	28.4
Guarantees and letters of credit	620,334	22.2	359,944	19.3
Insurance contracts processing	477,437	17.1	152,457	8.2
Plastic cards	245,904	8.8	183,186	9.8
Other cash operations [2]	92,306	3.3	68,945	3.7
Other fee and commission income	32,088	1.1	40,392	2.2
Total fee and commission income	**2,799,950**	**100.0**	**1,864,315**	**100.0**

Notes:

(1) Includes fees from cash collection, cash delivery and related services such as crediting of clients' cash to their bank accounts, calculation of cash amounts, delivery of bank cheques and delivery of fractional currency (bank notes and coins).

(2) Includes ATM access fees, fees on recalculation and verification of bank notes and fees for preparation of cash for delivery to clients' cash offices.

During the nine months ended 30 September 2012 and 2011, net fee and commission income was the largest component of CBM's non-interest income, amounting to 85.6% and 122.3%, respectively of non-interest income in those periods. The period-on-period increases were primarily attributable to the continued expansion of CBM's cash collection and delivery business, as well as CBM's development of its plastic cards operations, settlement transactions and agent commissions on selling insurance contracts. Historically, cash collection and delivery has been one of CBM's most important sources of fee and commission income and this is expected to continue to be the case for the foreseeable future. See "*Business – Cash Collection and Delivery*".

CBM's fee and commission income increased by 50.2% to RUB 2.8 billion for the nine months ended 30 September 2012, from RUB 1.9 billion in the same period of 2011. This increase was primarily attributable to increase in the volume of CBM's insurance contracts processing, guarantees and letters of credit, plastic card operations and cash collection and delivery. These increases were all in line with the general growth of CBM's operations between the two periods. The significant increase in insurance contracts processing is in part due to the fact that this source of fee income was first introduced by CBM in the second quarter of 2011. See "*Business – Retail Banking – General Purpose Consumer Loans*". The increase in guarantees and letters of credit was also attributable to the fact that CBM's credit rating from Fitch was upgraded in June 2012, which enabled CBM to issue more guarantees than it could previously.

Net Gain (Loss) on Financial Instruments at Fair Value Through Profit or Loss

CBM's financial instruments at fair value through profit or loss are government, municipal and corporate bonds. In the nine months ended 30 September 2012, CBM had a net gain on financial instruments at fair value through profit or loss of RUB 215 million, as compared to a net loss of RUB 963 million in the nine months ended 30 September 2011. The net loss in the nine months ended 30 September 2011 was attributable to an unrealised loss from securities portfolio revaluation against the backdrop of an unfavourable situation in the financial markets and exacerbated volatility. The net gain on financial instruments at fair value through profit or loss in the nine months ended 30 September 2012 was attributable to recovery of the Russian stock market following the turmoil in 2011.

Net Realised Gain on Available-for-sale Securities

CBM's available-for-sale securities are government, municipal and corporate bonds. In the nine months ended 30 September 2012, CBM had a net gain on available-for-sale securities of RUB 16 million, as compared to a net gain of RUB 44 million in the nine months ended 30 September 2011.

Foreign Exchange Gains (Losses), Net

CBM's income or expense from net foreign exchange gains or losses primarily represents net gains or losses from currency transactions performed on behalf of corporate and retail customers and the purchasing and selling by CBM of currency derivatives for hedging currency risks. CBM generates income from net foreign exchange transactions performed on behalf of customers because CBM's selling price for a particular currency is higher than its purchase price. CBM typically incurs losses on its derivative transactions, which are hedging expenses that CBM incurs in order to limit its foreign currency exposure and to manage its liquidity position. CBM does not engage in derivative transactions for speculative purposes.

In the nine months ended 30 September 2012, CBM had a net foreign exchange loss of RUB 107 million, as compared to a net gain of RUB 381 million in the nine months ended 30 September 2011. The net foreign exchange loss in the nine months ended 30 September 2012 is attributable to losses in CBM's operations with foreign currency derivatives, which exceeded income received on currency exchange transactions conducted by CBM on behalf of its clients. See "*Risk Management – Market Risk – Currency Risk*".

Other Operating Income

Other operating income represents income arising from prior years, any income from penalties assessed, safe deposit commissions and income from disposal of assets. Other operating income increased by 74.7% to RUB 345 million in the nine months ended 30 September 2012 from RUB 198 million in the nine months ended 30 September 2011. This increase reflects an increase in penalties assessed and an increase in income from disposals of fixed assets by CBM's subsidiary, MKB-Leasing.

Non-Interest Expense

The following table sets forth the principal components of CBM's non-interest expenses for the periods indicated.

	For the nine months ended 30 September (Unaudited)			
	2012		2011	
	RUB thousands	% of total	RUB thousands	% of total
Salaries and employment benefits	2,538,726	44.8	1,527,576	44.6
Administrative expenses	1,774,608	31.3	1,244,919	36.3
Provision for impairment of assets and credit related commitments	262,688	4.6	72,943	2.1
Depreciation of property and equipment	260,381	4.6	169,281	5.0
Fee and commission expense	283,352	5.0	125,054	3.7
State deposit insurance scheme contributions	270,364	4.8	189,464	5.5
Other operating expenses	283,009	5.0	97,490	2.8
Total non-interest expense	**5,673,128**	**100.0**	**3,426,727**	**100.0**

CBM's non-interest expense increased 65.6% for the nine months ended 30 September 2012, to RUB 5.7 billion, compared to RUB 3.4 billion for the same period in 2011. CBM's operating expenses, calculated as the sum of salaries and employment benefits, administrative expenses and depreciation of property and equipment increased by 55.5% for the nine months ended 30 September 2012, to RUB 4.6 billion, as compared to RUB 2.9 billion for the same period in 2011.

CBM's cost-to-income ratio, which is calculated as operating expense divided by operating income, excluding net provision charge for loan impairment, fee and commission expense, contribution to the state deposit insurance system and other operating expenses, was 40.6% during the nine months ended 30 September 2012 and 41.6% during the same period of 2011. The slight decrease in this ratio between the nine months ended 30 September 2011 and the nine months ended 30 September 2012 was primarily driven by improved operational efficiency which resulted in an increase in operational income that exceeded the increase in operational expenses.

Salaries and Employment Benefits

	For the nine months ended 30 September (Unaudited)			
	2012		2011	
	RUB thousands	% of total	RUB thousands	% of total

	For the nine months ended 30 September (Unaudited)			
	2012		2011	
	RUB thousands	% of total	RUB thousands	% of total
Salaries	2,024,431	79.7	1,191,470	78.0
Social security costs	490,065	19.3	318 835	20.9
Other	24,230	1.0	17,271	1.1
Total salaries and employment benefits	**2,538,726**	**100.0**	**1,527,576**	**100.0**

Salaries and employment benefits increased by 66.2% to RUB 2.5 billion in the nine months ended 30 September 2012 from RUB 1.5 billion in the nine months ended 30 September 2011. This increase was primarily due to an increase in the number of employees of CBM as a result of the expansion of CBM's retail and corporate businesses between the periods covered and were also due to salary increases resulting from high competition in the market for qualified personnel.

CBM had 3,975 employees as at 30 September 2012, as compared to 3,322 as at 31 December 2011.

CBM does not have pension arrangements aside from the state pension of the Russian Federation. The Russian Federation pension system requires contributions from CBM in respect of its employees, calculated as a percentage of current gross salary payments. This expense is charged to the income statement as social security costs in the period in which the relevant amount is earned by the employee. CBM does not have any stock option plans for its employees.

Administrative Expenses

	For the nine months ended 30 September (Unaudited)			
	2012		2011	
	RUB thousands	% of total	RUB thousands	% of total
Occupancy	634,433	35.8	373,607	30.0
Advertising and business development	366,409	20.6	274,296	22.0
Operating taxes	314,978	17.7	234,280	18.8
Security	154,560	8.7	119,151	9.6
Property maintenance	136,259	7.7	110,317	8.9
Transport	42,212	2.4	28,032	2.3
Communications	36,489	2.1	34,863	2.8
Computer maintenance and software expenses	31,771	1.8	35,496	2.8
Other	57,497	3.2	34,877	2.8
Administrative expenses	**1,774,608**	**100.0**	**1,244,919**	**100.0**

Administrative expenses consist primarily of occupancy costs, operating taxes (not inclusive of income tax), expenses incurred in respect of advertising and business development, communications, transport, security and other miscellaneous expenses. Depreciation is accounted for separately. Employment related expenses consist of employee salaries, social security costs, and other miscellaneous expenses.

CBM's administrative expenses for the nine months ended 30 September 2012 increased by 42.5% to RUB 1.8 billion from RUB 1.2 billion in the nine months ended 30 September 2011. This increase reflects the expansion of CBM's corporate and retail lending activities, the diversification of the

products and services offered by CBM to its clients, the extension of CBM's branch network, the development of CBM's ATM and payment terminal networks and the development of the cash collection and delivery services provided to CBM's customers.

CBM rents the substantial majority of its branch offices as well as space in the locations of its payment terminals and ATMs. See "*Business – Branches, Payment Terminals and ATMs*". CBM's occupancy expenses for the nine months ended 30 September 2012 increased by 69.8% to RUB 634 million from RUB 374 million in the nine months ended 30 September 2011. This increase was a result of the expansion of CBM's retail and corporate businesses, in particular the opening of new branches and the development of its ATM and payment terminal networks, between these periods. The number of CBM's branches increased from 60 to 61 from 31 December 2011 to 30 September 2012. CBM's had 672 ATMs in its ATM network as at 30 September 2012, as compared to 604 as at 31 December 2011. As at 30 September 2012, CBM had 4,175 payment terminals, compared with 4,014 as at 31 December 2011.

CBM's advertising and business development expenses for the nine months ended 30 September 2012 increased by 33.6% to RUB 366 million from RUB 274 million in the nine months ended 30 September 2011. The increase primarily reflects the increased use of advertising by CBM through a variety of promotional channels between these periods.

Operating taxes include value added tax ("**VAT**"), property tax, transportation tax and legal expenses. Operating taxes for the nine months ended 30 September 2012 increased by 34.4% to RUB 315 million from RUB 234 million in the nine months ended 30 September 2011. A large proportion of the increase from 30 September 2011 to 30 September 2012 was due to VAT levied on the purchase by CBM and its subsidiaries of services rendered by advertising, transportation and repair companies.

Security expenses for the nine months ended 30 September 2012 increased by 29.7% to RUB 155 million from RUB 119 million in the nine months ended 30 September 2011. This increase reflects the growth of CBM's cash collection and delivery business, particularly the increase in the number of CBM's cash collection points, which resulted in an increase in payments to security companies.

Property maintenance expenses for the nine months ended 30 September 2012 increased by 23.5% to RUB 136 million from RUB 110 million in the nine months ended 30 September 2011. This increase reflects the expansion of CBM's branch network and the increase in its number of ATMs and payment terminals between these periods.

Depreciation of Property and Equipment

Depreciation of property and equipment for the nine months ended 30 September 2012 increased by 53.8% to RUB 260 million from RUB 169 million in the nine months ended 30 September 2011. This increase was largely a result of an increase in the amount of fixed assets between the two periods.

Fee and Commission Expense

Fee and commission expense is principally comprised of fees for plastic card acquiring services (fees paid to plastic card issuing companies with CBM processes card payments for a merchant), property insurance fees, payment systems commissions and commissions for settlement services provided by the CBR. For the nine months ended 30 September 2012, fee and commission expense increased by 126.6% to RUB 283 million from RUB 125 million for the nine months ended 30 September 2011. The increase was attributable to development of CBM's plastic cards business and an increase in the number of transactions with plastic cards, which resulted in an increase in the volume of commissions paid to payment card companies.

Income Tax Expense

Income tax expense comprises CBM's current income tax charge and changes in deferred income tax. Taxes other than income taxes, such as property tax, are recorded within staff costs and administrative expenses. The following table sets forth the components of CBM's income tax expense for the periods indicated.

	Nine months ended 30 September (Unaudited)	
	2012	**2011**
	RUB thousands	
Current tax charge	1,015,800	229,973
Deferred taxation	(54,453)	357,281

	Nine months ended 30 September (Unaudited)	
	2012	2011
	RUB thousands	
Income tax expense	**961,348**	**587,254**

CBM's income tax expense was RUB 961 million in the nine months ended 30 September 2012 as compared to RUB 587 million in the nine months ended 30 September 2011. The increase was primarily attributable to increased profit before tax between the two periods.

Results of Operations for the Years Ended 31 December 2011, 2010 and 2009

For the year ended 31 December 2011, CBM's net income increased by 28.6% to RUB 3.9 billion as at 31 December 2011 from RUB 3.0 billion as at 31 December 2010. For the year ended 31 December 2010, CBM's net income increased by 287.4% to RUB 3.0 billion from RUB 780.0 million for the year ended 31 December 2009.

The following table sets forth the components of CBM's net income for the years indicated.

	Year ended 31 December		
	2011	2010	2009
	RUB thousands		
Interest income	20,980,864	14,544,991	9,584,791
Interest expense	(12,257,202)	(8,478,432)	(5,671,209)
Net interest income	**8,723,662**	**6,066,559**	**3,913,582**
Provision for impairment of loans	(1,283,719)	(1,539,798)	(2,465,362)
Net interest income after provision for impairment	**7,439,943**	**4,526,761**	**1,448,220**
Fee and commission income	2,718,563	1,757,978	1,191,323
Net gain (loss) on financial instruments at fair value through profit or loss	(856,946)	83,474	429,497
Net realised gain on available-for-sale assets	39,994	338,527	61,633
Foreign exchange gains (losses), net	473,386	232,039	212,098
Other operating income	182,455	181,488	117,032
Non interest income	**2,557,452**	**2,593,506**	**2,011,583**
Salaries and employment benefits	(2,126,118)	(1,373,503)	(1,064,102)
Administrative expenses	(1,862,731)	(1,287,388)	(868,148)
Provision for impairment of other assets and credit related commitments	(247,039)	(143,438)	(193,314)
Depreciation	(242,048)	(178,163)	(106,625)
Fee and commission expense	(192,366)	(102,363)	(84,653)
State deposit insurance scheme contributions	(269,583)	(153,049)	(82,651)
Other operating expenses	(199,170)	(129,840)	(88,923)
Non-interest expense	**(5,139,055)**	**(3,367,744)**	**(2,488,416)**
Income before income taxes	**4,858,340**	**3,752,523**	**971,387**
Income tax	(972,806)	(731,147)	(191,425)
Net income	**3,885,534**	**3,021,376**	**779,962**
Other comprehensive income			
Revaluation reserve for available-for-sale securities	(101,355)	(372,159)	469,456
Revaluation of buildings	–	–	625,531
Income tax related to other comprehensive income	20,271	74,432	(218,998)
Other comprehensive income (loss) for the period, net of tax	(81,084)	(297,727)	875,989
Comprehensive income for the period	**3,804,450**	**2,723,649**	**1,655,951**

Interest Income

For the year ended 31 December 2011, total interest income increased by 44.2% to RUB 21.0 billion from RUB 14.5 billion for the year ended 31 December 2010. For the year ended 31 December 2010, total interest income increased by 51.8% from RUB 9.6 billion for the year ended 31 December 2009 to RUB 14.5 billion for the year ended 31 December 2010. The following table sets forth the principal components of CBM's interest income for the years indicated:

	For the year ended 31 December					
	2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Interest income						
Loans to customers	17,790,664	84.8	11,868,667	81.6	8,033,840	83.8
Debt securities (Financial instruments at fair value through profit or loss and available-for-sale securities)	2,892,224	13.8	2,626,061	18.1	1,422,654	14.8
Due from credit institutions and the CBR.	297,976	1.4	50,263	0.3	128,297	1.4
Total interest income . . .	**20,980,864**	**100.0**	**14,544,991**	**100.0**	**9,584,791**	**100.0**
Average yield on interest-earning assets[1]		**11.7%**		**13.2%**		**15.8%**

Note:

(1) Calculated as the ratio of total interest income to average interest-earning assets. See "*Selected Statistical Information*".

The increase in CBM's interest income for the year ended 31 December 2011 resulted primarily from an increase in interest income from loans to customers. Also contributing to the increase were an increase in interest income from debt securities and an increase in interest income from amounts due from credit institutions and the CBR. These increases were offset in part by the effects of a decrease in interest rates from 2010 to 2011. The average interest rate on interest-earning assets decreased to 11.7% in 2011 from 13.2% in 2010.

Interest income was RUB 14.5 billion and RUB 9.6 billion in 2010 and 2009, respectively. The increase was primarily due to an increase in the volume of loans to customers and debt securities, which was offset in part by a decrease in average interest rates on loans to customers and debt securities.

Interest Income on Loans to Customers

For the year ended 31 December 2011, interest income on loans to customers represented 84.8% of total interest income, compared to 81.6% in 2010. Interest income on loans to customers increased by 49.9% to RUB 17.8 billion for the year ended 31 December 2011, from RUB 11.9 billion in 2010. This was primarily attributable to an increase in lending volumes, partly offset by a general decrease in interest rates on the Russian lending market during the same period. CBM's balances of loans to customers net of provision for loan impairment increased by 53.1% to RUB 159.0 billion as at 31 December 2011, from RUB 103.9 billion as at 31 December 2010. CBM's average yield on loans to customers decreased to 12.6% in 2011 from 14.3% in 2010.

For the year ended 31 December 2010, interest income on loans to customers represented 81.6% of total interest income, compared to 83.8% in 2009. Interest income on loans to customers increased by 47.7% to RUB 11.9 billion for the year ended 31 December 2010, from RUB 8.0 billion in 2009. This increase was primarily attributable to an increase in lending volumes, partly offset by a general decrease in interest rates on the Russian lending market during the same period. CBM's loans to customers net of provision for loan impairment increased by 78.2% to RUB 103.8 billion as at 31 December 2010, from RUB 58.3 billion as at 31 December 2009. CBM's average yield on loans to customers decreased to 14.3% in 2010 from 17.3% in 2009.

Interest Income on Debt Securities

Interest income on CBM's debt securities represented 13.8%, 18.1% and 14.8%, respectively, of CBM's total interest income in 2011, 2010 and 2009, respectively.

Interest income on CBM's debt securities increased 10.1% to RUB 2.9 billion for the year ended 31 December 2011 compared to RUB 2.6 billion for 2010. This increase was due to an increase in interest rates on the debt securities portfolio, which was offset in part by the effects of a decrease in the size of the portfolio between the two years. The average interest rate received by CBM on debt securities increased to 11.3% for the nine months ended 30 September 2012 from 10.1% for the nine months ended 30 September 2011.

Interest income on CBM's debt securities increased 84.6% to RUB 2.6 billion for the year ended 31 December 2010 compared to RUB 1.4 billion for 2009. This increase was due to a significant increase in the size of the debt securities portfolio between these two years, which increase was offset in part by the effects of a decrease in interest rates on the debt securities portfolio between the two years. See "*– Financial Condition – Total Assets – Securities Portfolio*".

Interest Income on Amounts Due From Credit Institutions and the CBR

Interest income due from credit institutions and the CBR was 1.4% of total interest income for the year ended 31 December 2011, compared to 0.3% in 2010. Interest income on amounts due from credit institutions and the CBR increased by 492.8% to RUB 298 million, from RUB 50 million in 2010, primarily due to increased volumes of interbank lending and an increase in interest rates on interbank borrowings.

Interest income due from credit institutions and the CBR was 0.3% of total interest income for the year ended 31 December 2010, compared to 1.3% in 2009. Interest income due from credit institutions and the CBR decreased by 60.8% to RUB 50 million for the year ended 31 December 2010, compared to RUB 128.3 billion in 2009, primarily due to a decrease in on the volume of interbank borrowings.

Interest Expense

CBM's total interest expense increased 44.6% to RUB 12.3 billion for 2011, compared to RUB 8.5 billion for 2010. CBM's total interest expense in 2010 increased 49.5% to RUB 8.5 billion from RUB 5.7 billion in 2009. The following table sets forth the principal components of CBM's interest expense for the years indicated:

	For the year ended 31 December					
	2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Deposits by customers	8,249,337	67.3	5,446,181	64.2	2,931,465	51.7
Deposits by credit institutions and the Central Bank of the Russian Federation	1,290,792	10.5	853,008	10.1	1,418,989	25.0
Debt securities issued	2,717,073	22.2	2,179,243	25.7	1,320,755	23.3
Total interest expense	**12,257,202**	**100.0**	**8,478,432**	**100.0**	**5,671,209**	**100.0**
Average rate paid on interest-bearing liabilities(1)	**7.0%**		**8.0%**		**9.9%**	

Note:
(1) Calculated as the ratio of total interest expense to average interest-bearing liabilities. See "*Selected Statistical Information*".

The overall increase in CBM's interest expense in 2011 mainly resulted from an increase in interest expense on deposits by customers of 51.5% to RUB 8.2 billion for 2011 compared to RUB 5.4 billion for 2010. The average interest rate paid by CBM on interest-bearing liabilities decreased to 7.0% in 2011 from 8.0% in 2010.

The overall increase in CBM's interest expense in 2010 compared to 2009 mainly resulted from an increase in interest expense on deposits by customers to RUB 5.4 billion in 2010 from RUB 2.9

billion in 2009 and an increase in interest expense on debt securities issued to RUB 2.2 billion in 2010 from RUB 1.3 billion in 2009. These increases were offset in part by a decrease in interest expense on deposits by credit institutions and the CBR to RUB 853 million in 2010 from RUB 1.4 billion in 2009. The average interest rate on interest-bearing liabilities decreased to 8.0% in 2010 from 9.9% in 2009.

Interest Expense on Deposits by Customers

Interest expense on deposits by customers represented 67.3%, 64.2% and 51.7% of total interest expense for the years ended 31 December 2011, 2010 and 2009, respectively.

Interest expense on deposits by customers increased by 51.5% to RUB 8.2 billion for the year ended 31 December 2011, from RUB 5.4 billion in 2010, as a result of an increase in volumes of corporate and retail deposits, which was offset by the effects of a decrease in interest rates for term deposits as between the two years. The average interest rate paid by CBM on deposits to customers decreased to 6.9% in 2011 from 8.3% in 2010.

Interest expense on deposits by customers increased by 85.8% to RUB 5.4 billion for the year ended 31 December 2010, as compared to RUB 2.9 billion for 2009, as a result of an increase in the volume of CBM's customer deposits, which increased by 108.4% from RUB 45.6 billion as at 31 December 2009 to RUB 95.1 billion as at 31 December 2010. This increase in customer deposits was in turn attributable to a recovery of the Russian economy, increased confidence in the Russian banking sector, relatively high interest rates, the addition of certain Russian federal government clients to CBM, attractive and competitive deposit facilities offered by CBM and an intensive advertising campaign conducted by CBM. The average interest rate paid by CBM on deposits to customers decreased to 8.3% in 2010 from 9.5% in 2009.

Interest Expense on Deposits by Credit Institutions and the CBR

Interest expense on deposits by credit institutions and the CBR represented 10.5%, 10.1% and 25.0% of total interest expense in the years ended 31 December 2011, 2010, and 2009, respectively. Interest expense on deposits by credit institutions increased 51.3%, to RUB 1.3 billion in 2011, compared to RUB 853 million for 2010, due to an increase in the cost of funds from credit institutions, which was partly offset by decreased volume of deposits by credit institutions. Interest expense on deposits by credit institutions and the CBR decreased by 39.9% to RUB 853 million in 2010, compared to RUB 1.4 billion for 2009, due to a decrease in the level of borrowings from the CBR during 2010, which by the end of 2010 were nil, and decreased interest rates for funds from credit institutions, which was partly offset by an increase in the volume of deposits by credit institutions.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued represented 22.2%, 25.7% and 23.3% of total interest expense in the years ended 31 December 2011, 2010, and 2009, respectively.

Interest expense on debt securities issued increased 24.7%, to RUB 2.7 billion in 2011, compared to RUB 2.2 billion for 2010, due to the effects of CBM's Eurobond offering in July 2011 and three domestic bond issues in 2011, which was offset in part by the effects of repayment of one series of domestic bonds in 2011 and a decrease in the volume of promissory notes issued. See "– *Financial Condition – Total Liabilities – Debt Securities in Issue*".

The average annual interest rate on CBM's debt securities was 8.5%, 10.3% and 14.2% for 2011, 2010 and 2009, respectively. These decreases were mainly due to a general reduction in debt securities interest rates in the market in 2010, which continued through 2011 and 2012.

Net Interest Income

Net interest income has historically been the largest component of CBM's operating income. The following table sets forth CBM's net interest income before provision charge for loan impairment for the years indicated.

	For the year ended 31 December		
	2011	2010	2009
	tRUB thousands	RUB thousands	RUB thousands
Interest income	20,980,864	14,544,991	9,584,791
Interest expense	(12,257,202)	(8,478,432)	(5,671,209)
Net interest income before provision charge for loan impairment	**8,723,662**	**6,066,559**	**3,913,582**
Net Interest Margin[1]	**4.8%**	**5.5%**	**6.4%**

Note:

(1) Calculated as the ratio of net interest income before provision to average interest-earning assets. See "*Selected Statistical Information*".

For the year ended 31 December 2011, net interest income before provision for loan impairment increased 43.8% to RUB 8.7 billion from RUB 6.1 billion in 2010, primarily due to increased lending volumes. For the year ended 31 December 2010, net interest income was RUB 6.1 billion, compared to RUB 3.9 billion for the year ended 31 December 2009. This increase primarily resulted from increased lending volumes and the growth of CBM's securities portfolio. CBM's Net Interest Margin decreased from 2009 to 2010, and from 2010 to 2011 primarily due to competition in the market and increased costs of funding.

Provision for Impairment of Loans

The following tables set forth the breakdown of CBM's provision for impairment of loans for the years indicated.

	For the year ended 31 December		
	2011	2010	2009
		RUB thousands	
Provision / (recovery of provision) for impairment on:			
Loans to corporate customers	**866,943**	**1,237,765**	**1,796,596**
Auto loans	(32,353)	8,625	111,281
Mortgage loans	(169,013)	90,238	302,107
Consumer loans	618,142	203,170	255,378
Total loans to individuals	**416,776**	**302,033**	**668,766**
Total provision for impairment of loans	**1,283,719**	**1,539,798**	**2,465,362**

CBM recognised a provision for loan impairment of RUB 1.3 billion for the year ended 31 December 2011, compared with a RUB 1.5 billion net provision charge for loan impairment for the year ended 31 December 2010, as a result of an improvement in the quality of CBM's loan portfolio and the repayment or write-off of a number of NPLs.

CBM's provision for loan impairment decreased by 37.5% to RUB 1.5 billion for the year ended 31 December 2010, from RUB 2.5 billion for the year ended 31 December 2009, as a result of the stabilisation of the quality of CBM's loan portfolio following the most acute stage of the global financial crisis in 2008 and 2009.

The level of allowance for loan impairment as a percentage of CBM's NPLs has been increasing steadily since 31 December 2009. As at 31 December 2009, 2010 and 2011 and 30 September 2012 it amounted to 101.7%, 171.6% and 208.6%, respectively, of NPLs.

See "– *Financial Condition – Total Assets – Loans to Customers – Provision for Loan Impairment*" for further information on CBM's provision for impairment of loans.

Non-interest Income

Fee and Commission Income

The following table sets forth the components of CBM's fee and commission income for the periods indicated.

	For the year ended 31 December					
	2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Cash collection and delivery [1]	750,537	27.6	549,536	31.3	443,509	37.2
Settlements and wire transfers	764,428	28.1	458,847	26.1	271,577	22.8
Guarantees and letters of credit	533,983	19.6	492,866	28.0	307,016	25.8
Insurance contracts processing	213,063	7.8	–	–	–	–
Plastic cards	273,704	10.1	116,925	6.7	59,686	5.0
Other cash operations [2]	104,558	3.9	77,280	4.4	60,563	5.1
Other fee and commission income	78,290	2.9	62,524	3.5	48,972	4.1
Total fee and commission income	**2,718,563**	**100.0**	**1,757,978**	**100.0**	**1,191,323**	**100.0**

Notes:

(1) Includes fees from cash collection, cash delivery and related services such as crediting of clients' cash to their bank accounts, calculation of cash amounts, delivery of bank cheques and delivery of fractional currency (bank notes and coins).

(2) Includes ATM access fees, fees on recalculation and verification of bank notes and fees for preparation of cash for delivery to clients' cash offices.

During the years ended 31 December 2011, 2010 and 2009, net fee and commission income was the largest component of CBM's non-interest income, amounting to 106.3%, 67.8% and 59.2%, respectively of non-interest income in those years. The year-on-year increases were primarily attributable to the continued expansion of CBM's cash collection and delivery business, as well as CBM's development of its plastic cards operations, settlement transactions and agent commissions on selling insurance contracts. Historically, cash collection and delivery has been one of CBM's most important sources of fee and commission income and this is expected to continue to be the case for the foreseeable future. See "*Business – Cash Collection and Delivery*".

CBM's fee and commission income increased by 54.6% to RUB 2.7 billion for the year ended 31 December 2011, from RUB 1.8 billion in 2010. This increase was primarily attributable to the increase in the volume of CBM's plastic card operations, settlements and wire transfers and cash collection and delivery and the introduction of insurance contract processing services. The increases in plastic card operations, settlements and wire transfers and cash collection and delivery were due to general growth in CBM's business as well as CBM's strategic effort to develop its fee and commission income, due to it being a source of profits that is not subject to market volatility. Insurance contracts processing generated RUB 213.1 million of fee and commission income in 2011 as compared with nil in 2010 due to the fact that this source of fee income was first introduced by CBM in the second quarter of 2011.

CBM's fee and commission income increased by 47.6% to RUB 1.8 billion for the year ended 31 December 2010, from RUB 1.2 billion in 2009. This increase was primarily attributable to an increase in the volume of CBM's plastic card operations, guarantees and letters of credit settlements and wire transfers.

Net Gain (Loss) on Financial Instruments at Fair Value Through Profit or Loss

In 2011, 2010, and 2009, respectively, CBM had a net loss of RUB 857 million, a net gain of RUB 83 million and a net gain of RUB 429 million on financial instruments at fair value through profit or loss. During 2009 and 2010, the Russian stock market was recovering from the most acute phase of the global financial crisis in 2008 and 2009. Market growth positively influenced CBM's securities portfolio, resulting in net gains on financial instruments at fair value through profit or loss in 2009 and 2010. The net loss for 2011 was attributable to an unrealised loss from securities portfolio revaluation against the backdrop of an unfavourable situation in the financial markets and exacerbated volatility.

Net Realised Gain on Available-for-sale Securities

CBM's available-for-sale securities are government, municipal and corporate bonds. In 2011, 2010, and 2009, respectively, CBM had a net gain of RUB 40 million, a net gain of RUB 339 million and a net gain of RUB 62 million on available-for-sale securities. CBM's large gain on available-for-sale securities for 2010 reflects CBM having actively sold available-for-sale securities in the latter months of 2010 to allocate a greater proportion of its liquidity towards increasing its customer loan portfolio.

Foreign Exchange Gains (Losses), Net

In 2011, 2010, and 2009, CBM had net gains of RUB 473 million, RUB 232 million and RUB 212 million, respectively. The net foreign exchange loss in the nine months ended 30 September 2012 is attributable to losses in CBM's operations with foreign currency derivatives, which exceeded income received on currency exchange transactions conducted by CBM on behalf of its clients. The gains in 2011, 2010 and 2009 are attributable to income gained on currency conversion operations conducted by CBM on behalf of its clients. In these years, income from currency exchange transactions exceeded losses incurred on operations with currency derivatives. See "*Risk Management – Market Risk – Currency Risk*".

Other Operating Income

Other operating income stayed relatively constant at RUB 182 million and RUB 181 million for the years ended 31 December 2011 and 2010, respectively. Other operating income increased by 55.1%, or RUB 64.5 million, from RUB 117.0 million for the year ended 31 December 2009 to RUB 181.5 million for the year ended 31 December 2010.

Non-Interest Expense

The following table sets forth the principal components of CBM's non-interest expenses for the years indicated.

	For the year ended 31 December					
	2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Salaries and employment benefits	2,126,118	41.4	1,373,503	40.8	1,064,102	42.8
Administrative expenses	1,862,731	36.3	1,287,388	38.2	868,148	34.9
Provision for impairment of assets and credit related commitments	247,039	4.8	143,438	4.3	193,314	7.8
Depreciation of property and equipment	242,048	4.7	178,163	5.3	106,625	4.3
Fee and commission expense	192,366	3.7	102,363	3.0	84,653	3.4
State deposit insurance scheme contributions	269,583	5.2	153,049	4.5	82,651	3.3
Other operating expenses	199,170	3.9	129,840	3.9	88,923	3.5
Total non-interest expense	**5,139,055**	**100.0**	**3,367,744**	**100.0**	**2,488,416**	**100.0**

CBM's non-interest expense increased 52.6% for the year ended 31 December 2011, to RUB 5.1 billion, from RUB 3.4 billion in 2010. CBM's non-interest expense increased 35.3% for the year ended 31 December 2010, to RUB 3.4 billion in 2010, from RUB 2.5 billion in 2009. CBM's operating

expenses, calculated as the sum of salaries and employee benefits, administrative expenses and depreciation of property and equipment, increased 49.0% to RUB 4.2 billion in 2011, from RUB 2.8 billion in 2010. CBM's operating expenses increased 39.2% to RUB 2.8 billion in 2010, from RUB 2.0 billion in 2009 primarily due to increases in administrative expenses and salaries and employment benefits.

CBM's cost-to-income ratio was 39.8%, 34.3% and 36.0% for the years ended 31 December 2011, 2010 and 2009, respectively. The slight decrease in this ratio between 2009 and 2010 was primarily driven by improved operational efficiency which resulted in an increase in operational income that exceeded the increase in operational expenses. The increase in the cost-to-income ratio from 34.3% in 2010 to 39.8% in 2011 was primarily attributable to an increase in staff costs and increased investments in infrastructure development mainly related to the expansion of CBM's retail business in line with CBM's strategy.

Salaries and Employment Benefits

	For the year ended 31 December					
	2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Salaries	1,701,338	80.0	1,143,744	83.3	890,184	83.7
Social security costs	402,778	19.0	216,439	15.8	158,955	14.9
Other	22,002	1.0	13,320	0.9	14,963	1.4
Total salaries and employment benefits	**2,126,118**	**100.0**	**1,373,503**	**100.0**	**1,064,102**	**100.0**

For the year ended 31 December 2011, salaries and benefits increased to RUB 2.1 billion from RUB 1.4 billion for the year ended 31 December 2010. For the year ended 31 December 2010, salaries and benefits increased to RUB 1.4 billion from RUB 1.1 billion for the year ended 31 December 2009. These increases were primarily due to increases in the number of employees of CBM as a result of the expansion of CBM's retail and corporate businesses during the years covered and were also due to salary increases resulting from high competition in the market for qualified personnel.

CBM had 3,322 employees as at 31 December 2011, 2,414 as at 31 December 2010 and 1,830 as at 31 December 2009.

Administrative Expenses

	For the year ended 31 December					
	2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Occupancy	580,825	31.2	332,191	25.8	183,274	21.1
Advertising and business development	413,006	22.2	261,149	20.3	222,868	25.7
Operating taxes	368,852	19.8	290,234	22.5	141,435	16.3
Security	159,485	8.6	123,726	9.6	117,170	13.5
Property maintenance	147,781	7.9	77,378	6.0	69,967	8.0
Transport	42,331	2.3	40,335	3.1	30,612	3.5
Communications	49,433	2.6	59,827	4.7	52,775	6.1
Computer maintenance and software expenses	43,027	2.3	43,310	3.4	24,125	2.8
Other	57,991	3.1	59,238	4.6	25,922	3.0
Administrative expenses	**1,862,731**	**100.0**	**1,287,388**	**100.0**	**868,148**	**100.0**

CBM's administrative expenses for the year ended 31 December 2011 increased by 44.7% to RUB 1.9 billion from RUB 1.3 billion for the year ended 31 December 2010. CBM's administrative expenses for the year ended 31 December 2010 increased by 48.3% to RUB 1.3 billion from RUB 868 million for the year ended 31 December 2009. These increases reflect the expansion of CBM's corporate and retail lending activities, the diversification of the products and services offered by CBM to its clients, the extension of CBM's branch network, the development of CBM's ATM and payment terminal networks and the development of the cash collection and delivery services provided to CBM's customers.

CBM's occupancy expenses for the year ended 31 December 2011 increased by 74.8% to RUB 581 million from RUB 332 million for the year ended 31 December 2010. CBM's occupancy expenses for the year ended 31 December 2010 increased by 81.3% to RUB 332 million from RUB 183 million for the year ended 31 December 2009. These increases were a result of the expansion of CBM's retail and corporate businesses, in particular the opening of new branches and the development of its ATM and payment terminal networks, during these periods. The number of CBM's branches increased from 41 as at 31 December 2009 to 51 and 60 as at 31 December 2010 and 31 December 2011, respectively. CBM's had 604, 402 and 240 ATMs in its ATM network as at 31 December 2011, 2010 and 2009, respectively. CBM had 4,014 payment terminals as at 31 December 2011, 1,737 as at 31 December 2010 and 820 as at 31 December 2009.

CBM's advertising and marketing expenses for the year ended 31 December 2011 increased by 58.1% to RUB 413 million from RUB 261 million for the year ended 31 December 2010. CBM's advertising and marketing expenses for the year ended 31 December 2010 increased by 17.2% to RUB 261 million from RUB 223 million for the year ended 31 December 2009. The increases primarily reflect the increased use of advertising by CBM through a variety of promotional channels during these periods.

CBM's operating taxes for the year ended 31 December 2011 increased by 27.1% to RUB 369 million from RUB 290 million for the year ended 31 December 2010. A large proportion of the increase from 2010 to 2011 was due to VAT levied on the purchase by CBM and its subsidiaries of services rendered by advertising, transportation and repair companies. CBM's operating expenses for the year ended 31 December 2010 increased by 105.2% to RUB 290 million from RUB 141 million for the year ended 31 December 2009. A large proportion of the increase from 2009 to 2010 was due to VAT levied on transactions which took place in previous years.

CBM's security expenses for the year ended 31 December 2011 increased by 28.9% to RUB 159 million from RUB 124 million for the year ended 31 December 2010. CBM's security expenses for the year ended 31 December 2010 increased by 5.6% to RUB 124 million from RUB 117 million for the year ended 31 December 2009. These increases reflect the growth of CBM's cash collection and

delivery business, particularly the increase in the number of CBM's cash collection points, which resulted in an increase in payments to security companies.

CBM's property maintenance expenses for the year ended 31 December 2011 increased by 91% to RUB 148 million from RUB 77 million for the year ended 31 December 2010. CBM's property maintenance expenses for the year ended 31 December 2010 increased by 10.6% to RUB 77 million from RUB 70 million for the year ended 31 December 2009. These increases reflect the expansion of CBM's branch network and the increase in its number of ATMs and payment terminals during these years.

Depreciation of Property and Equipment

Depreciation of property and equipment for the year ended 31 December 2011 increased by 35.9% to RUB 242 million from RUB 178 million for the year ended 31 December 2010. Depreciation of property and equipment for the year ended 31 December 2010 increased by 67.1% to RUB 178 million from RUB 107 million for the year ended 31 December 2009. The increases were largely a result of increases in the amount of fixed assets over the relevant years.

Fee and Commission Expense

For the year ended 31 December 2011, fee and commission expense increased by 87.9% to RUB 192 million from RUB 102 million for the year ended 31 December 2010. For the year ended 31 December 2010, fee and commission expense increased by 20.9% to RUB 102 million from RUB 85 million for the year ended 31 December 2009. The increases in each of these years were attributable to development of CBM's plastic cards business and increases in the number of transactions with plastic cards, which resulted in an increase in the volume of commissions paid to payment card companies.

Income Tax Expense

The following table sets forth the components of CBM's income tax expense for the years indicated.

	Year ended 31 December		
	2011	**2010**	**2009**
		RUB thousands	
Current tax charge	256,131	413,074	393,959
Deferred taxation	716,675	318,073	(202,534)
Income tax expense	**972,086**	**731,147**	**191,425**

For the years ended 31 December 2011, 2010 and 2009, CBM had income tax expense of RUB 972 million, RUB 731 million and RUB 191 million, respectively. The increases were primarily attributable to increased profit before tax across the relevant periods. The large deferred tax benefit in 2009 was due to deferred tax related to revaluation of securities and commissions on loans to customers which are amortised until their maturity.

Financial Condition

The following discussion of CBM's assets and liabilities should be read in conjunction with "Risk Management" and, in particular, with the data provided under "Risk Management – Credit Risk", "Risk Management – Market Risk", and "Risk Management – Liquidity Risk".

Total Assets

As at 30 September 2012, CBM had total assets of RUB 279.2 billion, compared to RUB 232.4 billion as at 31 December 2011. The increase in total assets by RUB 46.8 billion, or 20.2%, primarily reflected an increase of RUB 45.3 billion, or 28.5%, in loans to customers.

As at 31 December 2011, CBM had total assets of RUB 232.4 billion, compared to RUB 165.5 billion and RUB 87.1 billion as at 31 December 2010 and 2009, respectively. The increase in total assets by RUB 66.9 billion, or 40.4%, during 2011 primarily reflected a RUB 55.2 billion, or 53.1%, increase in loans to customers net of provision for loan impairment during the year and a RUB 11.1 billion, or 47.6%, increase in cash and cash equivalents. The increase in total assets of RUB 78.4 billion, or 90.1%, in 2010 primarily reflected a RUB 45.6 billion, or 78.2%, increase in loans to customers net of provision for loan impairment during the year, a RUB 16.2 billion, or 103.3%,

increase in securities portfolio and a RUB 14.7 billion, or 170.4%, increase in cash and cash equivalents.

The following table sets forth the principal components of CBM's total assets as at the dates set forth below.

	As at 30 September (Unaudited)		As at 31 December					
	2012		2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Cash and cash equivalents	25,557,226	9.1	34,433,419	14.8	23,336,426	14.1	8,629,775	9.9
Obligatory reserves with the Central Bank of the Russian Federation	2,489,994	0.9	2,259,170	1.0	756,584	0.4	401,006	0.5
Due from credit institutions	12,530,174	4.5	5,301,412	2.3	586,968	0.3	957,665	1.1
Financial instruments at fair value through profit or loss	21,123,909	7.6	22,783,760	9.8	27,475,153	16.6	12,472,290	14.3
Available-for-sale securities	6,190,115	2.2	2,030,678	0.9	4,461,645	2.7	3,235,045	3.7
Loans to customers	204,345,925	73.2	159,019,821	68.4	103,852,309	62.8	58,290,515	67.0
Property and equipment	5,340,485	1.9	4,969,932	2.1	4,255,117	2.6	2,616,418	3.0
Other assets	1,667,772	0.6	1,572,561	0.7	746,441	0.5	456,286	0.5
Total assets	**279,245,600**	**100.0**	**232,370,753**	**100.0**	**165,470,643**	**100.0**	**87,059,000**	**100.0**

Loans to Customers

Loans to customers, net of provision for loan impairment, are the largest component of CBM's total assets and accounted for 73.2% of total assets as at 30 September 2012 and 68.4%, 62.8% and 67.0% of total assets as at 31 December 2011, 2010 and 2009, respectively. The following tables set forth CBM's gross loan portfolio (excluding loans to banks) by loan classes and credit quality classification as at the dates indicated:

	As at 30 September 2012 (Unaudited)					
	Not past due loans	Past due loans	Total	% of Total loans	Past due loans as a % of Gross loans	Renegotiated loans as a % of Gross loans
		RUB thousands			%	
Loans to corporate clients	164,568,521	878,357	165,446,878	79.1	0.4	0.4
Consumer and other loans to individuals	22,834,948	1,978,002	24,812,950	11.9	0.9	–
Mortgage loans to individuals	8,580,057	728,039	9,308,096	4.4	0.3	–
Auto loans to individuals	9,581,530	109,236	9,690,766	4.6	0.1	–
Total loans to customers before provision for loan impairment	**205 565 056**	**3,693,634**	**209,258,690**	**100.0**		
Less: Provision for loan impairment	(3,105,694)	(1,807,071)	(4,912,765)			
Total loans to customers net of provision for loan impairment	**202,459,362**	**1,886,563**	**204,345,925**			
Overdue coverage ratio[1]		133.0%				
NPL coverage ratio[2]		191.2%				

Notes:

(1) Calculated as the ratio of provision for loan impairment to total past due loans to customers before provision for loan impairment.

(2) Calculated as the ratio of provision for loan impairment to total NPLs.

	As at 31 December 2011					
	Not past due loans	Past due loans	Total	% of Total loans	Past due loans as a % of Gross loans	Renegotiated loans as a % of Gross loans
		RUB thousands			%	
Loans to corporate clients. .	132,187,233	657,025	132,844,258	81.7	0.4	0.6
Consumer and other loans to individuals	14,838,538	1,183,437	16,021,975	9.8	0.7	–
Mortgage loans to individuals	6,975,596	685,406	7,661,002	4.7	0.4	–
Auto loans to individuals . .	6,097,845	77,173	6,175,018	3.8	0.05	–
Total loans to customers before provision for loan impairment	**160,099,212**	2,603,041	**162,702,253**	**100.0**		
Less: Provision for loan impairment	(2,566,290)	(1,116,142)	(3,682,432)			
Total loans to customers net of provision for loan impairment	**157,532,922**	**1,486,899**	**159,019,821**			
Overdue coverage ratio[1] . .		141.5%				
NPL coverage ratio[2].		208.6%				

Notes:
(1) Calculated as the ratio of provision for loan impairment to total past due loans to customers before provision for loan impairment.
(2) Calculated as the ratio of provision for loan impairment to total NPLs.

	As at 31 December 2010					
	Not past due loans	Past due loans	Total	% of Total loans	Past due loans as a % of Gross loans	Renegotiated loans as a % of Gross loans
		RUB thousands			%	
Loans to corporate clients .	87,733,857	583,749	88,317,606	82.8	0.5	1.2
Consumer and other loans to individuals	4,802,058	405,822	5,207,880	4.9	0.4	–
Mortgage loans to individuals	6,566,886	1,074,546	7,641,432	7.2	1.0	–
Auto loans to individuals . .	5,360,587	117,913	5,478,500	5.1	0.1	–
Total loans to customers before provision for loan impairment	**104,463,388**	**2,182,030**	**106,645,418**	**100.0**		
Less: Provision for loan impairment	(1,662,364)	(1,130,745)	(2,793,109)			
Total loans to customers net of provision for loan impairment	**102,801,024**	**1,051,285**	**103,852,309**			
Overdue coverage ratio[1] . .		128.0%				
NPL coverage ratio[2].		171.6%				

Notes:
(1) Calculated as the ratio of provision for loan impairment to total past due loans to customers before provision for loan impairment.
(2) Calculated as the ratio of provision for loan impairment to total NPLs.

	As at 31 December 2009					
	Not past due loans	Past due loans	Total	% of Total loans	Past due loans as a % of Gross loans	Renegotiated loans as a % of Gross loans
		RUB thousands			%	
Loans to corporate clients	49,406,492	681,914	50,088,406	83.3	1.1	1.1
Consumer and other loans to individuals	2,113,686	382,736	2,496,422	4.2	0.6	–
Mortgage loans to individuals	4,563,263	1,019,386	5,582,649	9.3	1.7	–
Auto loans to individuals	1,742,956	204,283	1,947,239	3.2	0.3	–
Total loans to customers before provision for loan impairment	**57,826,397**	**2,288,319**	**60,114,716**	**100.0**		
Less: Provision for loan impairment	(793,085)	(1,031,116)	(1,824,201)			
Total loans to customers net of provision for loan impairment	**57,033,312**	**1,257,203**	**58,290,515**			
Overdue coverage ratio[1]		79.7%				
NPL coverage ratio[2]		101.7%				

Notes:
(1) Calculated as the ratio of provision for loan impairment to total past due loans to customers before provision for loan impairment.
(2) Calculated as the ratio of provision for loan impairment to total NPLs.

As at 30 September 2012, loans to customers (net of allowance for loan impairment) amounted to RUB 204.3 billion, representing a 28.5% increase from RUB 159.0 billion as at 31 December 2011. As at 31 December 2011, loans to customers (net of allowance for loan impairment) amounted to RUB 159.0 billion, representing a 53.1% increase from RUB 103.9 billion as at 31 December 2010. Growth in the loan portfolio during these periods was attributable to the expansion of CBM's customer base as well as an increase and wider utilisation of credit limits by CBM's customers. As at 31 December 2010, loans to customers (net of allowance for loan impairment) amounted to RUB 103.9 billion, representing a 78.2% increase from RUB 58.3 billion as at 31 December 2009. Growth in the loan portfolio during this period was attributable to the expansion of CBM's customer base, especially large reputable companies on the market which lacked available financing from banks during and after the most acute stage of the global economic crisis, as well as an increase and wider utilisation of credit limits by CBM's customers and the resumption of CBM lending to a number of companies who required more capital for their operations as their businesses recovered following the most acute stage of the global financial crisis.

Fitch has expressed the view that approximately RUB 5.4 billion of CBM's gross loans to customers as at 30 June 2012, representing approximately 3% of CBM's total gross loans as at such date, were fiduciary loans whereby CBM loaned money at the request of and on behalf a customer who had the relevant funds on deposit with CBM. The loans identified by Fitch as being potentially fiduciary in nature have since been repaid and are no longer outstanding. CBM does not consider the relevant deposits to have been related and accordingly does not consider such loans to have been fiduciary loans. CBM does not engage in fiduciary loan transactions.

Distribution of Loans by Economic Sectors

The following table sets out the distribution of CBM's gross loans to customers (excluding loans to banks) as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December					
	2012		2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Loans to Individuals								
Total loans to individuals	**43,811,812**	**20.9**	**29,857,995**	**18.4**	**18,327,812**	**17.2**	**10,026,310**	**16.7**
Loans to Corporate Customers								
Food and farm products	22,741,633	10.9	20,956,404	12.9	7,881,881	7.4	6,766,368	11.3
Consumer electronics, appliances and computers	24,321,314	11.6	18,459,411	11.3	13,135,208	12.3	9,418,115	15.7
Residential and commercial construction and development	16,388,681	7.8	12,119,200	7.4	7,167,974	6.7	713,320	1.2
Construction and decorative materials, furniture	11,240,269	5.4	10,813,405	6.6	6,643,890	6.2	4,090,780	6.8
Clothing, shoes, textiles and sporting goods	11,292,550	5.4	9,149,182	5.6	6,320,591	6.0	3,399,728	5.7
Industrial equipment and machinery	11,965,850	5.7	8,318,855	5.1	4,946,366	4.6	2,822,333	4.7
Property rental	8,679,360	4.1	8,164,457	5.0	5,650,503	5.3	1,255,519	2.1
Pharmaceutical and medical products	6,694,118	3.2	6,099,881	3.7	1,390,506	1.3	638,306	1.1
Automotive, motorcycles and spare parts	4,767,554	2.3	5,396,030	3.3	3,431,007	3.2	2,726,147	4.4
Services	8,346,712	4.0	4,809,991	3.0	2,720,873	2.6	1,842,839	3.1
Equipment leasing	3,237,434	1.5	4,443,980	2.7	4,031,825	3.8	1,773,504	3.0
Consumer chemicals, perfumes and hygiene products	5,404,801	2.6	4,023,559	2.5	4,578,510	4.3	2,753,586	4.5
Paper, stationery and packaging products	4,513,510	2.2	4,001,577	2.5	3,014,739	2.8	2,614,697	4.3
Metallurgical	7,640,684	3.7	3,681,045	2.3	3,203,615	3.0	1,740,984	2.9
Oil and industrial chemicals	4,164,146	2.0	3,182,725	2.0	2,918,276	2.8	1,764,246	2.9
industrial and infrastructure construction	3,554,283	1.7	1,510,690	0.9	773,780	0.7	270,661	0.5
Financial	1,201,456	0.6	1,424,049	0.9	5,895,633,	5.5	19,663	0.0
Telecommunications	632,047	0.3	1,340,167	0.8	1,531,982,	1.4	1,576,154	2.6
Gardening and pet products	1,089,694	0.5	942,175	0.6	516,667	0.5	321,242	0.5
Books, video, print and copy	554,022	0.3	526,557	0.3	310,410	0.3	398,840	0.7
Electric utility	3,419,446	1.6	–	–	498,302	0.5	2,013,045	3.3
Products for home, gifts, jewellery and business accessories	1,225,161	0.6	408,239	0.3	346,555	0.3	236,131	0.4
Other	2,372,153	1.1	3,072,679	1.9	1,408,513	1.3	932,198	1.6
Total loans to corporate customers	**165,446,878**	**79.1**	**132,844,258**	**81.6**	**88,317,606**	**82.8**	**50,088,406**	**83.3**
Total loans to customers before provision for loan impairment	**209,258,690**	**100.0**	**162,702,253**	**100.0**	**106,645,418**	**100.0**	**60,114,716**	**100.0**

The majority of CBM's loan portfolio consists of loans to corporate clients. Loans to corporate clients represented 79.1%, 81.6%, 82.8% and 83.3% of CBM's gross loans to customers as at 30 September 2012 and 31 December 2011, 2010 and 2009, respectively. Loans to individuals increased to 20.9% of the gross loan portfolio as at 30 September 2012 from 18.4% as at 31 December 2011, primarily due to the addition of new retail borrowers as a result of CBM's strategy to expand its retail banking business.

A large portion of CBM's client base is comprised of large Moscow-based wholesale and retail trading companies. While these companies operate in a range of sectors within the Russian economy, significant portions of them are concentrated in particular sectors. As at 30 September 2012, the five largest economic sectors represented in CBM's corporate banking loan portfolio collectively accounted for 41.4% of CBM's total gross loan portfolio. These sectors were: consumer electronics, appliances and computers; food and farm products; residential and commercial construction and development; industrial equipment and machinery; and clothing, shoes, textiles and sporting goods. For the years ended 31 December 2011, 2010 and 2009, the five largest economic sectors represented in CBM's corporate banking loan portfolio accounted for 43.9%, 38.6% and 44.1%, respectively, of CBM's total gross loan portfolio. See "*Risk Factors – Risks Relating to CBM's Business and Industry – The industry and key client concentration in CBM's loan and deposit portfolio could adversely affect CBM's business and financial condition*".

Distribution of Loans by Geographic Location of Borrower

Substantially all of CBM's loans are to borrowers located in Russia. As at 30 September 2012, 95.9% of CBM's gross loans to customers were to borrowers located in Russia, as compared to 96.6%, 99.6% and 99.6% as at 31 December 2011, 2010 and 2009. The following table sets forth the distribution of CBM's loans by geographical location of the borrower as at the dates indicated:

	As at 30 September (Unaudited) 2012		As at 31 December					
			2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Russia	195,882,877	95.9	153,650,417	96.6	103,401,019	99.6	58,084,109	99.6
OECD	5,985,293	2.9	4,236,030	2.7	451,290	0.4	–	–
Other non-OECD	2,477,755	1.2	1,133,374	0.7	–	–	206,406	0.4
Total net loans to customers	**204,345,925**	**100.0**	**159,019,821**	**100.0**	**103,852,309**	**100.0**	**58,290,515**	**100.0**

Distribution of Loans by Maturity

Of CBM's net loan portfolio as at 30 September 2012, RUB 72.3 billion or 35.4% had a maturity of more than one year, RUB 32.0 billion or 15.6% had a maturity profile of between six months and one year, RUB 35.9 billion or 17.6% had a maturity of between three months and six months and RUB 62.2 billion or 30.5% had a maturity of between one day and three months. Of CBM's net loan portfolio as at 31 December 2011, RUB 57.2 billion or 36.0% had a maturity of more than one year, RUB 28.2 billion or 17.8% had a maturity of between six months and one year, RUB 32.4 billion or 20.3% had a maturity of between three month and six months, RUB 39.7 billion or 25.0% had a maturity of between one day and three months. See "*Risk Management – Liquidity Risk*".

Non-Performing Loans to Customers

NPLs represent loans with payments of principal and/or interest overdue by more than 90 days. The level of CBM's NPLs as a percentage of total gross loans to customers was 1.2%, 1.2%, 1.5% and 3.0% as at 30 September 2012 and 31 December 2011, 2010 and 2009. NPLs in CBM's corporate loan portfolio accounted for 0.4% of total gross loans to customers as at 30 September 2012, as compared to 0.3% as at 31 December 2011, 0.4% as at 31 December 2010 and 0.8% as at 31 December 2009. NPLs in CBM's retail loan portfolio accounted for 0.8% of total gross loans to customers as at 30 September 2012, as compared to 0.8% as at 31 December 2011, 1.1% as at 31 December 2010 and 2.2% as at 31 December 2009.

The following tables set forth CBM's outstanding NPLs as at the dates indicated:

	Gross NPLs	Provision for impairment	Net NPLs	Provision for impairment to gross NPLs
	RUB thousands, except percentages			
Loans to corporate customers	835,116	(268,170)	566,946	32.1%
Consumer and other loans to individuals	1,069,528	(920,916)	148,612	86.1%
Mortgage loans to individuals	612,214	(263,775)	348,439	43.1%
Auto loans to individuals	52.277	(31,920)	20,357	61.1%
Total non-performing loans to customers as at 30 September 2012	**2,569,135**	**(1,484,781)**	**1,084,354**	**57.8%**

	Gross NPLs	Provision for impairment	Net NPLs	Provision for impairment to gross NPLs
	RUB thousands, except percentages			
Loans to corporate customers	475,208	(85,996)	389,212	18.1%
Consumer and other loans to individuals	720,574	(530,912)	189,662	73.7%
Mortgage loans to individuals	541,478	(232,681)	308,797	43.0%
Auto loans to individuals	27,763	(16,221)	11,542	58.4%
Total non-performing loans to customers as at 31 December 2011	**1,765,023**	**(865,810)**	**899,213**	**49.1%**

	Gross NPLs	Provision for impairment	Net NPLs	Provision for impairment to gross NPLs
	RUB thousands, except percentages			
Loans to corporate customers	434,548	(362,981)	71,567	83.5%
Consumer and other loans to individuals	221,828	(168,353)	53,475	75.9%
Mortgage loans to individuals	894,486	(422,172)	472,314	47.2%
Auto loans to individuals	76,934	(66,003)	10,931	85.8%
Total non-performing loans to customers as at 31 December 2010	**1,627,796**	**(1,019,509)**	**608,287**	**62.6%**

	Gross NPLs	Provision for impairment	Net NPLs	Provision for impairment to gross NPLs
	RUB thousands, except percentages			
Loans to corporate customers	490,359	(203,614)	286,745	41.5%
Consumer and other loans to individuals	294,731	(252,071)	42,660	85.5%
Mortgage loans to individuals	851,733	(355,309)	496,424	41.7%
Auto loans to individuals	156,802	(117,023)	39,779	74.6%
Total non-performing loans to customers as at 31 December 2009	**1,793,625**	**(928,017)**	**865,608**	**51.7%**

Renegotiated Loans

CBM's loan portfolio includes loans that have been renegotiated and would otherwise be included in NPLs or impaired. As at 30 September 2012, CBM's renegotiated loans amounted to RUB 902 million, as compared to RUB 905 million as at 31 December 2011, RUB 1.2 billion as at

31 December 2010 and RUB 656 million as at 31 December 2009. Such renegotiating activity typically involves agreeing a new repayment schedule with the borrower in order to enable the borrower to return to the original payment schedule and is aimed at managing customer relationships and maximizing the quality of the loan portfolio. Renegotiated loans are included in loans not past due unless the borrower is unable to comply with the renegotiated terms.

NPLs together with renegotiated loans amounted to RUB 3.5 billion, or 1.7% of the gross loan portfolio, as at 30 September 2012, as compared to RUB 2.7 billion, or 1.6% of the gross loan portfolio, RUB 2.9 billion or 2.7% of the loan portfolio, and RUB 2.4 billion, or 4.1% of the gross loan portfolio, as at 31 December 2011, 2010 and 2009, respectively.

Provision for Loan Impairment

A provision is recognised in CBM's consolidated statement of financial position when CBM 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. The following tables set forth an analysis of the changes in CBM's provision for loan impairment for the periods indicated:

	Amount	% of gross loans to customers
	RUB thousands	
Provision for loan impairment as at 1 January 2012	**3,682,432**	**2.3**
Net provision charge for impairment during the period	1,715 400	–
Loans and advances written off during the period	(485,067)	–
Provision for loan impairment as at 30 September 2012	**4,912,765**	**2.3**

	Amount	% of gross loans to customers
	RUB thousands	
Provision for loan impairment as at 1 January 2011	**2,793,109**	**2.6**
Net provision charge for impairment during the period	1,283,719	–
Loans and advances written off during the period	(394,396)	–
Provision for loan impairment as at 31 December 2011	**3,682,432**	**2.3**

	Amount	% of gross loans to customers
	RUB thousands	
Provision for loan impairment as at 1 January 2010	**1,824,201**	**3.0**
Net provision charge for impairment during the period	1,539,798	–
Loans and advances written off during the period	(570,890)	–
Provision for loan impairment as at 31 December 2010	**2,793,109**	**2.6**

	Amount	% of gross loans to customers
	RUB thousands	
Provision for loan impairment as at 1 January 2009	**506,140**	**1.3**
Net provision charge for impairment during the period	2,465,362	–
Loans and advances written off during the period	(1,147,301)	–
Provision for loan impairment as at 31 December 2009	**1,824,201**	**3.0**

CBM's provision for loan impairment increased by 33.4% to RUB 4.9 billion as at 30 September 2012, from RUB 3.7 billion as at 31 December 2011, due to increased lending volumes by CBM. The effective provision rate for loans to customers was 2.3% both as at 30 September 2012 and as at 31 December 2011.

CBM's provision for loan impairment increased by 31.8% to RUB 3.7 billion as at 31 December 2011, from RUB 2.8 billion as at 31 December 2010, due to increased lending volumes by CBM. The effective provision rate for loans to customers decreased to 2.3% as at 31 December 2011 from 2.6% as at 31 December 2010.

CBM's provision for loan impairment increased to RUB 2.8 billion as at 31 December 2010, representing a 53.1% increase from RUB 1.8 billion as at 31 December 2009. This increase primarily reflected an increase in the volume of CBM's loans which grew by 77.4% from 31 December 2009 to 31 December 2010. The effective provision rate for loans to customers decreased to 2.6% as at 31 December 2010 from 3.0% as at 31 December 2009. In 2010, CBM wrote off RUB 41.9 million of losses (of which RUB 1.7 million was interest) related to a default by the Russian company "Capital Tour" on loans directly provided by CBM to "Capital Tour" of a principal amount of RUB 40.2 million as at the date of write-off.

During the most acute period of the global financial crisis in 2008 and 2009, certain of CBM's clients defaulted on their debt obligations to CBM. The largest such default occurred in 2009 and accounted for RUB 1.2 billion. In 2009 CBM repossessed and sold assets of this customer in an amount of RUB 0.8 billion and the remainder of the loan loss was covered in full by CBM's provisions for loan impairment.

CBM's ratio of total impairment allowance to overdue loans (classified as overdue by one day or more) was 133.0%, 141.5%, 128.0% and 79.7% as at 30 September 2012 and 31 December 2011, 2010 and 2009, respectively. CBM's ratio of total impairment allowance to NPLs was 191.2%, 208.6%, 171.6% and 101.7% as at 30 September 2012 and 31 December 2011, 2010 and 2009, respectively.

Cash and Cash Equivalents

Cash and cash equivalents represent items that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value. As at 30 September 2012, CBM had cash and cash equivalents of RUB 25.6 billion compared with RUB 34.4 billion as at 31 December 2011, representing a decrease of 25.8%. This decrease was primarily due to CBM using its excess liquidity to increase the size of its loan portfolio in the first nine months of 2012 and was also due to an increase in longer-term lending to financial institutions, as reflected in the increase in amounts due from credit institutions between these dates. In addition, cash and cash equivalents are typically higher at the year-end than during earlier parts of a year because CBM collects a higher proportion of revenues from its customers and counterparties near the end of a year. As at 31 December 2011, CBM had cash and cash equivalents of RUB 34.4 billion, representing an increase of 47.6% from RUB 23.3 billion as at 31 December 2010, reflecting a RUB 6.8 billion, or 87.8%, increase in total amounts due from credit institutions with a maturity of less than one month, RUB 3.3 billion, or 85.8% increase of cash on hand and RUB 3.2 billion, or 147.1%, increase in Nostro accounts with other banks. As at 31 December 2010, CBM had cash and cash equivalents of RUB 23.3 billion, representing an increase of 170.4%, or RUB 14.7 billion from the corresponding figure as at 31 December 2009, reflecting a 167.6% increase in amounts held in the correspondent account with the CBR and a 2,213.7% increase in total amounts due from credit institutions with a maturity of less than one month, which was a result of an increase in deposits by customers, debt securities issued and deposits by credit institutions and the CBR during this period.

Obligatory Reserves with the CBR

As at 30 September 2012, CBM had obligatory reserves with the CBR of RUB 2.5 billion, representing an increase of 10.2% from RUB 2.3 billion at 31 December 2011. As at 31 December 2011, CBM had obligatory reserves with the CBR of RUB 2.3 billion, representing an increase of 198.6% from RUB 757 million as at 31 December 2010. This significant increase was primarily attributable to the CBR having increased its obligatory reserve rate from 2.5% as at 31 December 2010 to 4% (for individuals and financial institutions) and 5.5% (for legal entities) effective as from 1 April 2011. This increase can also partially be attributed to the accumulation of reserves during 2011 for a group of corporate deposits with a maturity of more than three years due to the early redemption of a portion of the deposits from this group. As at 31 December 2010, CBM had obligatory reserves with the CBR of RUB 757 million, representing an increase of 88.7%, or RUB 355.6 million, from the corresponding figure of RUB 401.0 million as at 31 December 2009. This was a result of the 105.1% increase in deposits by customers as at 31 December 2010, which increased the amount of reserves which CBM was required to have with the CBR.

Due from Other Credit Institutions

As at 30 September 2012, CBM had amounts due from other credit institutions of RUB 12.5 billion, representing an increase of 136.4% from RUB 5.3 billion at 31 December 2011. This increase was the result of the development of CBM's activities in the interbank borrowing and repo markets. As at 31 December 2011, CBM had amounts due from other credit institutions of RUB 5.3 billion, representing an increase of 803.2% from RUB 587 million as at 31 December 2010. This increase was a result of a RUB 2.8 billion increase in term deposits placed with high quality credit institutions rated from BBB+ to BBB- and a RUB 1.4 billion increase in term deposits placed with credit institutions rated from B+ to B-, both of which were in turn attributable to the recovery of the market for interbank borrowings following the most acute stage of the global financial crisis.

As at 31 December 2010, the total amount of deposits due from other credit institutions was RUB 587 million, representing a 38.7% decrease of RUB 370.7 million from RUB 958 million as at 31 December 2009. This decrease reflects CBM's decision to allocate a larger amount of its excess liquidity toward the acquisition of financial instruments at fair value through profit or loss and toward lending to corporate clients during 2010.

Securities Portfolio

As part of its liquidity management activities, CBM engages in the trading of Russian debt securities. CBM aims to invest in blue chip debt securities for these purposes. CBM's securities portfolio comprised 9.8% of CBM's total assets as at 30 September 2012 and 10.7%, 19.3% and 18.0% of CBM's total assets as at 31 December 2011, 2010 and 2009, respectively. CBM classifies its securities portfolio into two parts: securities designated at fair value through profit or loss and investment securities available-for-sale.

CBM's securities portfolio consists primarily of Russian government and municipal securities, corporate bonds and promissory notes of Russian banks. As at 30 September 2012, 89.9% of CBM's total securities designated at fair value through profit or loss consisted of highly liquid securities from the CBR Lombard and Repo lists, which are eligible for repo transactions, which gives CBM the flexibility to seek liquidity from the CBR if required, but also reflects the fact that the securities can be relatively easily exchanged for cash in the relevant market.

As at each of 30 September 2012 and 31 December 2011, 100% of CBM's securities portfolio consisted of securities of Russian issuers. As at each of December 2010 and 2009, over 99% of CBM's securities portfolio consisted of securities of Russian issuers, with the remainder being securities of non-Russian issuers.

The following table sets forth information relating to securities held in each of the two categories set forth below as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December					
	2012		2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Securities designated at fair value through profit or loss	21,123,909	77.3	22,783,760	91.8	27,475,153	86.0	12,472,290	79.4
Securities available-for-sale	6,190,115	22.7	2,030,678	8.2	4,461,645	14.0	3,235,045	20.6
Total securities portfolio	**27,314,024**	**100.0**	**24,814,438**	**100.0**	**31,936,798**	**100.0**	**15,707,335**	**100.0**

CBM's portfolio of financial instruments at fair value through profit or loss and available-for-sale securities increased by 10.1% to RUB 27.3 billion as at 30 September 2012, from RUB 24.8 billion as at 31 December 2011, mainly due to a RUB 4.2 billion increase in securities available-for-sale, which increase was offset in part by a decrease of RUB 1.7 billion in securities designated at fair value through profit or loss. CBM's total securities portfolio decreased 22.3% to RUB 24.8 billion as at 31 December 2011, from RUB 31.9 billion as at 31 December 2010, due to decreases in both securities designated at fair value through profit or loss and securities available-for-sale reflecting CBM's decision to use a higher proportion of its liquidity during this period for its core business of providing loans to customers. The total securities portfolio increased significantly by 103.3% to RUB 31.9 billion as at 31 December 2010, from RUB 15.7 billion as at 31 December 2009. This increase was due to CBM's increased use of financial instruments at fair value through profit or loss and available-for-sale securities to support its liquidity during this period. In addition, funds received by CBM on the international and local debt markets were invested in interest bearing financial instruments in order to generate higher returns.

Securities Designated at Fair Value Through Profit or Loss

Securities designated at fair value through profit or loss are securities designated (irrevocably) by CBM's management as such at the time of acquisition. In accordance with IFRS, CBM's management designates securities into this category only if a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with CBM's policy for securities portfolio classification, and information on that basis is regularly provided to and reviewed by CBM's key management. Securities designated at fair value through profit or loss constitute the largest component of CBM's total securities portfolio, representing 77.3% of the total securities portfolio as at 30 September 2012 and 91.8%, 86.0% and 79.4% as at 31 December 2011, 2010 and 2009, respectively.

The following table sets forth information relating to CBM's securities designated at fair value through profit or loss as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December					
	2012		2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Federal loan bonds (OFZ bonds)	5,066,300	24.0	9,286,846	40.8	6,960,112	25.3	1,776,250	14.2
Corporate bonds	15,239,517	72.1	10,407,649	45.7	16,395,094	59.7	9,338,018	74.9
Russian government Eurobonds	47	0.0	1,789,318	7.8	2,059,403	7.5	–	–
Municipal and sub-federal bonds	818,026	3.9	1,299,924	5.7	2,060,544	7.5	1,358,022	10.9
Equity investments	19	0.0	23	0.0	–	–	–	–
Total securities designated at fair value through profit or loss	**21,123,909**	**100.0**	**22,783,760**	**100.0**	**27,475,153**	**100.0**	**12,472,290**	**100.0**

CBM's total amount of financial instruments at fair value through profit or loss as at 30 September 2012 was RUB 21.1 billion, representing a 7.3% decrease from RUB 22.8 billion as at 31 December 2011. CBM's total amount of financial instruments at fair value through profit or loss as at 31 December 2011 was RUB 22.8 billion, representing a 17.1% decrease from RUB 27.5 billion as at 31 December 2010. These decreases reflect CBM's decision to allocate more of its excess liquidity to lending to its customers during this period, as opposed to holding its excess liquidity in financial instruments at fair value through profit or loss. CBM's total amount of financial instruments at fair value through profit or loss increased by 120.3% to RUB 27.5 billion as at 31 December 2010 from RUB 12.5 billion as at 31 December 2009. The increase between 31 December 2010 and 31 December 2009 resulted primarily from CBM placing its excess liquidity in such instruments and the increase in the value of such instruments during the period. As part of its liquidity management plan, CBM accumulated this portfolio of highly liquid instruments in order to serve as a liquidity cushion. In addition, CBM has pledged certain of these financial instruments as security for interbank and other loans, or under sale and repurchase agreements. As at 30 September 2012, 89.9% of CBM's total securities designated at fair value through profit or loss held are included in the CBR's Lombard and Repo lists. See "*Business – Financial Markets, Treasury and Trading Securities*".

Available-for-sale Securities

Investment securities available-for-sale includes securities that CBM intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The following table sets forth information relating to CBM's securities available-for-sale as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December					
	2012		2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Federal loan bonds (OFZ bonds)	–	–	–	–	50,529	1.1	47,794	1.4
Corporate bonds	4,397,196	71.0	1,993,395	98.2	4,334,177	97.2	975,497	30.2
Russian government Eurobonds	–	–	–	–	–	–	1,601,720	49.5
Municipal and sub-federal bonds	10,490	0.2	10,277	0.5	17,140	0.4	473,429	14.6
Promissory notes	1,754,923	28.4	–	–	–	–	66,580	2.1
Total debt securities available-for-sale	**6,162,609**	**99.6**	**2,003,672**	**98.7**	**4,401,846**	**98.7**	**3,165,020**	**97.8**
Equity investments	27,506	0.4	27,006	1.3	59,799	1.3	70,025	2.2
Total securities available-for-sale	**6,190,115**	**100.0**	**2,030,678**	**100.0**	**4,461,645**	**100.0**	**3,235,045**	**100.0**

Available-for-sale securities as at 30 September 2012 increased by 204.8% to RUB 6.2 billion, from available-for-sale securities of RUB 2.0 billion as at 31 December 2011. This increase reflects CBM's decision to place its excess liquidity in such securities and the increase in the value of such securities between the two periods. Available-for-sale securities as at 31 December 2011 amounted to RUB 2.0 billion representing a 54.5% decrease from RUB 4.5 billion as at 31 December 2010. This decrease reflects CBM's decision to allocate more of its excess liquidity to lending to clients in 2011 as compared to 2010, as opposed to holding its liquidity in the form of securities available-for-sale. Available-for-sale securities as at 31 December 2010 amounted to RUB 4.5 billion representing a 37.9% increase from RUB 3.2 billion as at 31 December 2009, resulting primarily from CBM placing its excess liquidity in such securities and the increase in the value of such securities during the period.

Property and Equipment

CBM's property and equipment consists of buildings, vehicles (including armoured cash collection vehicles), ATMs, payment terminals, computers and office equipment, furniture and other property and construction in progress. As at 30 September 2012, CBM's net value for property and equipment after accumulated depreciation was RUB 5.3 billion. Property and equipment after accumulated depreciation was RUB 5.0 billion as at 31 December 2011, compared with RUB 4.3 billion as at

31 December 2010 and RUB 2.6 billion as at 31 December 2009. The increases in the value of CBM's property and equipment from 2009 to 2012 are primarily attributable to additions that have been made in order to support the expansion of CBM's business.

Other Assets

Other assets primarily include receivables, property held for sale, prepaid expenses and intangible assets.

Total Liabilities

The following table sets forth the principal components of CBM's total liabilities as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December					
	2012		2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Deposits by the Central Bank of the Russian Federation	3,005,943	1.2	–	–	–	–	6,129,195	8.1
Deposits by credit institutions	31,593,690	13.0	24,964,128	12.1	27,863,284	18.3	11,052,903	14.5
Deposits by customers	164,592,962	67.9	146,690,886	70.9	95,088,028	62.7	45,624,691	60.0
Debt securities issued	38,036,746	15.7	31,118,869	15.1	27,251,096	18.0	12,385,902	16.3
Deferred tax liability	2,427,071	1.0	2,074,397	1.0	493,903	0.3	250,262	0.3
Current tax liability	–	–	15,870	0.0	142,237	0.1	153,797	0.2
Other liabilities	2,951,214	1.2	1,898,697	0.9	865,000	0.6	418,804	0.6
Total liabilities	**242,607,626**	**100.0**	**206,762,847**	**100.0**	**151,703,548**	**100.0**	**76,015,554**	**100.0**

As at 30 September 2012, CBM had total liabilities of RUB 242.6 billion, compared to RUB 206.8 billion as at 31 December 2011. The increase in total liabilities as at 30 September 2012 by RUB 35.8 billion, or 17.3%, was primarily due to a RUB 11.6 billion increase in amounts due to individuals, a RUB 6.3 billion increase in amounts due to corporate customers and a RUB 6.6 billion increase in amounts due to other banks. As at 31 December 2011, CBM had total liabilities of RUB 206.8 billion, compared to RUB 151.7 billion and RUB 76.0 billion as at 31 December 2010 and 2009, respectively. The increase in total liabilities in 2011 by RUB 55.1 billion, or 36.3%, was primarily due to a RUB 34.6 billion increase in amounts due to individuals. The increase by 99.6% to RUB 151.7 billion as at 31 December 2010 from RUB 76.0 billion as at 31 December 2009 was due to a large increase in deposits by customers (primarily corporate customers), deposits by credit institutions and debt securities issued.

Deposits by the CBR

Prior to the global economic crisis, CBM did not have any significant dealings with the CBR beyond its regulatory function. During the most acute stage of the global financial crisis, CBM used the credit lines provided by the CBR in order to fund further growth of CBM. As at 30 September 2012, CBM had RUB 3.0 billion of deposits from the CBR, as compared to nil, nil and RUB 6.1 billion as at 31 December 2011, 2010 and 2009, respectively. These balances were nil at 31 December 2010 and 2011 due to CBR funding having been repaid as at those respective dates.

Deposits by Credit Institutions

Deposits by credit institutions includes demand and term deposits, syndicated loans, subordinated loans and payables under repurchase agreements. Deposits by credit institutions represented 13.0% of CBM's total liabilities as at 30 September 2012 and 12.1%, 18.4% and 14.5% of total liabilities as at 31 December 2011, 2010 and 2009, respectively. The following table provides a breakdown of CBM's deposits by credit institutions as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December					
	2012		2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Demand deposits	170,396	0.5	64,496	0.3	53,986	0.2	36,473	0.3
Term deposits	20,706,104	65.5	18,168,718	72.8	10,194,233	36.6	5,291,736	47.9
Syndicated loans	5,335,452	16.9	5,421,197	21.7	5,213,680	18.7	1,825,518	16.5
Payables under repurchase agreements	4,131,217	13.1	–	0.0	11,166,555	40.1	3,294,292	29.8
Subordinated debt	1,250,521	4.0	1,309,717	5.2	1,234,830	4.4	604,884	5.5
Total deposits by credit institutions	**31,593,690**	**100.0**	**24,964,128**	**100.0**	**27,863,284**	**100.0**	**11,052,903**	**100.0**

As at 30 September 2012, deposits by credit institutions were RUB 31.6 billion representing an increase of 26.6% from RUB 25.0 billion as at 31 December 2011. This increase was in line with the growth of CBM's business with the percentage of deposits by credit institutions to total liabilities increasing slightly to 13.0% as at 30 September 2012 from 12.1% 31 December 2011. As at 31 December 2011, deposits by credit institutions were RUB 25.0 billion representing a decrease of 10.4% from RUB 27.9 million billion as at 31 December 2010, attributable to a decrease in payables under repurchase agreements, with repurchase agreements being used less as a source of funding by CBM during this period due to an increase in customer deposits. Deposits by credit institutions totalled RUB 27.9 billion as at 31 December 2010, representing an increase of RUB 16.8 billion or 152.1% from RUB 11.1 billion as at 31 December 2009. The main contributing factor to this increase was an increase in payables under repurchase agreements, in particular an increase in the refinancing of Russian Government Federal bonds pledged under repurchase agreements, as well as an increase in borrowings through syndicated loans, including the drawdown of US$143.3 million on the syndicated loan obtained by CBM in 2010.

As at 30 September 2012, there were two counterparties (compared to two as at 31 December 2011, three as at 31 December 2010 and two as at 31 December 2009) whose balances exceeded 10.0% of CBM's total deposits by credit institutions. The aggregate value of the facilities of counterparties whose balances exceeded 10.0% of CBM's total deposits by credit institutions as at 30 September 2012 was RUB 11.8 billion, as compared with RUB 8.9 billion as at 31 December 2011, RUB 14.4 billion as at 31 December 2010 and RUB 4.0 billion as at 31 December 2009.

Term Deposits

Term deposits include trade finance, bilateral loans from international financial institutions and development banks, and interbank loans. CBM's term deposits from credit institutions were RUB 20.7 billion as at 30 September 2012, as compared to RUB 18.2 billion, RUB 10.2 billion and RUB 5.3 billion as at 31 December 2011, 2010 and 2009, respectively.

CBM has the following outstanding loans and loan facilities from international financial institutions and development banks:

- *IFC*. CBM's cooperation with IFC began in 2004 with the entry into a US$10 million SME lending facility. Since then CBM has entered into several financing transaction with IFC. The outstanding transactions include a mortgage financing facility extended in 2005 in the amount of US$5 million, which was the first housing finance loan to a Russian-owned bank, and a US$40 million 5-year loan granted by IFC as part of CBM's 2010 syndicated loan transaction discussed above. In addition, since February 2006 CBM has been working with IFC as the issuing bank under its Global Trade Finance Programme, which provides support for trade finance operations worldwide, with a facility limit for CBM in the amount of US$140.0 million, increased from US$ 100.0 million in October 2010. CBM was the first Russian-owned bank to receive a

mortgage facility from IFC and the first Russian bank to participate in its Global Trade Finance Programme. IFC currently beneficially owns 7.5% of CBM's equity as a result of its 2.9% direct shareholding and the 4.6% shareholding of the IFC Russian Bank Capitalization Fund. See "*Shareholders*".

- *EBRD*. CBM's cooperation with EBRD began in 2005 when CBM joined EBRD's Trade Facilitation Programme. Currently CBM has a US$100.0 million facility under this programme, with a maximum tenor of three years. The programme limit has been increased at various stages from its initial level of US$15 million in 2005. Since 2005 CBM has been engaged in various projects with EBRD, including several SME financing facilities, a subordinated loan and a syndicated loan. Outstanding transactions with EBRD include a US$5.0 million five year facility for on-lending to local SMEs, which was the second such facility obtained by CBM from EBRD, and a five year US$20.0 million credit line opened in 2010, also designated for SME financing. EBRD currently beneficially owns 7.5% of CBM's equity. See "*Shareholders*".
- *BSTDB*. Cooperation between CBM and the Black Sea Trade and Development Bank ("**BSTDB**") began in 2008, when CBM received a US$20 million loan from BSTDB for the purpose of SME financing. In September 2010, this loan was converted into a US$20.0 million subordinated loan, repayable in 2017. In 2011 BSTDB granted a US$30.0 million revolving credit facility to CBM for a 6-year period to support the development of SMEs in Russia.

The total outstanding balance of the funding provided to CBM by EBRD, IFC and BSTDB under the above mentioned facilities, excluding guarantee facilities, amounts to US$110.0 million as at the date of this Prospectus.

Syndicated Loans

CBM has been active in the European syndicated loan market since 2003 and has obtained a total of 11 syndicated loans.

In October 2010, CBM obtained a US$170 million A/B structured syndicated loan. IFC, as lender of record, granted a US$40 million 5-year "A" loan, while a syndicate of 13 foreign banks granted a US$130 million one-year "B" loan. The interest rate was 3.25% over 6-month LIBOR. In October 2011, CBM repaid in full its one-year US$130 million B loan and obtained a new US$131 million "B" loan under this facility in November 2011. The new one-year B loan was syndicated to 13 foreign banks, with an interest rate of 2.55% over 6-month LIBOR. In November 2012, CBM repaid in full the new US$131 million B loan under this facility.

On 30 November 2012, CBM signed a one-year syndicated loan facility agreement in the amount of US$308 million arranged by Banc of America Securities Limited, Barclays Bank PLC, Commerzbank Aktiengesellschaft, GAZPROMBANK (Open Joint-stock Company), ING Bank N.V., Landesbank Berlin AG, Raiffeisen Bank International AG, Joint Stock Commercial Bank "ROSBANK" (Open joint-stock company), Standard Chartered Bank and VTB Bank (Deutschland) AG. The funds were received on 6 December 2012. The interest rate is 2.4% over 6-month LIBOR, and the proceeds of the loan will be used by CBM for financing trade transactions of its clients.

Deposits by Customers

CBM's main source of funding is current accounts and deposits by customers. The following table sets out the principal components of CBM's deposits by customers as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December					
	2012		2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Individuals								
Current/demand accounts	6,424,538	3.9	4,842,326	3.3	2,839,841	3.0	1,484,515	3.3
Term deposits	90,591,665	55.0	80,526,932	54.9	47,885,406	50.3	30,266,159	66.3
Total due to individuals	**97,016,203**	**58.9**	**85,369,258**	**58.2**	**50,725,247**	**53.3**	**31,750,674**	**69.6**
Corporate customers								
Current/settlement accounts	21,173,807	12.9	17,838,871	12.2	11,142,438	11.7	5,564,236	12.8
Term deposits	41,094,300	25.0	34,843,029	23.7	25,630,335	27.0	8,309,781	18.2
Subordinated	2,248,585	1.4	2,745,236	1.9	6,057,760	6.4	–	–
Term notes	3,060,067	1.8	5,894,492	4.0	1,532,248	1.6	–	–
Total due to corporate customers	**67,576,759**	**41.1**	**61,321,628**	**41.8**	**44,362,781**	**46.7**	**13,874,017**	**30.4**
Total due to individuals and corporate customers	**164,592,962**	**100.0**	**146,690,886**	**100.0**	**95,088,028**	**100.0**	**45,624,691**	**100.0**

Deposits by customers increased by 12.2% to RUB 164.6 billion as at 30 September 2012 from RUB 146.7 billion as at 31 December 2011. Deposits by customers increased by 54.3% to 146.7 RUB billion as at 31 December 2011 from RUB 95.1 billion as at 31 December 2010. Deposits by customers increased by 108.4% to RUB 95.1 billion as at 31 December 2010 from RUB 45.6 billion as at 31 December 2009. These increases were primarily attributable to the recovery of the Russian economy, increased confidence in the banking sector, relatively high interest rates, the addition of companies operating at the federal level in the Russian Federation as corporate customers, attractive and competitive facilities offered by CBM and an aggressive advertising campaign.

As at 30 September 2012, the average maturity (excluding subordinated loans) of CBM's corporate and retail deposits was 219 days and 538 days, respectively, as compared to 258 and 574 days respectively as at 31 December 2011, 294 days and 498 days, respectively, as at 31 December 2010 and 252 days and 459 days, respectively as at 31 December 2009.

In each of the nine months ended 30 September 2012 and the years ended 31 December 2011, 2010 and 2009, deposits from individuals represented a larger share of CBM's total deposits by customers than deposits from corporate customers. Retail deposits represented 58.9%, 58.2%, 53.3% and 69.6% of CBM's total deposits by customers as at 30 September 2012 and 31 December 2011, 2010 and 2009, respectively. Corporate deposits represented 41.1%, 41.8%, 46.7% and 30.4% of CBM's total deposits by customers as at 30 September 2012 and 31 December 2011, 2010 and 2009, respectively. As at 30 September 2012, the average balance in CBM's corporate and retail deposits accounts was RUB 122.2 million and RUB 0.5 million, respectively, compared to RUB 84.5 million and RUB 0.4 million, respectively, as at 31 December 2011, RUB 65.2 million and RUB 0.4 million, respectively, as at 31 December 2010 and RUB 45.4 million and RUB 0.3 million, respectively, as at 31 December 2009.

CBM's controlling shareholder, Roman Avdeev, has since early 2010 made six capital contributions to CBM in the form of subordinated loans in an aggregate amount of RUB 8.3 billion. Four of such subordinated loans in amounts of RUB 1.5 billion each were made in 2010. Each of these loans matures in 2040, one of such subordinated loans in an amount of US$35 million with a term of 30 years was received in 2011, and a US$40 million subordinated loan with a term of 5.5 years was received in June 2012. Each of these subordinated loans was issued by Wellcreek Corporation, which is wholly-owned by Mr. Avdeev. In 2011, in line with IFRS rules with regard to the treatment of long-term loans, CBM converted part of these subordinated loans in the amount of RUB 3.5 billion

into additional paid-in-capital. In 2012 CBM converted another part of these subordinated loans in the amount of RUB 1.5 billion into additional paid-in-capital. The CBR has approved the early repayment of the US$40 million subordinated loan that was granted in June 2012, and CBM expects to repay it in the first half of 2013. See "– *Capital Adequacy*".

For information on the maturities of CBM's deposits by customers, see "*Risk Management – Liquidity Risk*".

Debt Securities in Issue

CBM issues debt securities in the domestic and international markets to fund the ongoing growth of its business operations. Debt securities issued represented 15.7% of CBM's total liabilities as at 30 September 2012, and 15.1%, 19.0% and 16.3% of total liabilities as at 31 December 2011, 2010 and 2009, respectively. As at 30 September 2012, 84% of CBM's debt securities in issue were denominated in Roubles, with the remaining 16% denominated in foreign currencies. The following table sets forth the principal components of CBM's debt securities issued as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December					
	2012		2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Promissory notes issued at nominal value	8,011,485	21.1	6,789,426	21.8	16,307,223	59.8	5,344,584	43.2
Accrued interest on promissory notes	9,502	0.0	32,768	0,1	215,005	0.8	–	–
Unamortised discount on promissory notes	(366,386)	(1.0)	(304,874)	(1.0)	(412,355)	(1.5)	(207,768)	(1.7)
Promissory notes after accrued interest and unamortised discount	**7,654,601**	**20.1**	**6,517,320**	**20.9**	**16,109,873**	**59.1**	**5,136,816**	**41.5**
Bonds issued	30,382,145	79.9	24,601,549	79.1	11,141,223	40.9	7,249,086	58.5
of which:								
Eurobonds	*6,037,374*	*15.9*	*6,416,132*	*20.6*	–	–	–	–
Other bonds	*24,344,771*	*64.0*	*18,185,418*	*58.5*	*11,141,223*	*40.9*	*7,249,086*	*58.5*
Total debt securities in issue	**38,036,746**	**100.0**	**31,118,869**	**100.0**	**27,251,096**	**100.0**	**12,385,902**	**100.0**

Debt securities issued by CBM increased by 22.2% to RUB 38.0 billion as at September 31, 2012 from RUB 31.1 billion as at 31 December 2011. Debt securities issued by CBM increased by 14.2% to RUB 31.1 billion as at 31 December 2011 from RUB 27.3 billion as at 31 December 2010. The increase in debt securities issued by CBM for the period from 31 December 2010 to 31 December 2011 is primarily attributable to CBM's US$200 million Eurobond issue in August 2011 in the form of an offering of loan participation notes by the Issuer. Debt securities issued by CBM as at 31 December 2010 amounted to RUB 27.3 billion, representing a 120.0% increase of RUB 14.9 billion over the corresponding figure as at 31 December 2009. This increase was due primarily to a 205.1% increase of issued promissory notes and two RUB bond issues, which were a means of obtaining additional liquidity, since they represented both a low-cost means of raising funding and they diversified the methods of funding which CBM utilised.

Domestic and International Capital Markets

CBM issues debt securities in the domestic and international markets to fund the ongoing growth of its business operations.

In October 2006, CBM made its debut US$100.0 million Eurobond issue in the form of an offering of loan participation notes by the Issuer. The US$100.0 million Eurobond issue was fully repaid in October 2009.

In August 2011, CBM made a US$200 million Eurobond issue in the form of loan participation notes issued by the Issuer. The notes mature in August 2014 and have an interest rate of 8.25%.

In April 2012, CBM issued domestic bonds in an amount of RUB 4 billion with a fixed coupon of 9.25% for the first year, and with coupon rate adjustments after each subsequent six-month period until the maturity in April 2015.

In September 2012, CBM issued domestic bonds in an amount of RUB 3 billion with a fixed coupon of 9.75% for the first year, and with coupon rate adjustments after each subsequent six-month period until maturity in September 2015.

In December 2012, CBM issued subordinated domestic bonds in an amount of RUB 3 billion with a fixed coupon of 12.25% and maturity in June 2018.

CBM is planning to issue domestic bonds in an amount of RUB 2 billion prior to 1 March 2013. CBM is in the process of submitting documents required for the state registration of this issue.

Promissory Notes

As at 30 September 2012, CBM had promissory notes outstanding in the amount of RUB 7.7 billion, after adding accrued interest and deducting for unamortised discount, as compared to RUB 6.5 billion, RUB 16.1 billion and RUB 5.1 billion as at 31 December 2011, 2010 and 2009, respectively.

Deferred Tax Liability

Deferred tax liability increased by 17% to RUB 2.4 billion as at 30 September 2012 from RUB 2.1 billion as at 31 December 2011. Deferred tax liability increased by 320 % to RUB 2.1 billion as at 31 December 2011 from RUB 494 million as at 31 December 2010. Deferred tax liability of CBM as at 31 December 2010 amounted to RUB 494 million, representing an increase of RUB 243.6 million over the corresponding figure as at 31 December 2009. The significant increase in deferred tax liability in 2011 was primarily related to the accumulation of deferred tax liability on discount on subordinated loans reported as additional paid in capital on CBM's balance sheet.

Current Tax Liability

Current tax liability was nil as at 30 September 2012, as compared to RUB 15.8 million as at 31 December 2011. Current tax liability decreased by 88.8% to RUB 15.8 million as at 31 December 2011 from RUB 142.2 million as at 31 December 2010. Current tax liability as at 31 December 2010 amounted to RUB 142.2 million representing a decrease of 7.5% or RUB 11.6 million with respect to the corresponding figure as at 31 December 2009.

Other Liabilities

Other liabilities increased by 55.4% to RUB 2.9 billion as at 30 September 2012 from RUB 1.9 billion as at 31 December 2011. Other liabilities increased during the nine months ended 30 September 2012 due to an increase in other reserves and accounts receivable related to letters of credit, factoring and cash collection and delivery transactions. Other liabilities increased by 119.5% to RUB 1.9 billion as at 31 December 2011 from RUB 865 million as at 31 December 2010. Other liabilities as at 31 December 2010 amounted to RUB 865.0 million, representing an increase of RUB 446.2 million over the corresponding figure as at 31 December 2009.

Equity

The following table sets forth CBM's equity as at the dates indicated:

	As at 30 September (Unaudited)	As at 31 December		
	2012	2011	2010	2009
	RUB thousands			
Share capital	13,539,763	11,638,088	7,138,088	7,138,088
Additional paid-in capital	9,019,295	3,699,047	162,686	162,686
Revaluation surplus for buildings	500,424	500,424	500,424	500,424
Revaluation reserve for available-for-sale securities	(7,302)	(53,017)	28,067	325,794
Retained earnings	13,585,794	9,823,365	5,937,830	2,916,454
Total equity	**36,637,974**	**25,607,906**	**13,767,095**	**11,043,446**

The total equity of CBM increased by 43.1% to RUB 36.6 billion as at 30 September 2012 from RUB 25.6 billion as at 31 December 2011. This increase was primarily attributable to additional issues of shares in a total amount of RUB 5.8 billion and conversion of subordinated shareholder loans into additional paid-in capital in a total amount of RUB 1.5 billion during the nine months

ended 30 September 2012. Total equity increased by 86% to RUB 25.6 billion as at 31 December 2011 from RUB 13.8 billion as at 31 December 2010. This increase was primarily attributable to additional issues of shares in a total amount RUB 4.5 billion and conversion of subordinated shareholder loans into additional paid-in capital in a total amount of RUB 3.5 billion during 2011. As at 31 December 2010, total equity amounted to RUB 13.8 billion, representing an increase of 24.7% from RUB 11.0 billion at 31 December 2009. This increase was attributable to an increase in retained earnings from RUB 2.9 billion as at 31 December 2009 to RUB 5.9 billion as at 31 December 2010.

Funding

CBM's funding base relies primarily on deposits from retail and corporate customers. Other sources of funding include its promissory note programme, issues of Rouble-denominated bonds and Eurobonds, funds raised on the Russian interbank market as well as funds raised from international financial institutions and in the form of syndicated loans from foreign banks. CBM also has access to funding from the CBR on a secured and unsecured basis, but in practice it generally does not utilise such funding.

CBM's funding strategy is to continue to develop a diversified funding policy in order to achieve an optimum balance between its own capital, domestic and international borrowings to cover the growing needs of CBM's business, both in terms of currency and maturity.

The following table sets out CBM's sources of funding as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December					
	2012		2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Deposits by banks and other financial institutions								
Term deposits from local banks	11,886,299	5.0	6,476,041	3.2	15,715,847	10.5	5,698,663	7.6
Trade finance	11,228,486	4.7	9,822,714	4.8	4,596,567	3.1	1,690,285	2.2
Vostro accounts	170,396	0.1	64,496	0.0	53,986	0.0	36,473	0.0
Term deposits from foreign banks	1,722,536	0.7	1,869,963	1.0	1,048,374	0.7	1,197,080	1.6
Total	**25,007,717**	**10.5**	**18,233,214**	**9.0**	**21,414,774**	**14.3**	**8,622,501**	**11.4**
Current accounts and deposits by customers								
Term deposits from corporate customers	41,094,300	17.3	34,843,029	17.2	25,630,335	17.1	8,309,781	11.1
Current and demand deposits from corporate customers	21,173,807	8.9	17,838,871	8.8	11,142,438	7.4	5,564,236	7.4
Retail term deposits	90,591,665	38.2	80,526,932	39.7	47,885,406	31.9	30,266,159	40.3
Current and demand deposits from retail customers	6,424,538	2.7	4,842,326	2.4	2,839,841	1.9	1,484,515	2.0
Term notes	3,060,067	1.3	5,894,492	2.9	1,532,248	1.0	–	0.0
Total	**162,344,377**	**68.4**	**143,945,650**	**71.0**	**89,030,268**	**59.3**	**45,624,691**	**60.8**
Debt securities issued								
Promissory notes[1]	7,654,601	3.2	6,517,320	3.2	16,109,873	10.7	5,136,816	6.8
Senior loan participation notes (Eurobonds)	6,037,374	2.5	6,416,132	3.1	–	–	–	–
Domestic bonds	24,344,771	10.3	18,185,417	9.0	11,141,223	7.4	7,249,086	9.6
Total	**38,036,746**	**16.0**	**31,118,869**	**15.3**	**27,251,096**	**18.1**	**12,385,902**	**16.4**
Other borrowings	–	–	–	–	–	–	–	–
Syndicated loans	5,335,452	2.2	5,421,197	2.7	5,213,680	3.5	1,825,518	2.4
Other borrowed funds (CBR)	3,005,943	1.3	–	–	–	–	6,129,195	8.2
Total	**8,341,395**	**3.5**	**5,421,197**	**2.7**	**5,213,680**	**3.5**	**7,954,713**	**10.6**
Subordinated borrowings (banks)	1,250,521	0.6	1,309,717	0.6	1,234,830	0.8	604,884	0.8
Subordinated borrowings (shareholder)	2,248,585	1.0	2,745,236	1.4	6,057,760	4.0	–	0.0
Total funding	**237,229,341**	**100.0**	**202,773,883**	**100**	**150,202,408**	**100**	**75,192,691**	**100**

Note:

(1) After adding accrued interest and deducting for unamortised discount.

CBM's main source of funding is current accounts and deposits by customers. As at 30 September 2012, current accounts and deposits by customers comprised 68.4% of CBM's total funding, as compared to 71.0%, 59.3% and 60.7% as at 31 December 2011, 2010 and 2009, respectively. Deposits and balances from banks and other financial institutions comprised 10.5% of CBM's total funding, as compared to 9.0%, 14.3% and 11.4% as at 31 December 2011, 2010 and 2009, respectively. Debt securities issued comprised 16.0%, 15.3%, 18.1% and 16.4% of CBM's total funding as at 30 September 2012 and 31 December 2011, 2010 and 2009, respectively. For further information on CBM's sources of funding, see *"– Financial Condition – Total Liabilities"*.

The following table sets out CBM's current accounts and deposits by customers, deposits and balances from banks and other financial institutions, debt securities issued, other borrowings and subordinated borrowings by currency as at the dates indicated.

	As at 30 September (Unaudited)		As at 31 December					
	2012		2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Funding by currency								
Roubles	183.1	77.2	154.5	76.2	119.5	79.6	54.9	73.0
Foreign currencies	54.1	22.8	48.2	23.8	30.7	20.4	20.3	27.0
Total funding	**237.2**	**100.0**	**202.7**	**100.0**	**150.2**	**100.0**	**75.2**	**100.0**

Analysis by Segment

CBM has five reportable business segments. These segments are defined on the basis of the organisational structure of CBM. For further information on CBM's operating segments, see Note 27 to the 2011 Annual Financial Statements and Note 21 to the Interim Financial Statements. CBM's five business segments have historically been defined as corporate banking, retail banking, cash operations, international business and treasury. Treasury is not a profit centre and its primary function is to support CBM's liquidity. CBM's treasury segment does not engage in speculative transactions and is not actively involved in brokerage activity, although it trades in securities for liquidity purposes and engages in derivative transactions to hedge foreign currency risk.

Corporate banking represented 40.7% of CBM's revenues for the nine months ended 30 September 2012, as compared to 44.0%, 38.9% and 33.5% for 2011, 2010 and 2009, respectively. Corporate banking represented 58.5% of CBM's total assets as at 30 September 2012, as compared to 56.4%, 52.4% and 54.0% as at 31 December 2011, 2010 and 2009, respectively.

Retail banking represented 41.1% of CBM's revenues for the nine months ended 30 September 2012, as compared to 39.2%, 33.3% and 29.1% for 2011, 2010 and 2009, respectively. Retail banking represented 15.6% of CBM's total assets as at 30 September 2012, as compared to 13.0%, 10.8% and 11.4% as at 31 December 2011, 2010 and 2009, respectively.

Treasury represented 7.9% of CBM's revenues for the nine months ended 30 September 2012, as compared to 8.5%, 18.8% and 22.2% for 2011, 2010 and 2009, respectively. Treasury represented 21.0% of CBM's total assets as at 30 September 2012, as compared to 24.7%, 31.4% and 29.7% as at 31 December 2011, 2010 and 2009, respectively.

The following tables set forth certain data for CBM's operating segments as at the dates and for the periods indicated:

	As at 30 September (Unaudited)		As at 31 December					
	2012		2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Segment assets								
Corporate banking	163,227,991	58.4	131,168,702	56.4	86,675,635	52.4	46,689,068	54.0
Retail banking	43,607,928	15.6	30,110,289	13.0	17,933,259	10.8	9,871,494	11.4
Treasury	58,505,628	21.0	57,314,123	24.7	51,965,735	31.4	25,673,818	29.7
International business	–	–	–	–	–	–	–	–
Cash operations	6,895,797	2.5	7,235,146	3.1	3,894,457	2.4	2,696,122	3.1
Unallocated	7,008,256	2.5	6,542,493	2.8	5,001,557	3.0	1,605,018	1.8
Total assets	**279,245,600**	**100.0**	**232,370,753**	**100.0**	**165,470,643**	**100.0**	**86,535,520**	**100.0**
Segment liabilities								
Corporate banking	67,576,759	27.9	61,321,627	29.7	42,830,533	28.2	13,865,315	18.1
Retail banking	97,016,203	40.0	85,369,257	41.3	50,725,247	33.4	31,372,727	41.0
Treasury	47,062,010	19.4	31,243,275	15.1	44,551,898	29.4	24,862,583	32.4
International business	25,574,369	10.5	24,839,723	12.0	12,094,730	8.0	5,190,420	6.8
Cash operations	–	–	–	–	–	–	–	–
Unallocated	5,378,285	2.2	3,988,965	1.9	1,501,140	1.0	1,293,002	1.7
Total liabilities	**242,607,626**	**100.0**	**206,762,847**	**100.0**	**151,703,548**	**100.0**	**76,584,047**	**100.0**

	For the nine months ended 30 September (Unaudited)				For the year ended 31 December					
	2012		2011		2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Segment revenue										
Corporate banking	9,653,145	40.7	7,421,235	45.5	10,367,530	44.0	6,660,819	38.9	4,006,990	33.5
Retail banking	9,730,176	41.1	6,498,926	39.8	9,224,479	39.2	5,704,095	33.3	3,485,250	29.1
Treasury	1,862,956	7.9	897,351	5.5	1,998,808	8.5	3,227,525	18.8	2,654,449	22.2
International business	1,607,105	6.8	924,889	5.7	1,136,386	4.9	953,725	5.5	1,338,312	11.2
Cash operations	841,129	3.5	573,069	3.5	811,113	3.4	592,333	3.5	443,952	3.7
Unallocated	–	–	–	–	–	–	–	–	33,142	0.3
Total segment revenue	**23,694,511**	**100.0**	**16,315,470**	**100.0**	**23,538,316**	**100.0**	**17,138,497**	**100.0**	**11,962,095**	**100.0**
Segment expenses										
Corporate banking	(3,674,941)	19.4	(2,679,439)	20.0	(3,692,917)	19.8	(3,004,601)	22.4	(2,150,789)	20.1
Retail banking	(9,242,332)	48.7	(6,287,147)	47.0	(8,907,982)	47.7	(6,114,175)	45.7	(4,169,890)	39.0
Treasury	(2,644,489)	13.9	(2,407,554)	18.0	(3,398,741)	18.2	(2,567,769)	19.2	(2,301399)	21.5
International business	(994,548)	5.2	(516,031)	3.9	(636,402)	3.4	(227,959)	1.7	(511,226)	4.8
Cash operations	(711,840)	3.8	(520,692)	3.9	(712,988)	3.8	(495,500)	3.7	(399,506)	3.8
Unallocated	(1,702,584)	9.0	(960,891)	7.2	(1,330,946)	7.1	(975,970)	7.3	(1,158,500)	10.8
Total segment expenses	**(18,970,734)**	**100.0**	**(13,371,754)**	**100.0**	**(18,679,976)**	**100.0**	**(13,385,974)**	**100.0**	**(10,691,310)**	**100.0**
Segment profit after tax										
Corporate banking	5,978,204	158.9	4,741,796	201.2	6,674,613	171.8	3,656,218	121.0	1,856,201	180.1
Retail banking	487,844	13.0	211,779	9.0	316,497	8.1	(410,080)	(13.6)	(684,640)	(66.4)
Treasury	(781,533)	(20.8)	(1,510,203)	(64.1)	(1,399,933)	(36.0)	659,756	21.8	353,050	34.3
International business	612,557	16.3	408,858	17.4	499,984	12.9	725,766	24.0	827,086	80.2
Cash operations	129,289	3.4	52,377	2.2	98,125	2.5	96,833	3.3	44,446	4.3
Unallocated	(2,663,931)	(70.8)	(1,548,145)	(65.7)	(2,303,752)	(59.3)	(1,707,117)	(56.5)	(1,365,365)	(132.5)
Total profit for the period after tax	**3,762,430**	**100.0**	**2,356,462**	**100.0**	**3,885,534**	**100.0**	**3,021,376**	**100.0**	**1,030,778**	**100.0**

Segment Revenue

The corporate banking segment's contribution to CBM's total revenue decreased to 40.7% in the nine months ended 30 September 2012, from 45.5% in the nine months ended 30 September 2011. This decrease was primarily due to expansion of CBM's retail banking business at a faster rate than expansion of the corporate banking business as between the two periods, as well as a 107.6% increase in treasury segment revenues from RUB 897 million for the nine months ended September 2011, to RUB 1.9 billion for the nine months ended 30 September 2012. The corporate banking segment's contribution to CBM's total revenue was 44.0%, 38.9% and 33.5% in 2011, 2010 and 2009, respectively. The increase from 2010 to 2011 was primarily due to an increase in the size of the corporate loan portfolio and growth of interest income from corporate loans, as well as a decrease in revenues from the treasury segment between the two years. The increase from 2009 to 2010 was primarily due to a decrease in international business revenues between the two years, as well as treasury revenues increasing a slower rate than corporate banking revenues.

The retail banking segment's contribution to CBM's total revenue increased to 41.1% in the nine months ended 30 September 2012, from 39.8% in the nine months ended 30 September 2011. The retail banking segment's contribution to CBM's total revenue was 39.2%, 33.3% and 29.1% in 2011, 2010 and 2009, respectively. The increases are primarily due to the expansion of CBM's retail banking business across these periods. The increase from 2010 to 2011 was also attributable to the decrease in treasury segment revenues between these two years. The increase from 2009 to 2010 was also attributable to a decrease in international business revenues between the two years, as well as treasury revenues increasing a slower rate than retail banking revenues.

The treasury segment's contribution to CBM's total revenue increased to 7.9% in the nine months ended 30 September 2012, from 5.5% in the nine months ended 30 September 2011. The increase was primarily attributable to income received as a result of the revaluation of the securities portfolio between the two periods. The treasury segment's contribution to CBM's total revenue was 8.5%, 18.8% and 22.2% in 2011, 2010 and 2009, respectively. The decrease from 2010 to 2011 was attributable to a decrease in segment revenues from 2010 to 2011, while all other segments had increases in revenues between these two years. The decrease from 2009 to 2010 was primarily attributable to growth in income from CBM's trade finance business.

The cash operations segment's contribution to CBM's total revenue was 3.5% in both the nine months ended 30 September 2012 and the nine months ended 30 September 2011. The cash operations segment's contribution to CBM's total revenue was 3.4%, 3.5% and 3.7% in 2011, 2010 and 2009, respectively. The consistency of the percentages across all periods reflects the growth of this business area in line with the general growth of CBM's overall banking business.

The international business segment's contribution to CBM's total revenue increased to 6.8% in the nine months ended 30 September 2012 from 5.7% the nine months ended 30 September 2011. The increase was primarily attributable to a growth in the revenue generated by CBM's trade finance business. The international business segment's contribution to CBM's total revenue was 4.8%, 5.6% and 11.2% in 2011, 2010 and 2009, respectively. The decrease in the international business segment's contribution from 31 December 2009 to 31 December 2010 was primarily attributable to the decrease in the absolute value of revenues generated by international business. The decrease in the international business segment's contribution from 31 December 2010 to 31 December 2011 was primarily attributable to a slower rate of increase in revenues generated by international business, compared with the rate of expansion of other segments between the two periods.

Segment Profit

The corporate banking segment's contribution to CBM's total profit decreased to 158.9% in the nine months ended 30 September 2012, from 201.2% in the nine months ended 30 September 2011. This decrease was mainly attributable to a decrease in losses in the treasury segment as between the two periods as well as the expansion of CBM's retail banking business at a faster rate than expansion of the corporate banking business as between the two periods.

The retail banking segment's contribution to CBM's total profit increased to 13.0% in the nine months ended 30 September 2012, from 9.0% in the nine months ended 30 September 2011. The increase is primarily due to the expansion of CBM's retail banking business across the two periods. The retail banking segment's contribution to CBM's total profit/(loss) was 8.1%, (13.6)% and (66.4)% in 2011, 2010 and 2009, respectively. The change from 2009 to 2010 was due to a decrease in losses from this segment from 2009 to 2010. The change from 2010 to 2011 is attributable to the fact that this segment recorded a loss in 2010 but recorded a profit in 2011. The changes across all period

reflect the development of CBM's retail banking business, both in size and efficiency over the relevant periods, including the investments made by CBM into this business area in 2009 and 2010.

The treasury segment's contribution to CBM's total profit was (20.8)% in the nine months ended 30 September 2012, as compared to (64.1)% in the nine months ended 30 September 2011. The change was primarily attributable to a decrease in the level of losses incurred in this segment between the two periods. The treasury segment's contribution to CBM's total profit/(loss) was (36.0)%, 21.8% and 34.3% in 2011, 2010 and 2009, respectively. The change from 2010 to 2011 was attributable this segment having been profitable in 2010 while recording a loss for 2011. The decrease from 2009 to 2010 was primarily attributable to the significant increase in corporate banking segment profits between the two years.

The cash operations segment's contribution to CBM's total profit increased to 3.4% in the nine months ended 30 September 2012 from 2.2% in the nine months ended 30 September 2011. The cash operations segment's contribution to CBM's total profit was 2.5%, 3.2% and 4.3% in 2011, 2010 and 2009, respectively.

The international business segment's contribution to CBM's total profit decreased to 16.3% in the nine months ended 30 September 2012, from 16.4% in the nine months ended 30 September 2011. The decrease is attributable to a decrease in losses in the treasury segment and the expansion of CBM's retail banking business and cash operations. The international business segment's contribution to CBM's total profit was 12.9%, 24.0% and 80.2% in 2011, 2010 and 2009, respectively. The decrease from 2010 to 2011 was primarily attributable to a decrease in profits from this segment between the two years. The large decrease from 2009 to 2010 was primarily attributable to the large increase in corporate banking segment profits, the decrease in retail banking segment losses and the decrease in profits from the international business segment, in each case as between the two years.

Contingencies and Commitments

CBM enters into certain financial instruments with off-balance sheet risk in the ordinary course of business to meet its clients' needs. These instruments, which include guarantees, letters of credit, undrawn credit lines and commitments to extend credits, involve varying degrees of credit risk and are not reflected in CBM's consolidated statement of financial position. CBM uses similar credit approval policies in undertaking off-balance sheet credit related commitments as it does for its on-balance sheet operations. See "*Risk Management – Credit Risk*".

The following table sets forth CBM's credit-related commitments as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December					
	2012		2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Guarantees and letters of credit	40,133,004	95.6	29,869,161	95.8	15,419,408	96.8	11,137,417	97.4
Undrawn loan commitments	1,619,532	3.9	1,079,727	3.5	503,892	3.2	294,333	2.6
Other contingent liabilities	246,018	0.5	214,784	0.7	–	–	–	–
Total credit-related commitments	**41,998,554**	**100.0**	**31,163,672**	**100.0**	**15,923,300**	**100.0**	**11,431,750**	**100.0**

Principal unrecognised commitments of CBM are comprised of undrawn loan commitments and letters of credit and guarantees. As at 30 September 2012, CBM's outstanding commitments were undrawn loan commitments of RUB 1.6 billion, guarantees and letters of credit and of RUB 40.1 billion and other contingent liabilities of RUB 246 million. As at 31 December 2011, CBM's outstanding commitments were undrawn loan commitments of RUB 1.1 billion and guarantees and letters of credit of RUB 29.9 billion and other contingent liabilities of RUB 215 million. The increases in guarantees and letters of credit across the dates presented reflects increases of volumes in line with the general growth in CBM's business. In addition, the increase in guarantees and letters of credit from 31 December 2011 to 30 September 2012 was partly attributable to the fact that CBM's credit rating from Fitch was upgraded in June 2012, which enabled CBM to issue more guarantees than it could previously.

As at 31 December 2010, CBM's undrawn loan commitments amounted to RUB 503.9 million and guarantees and letters of credit amounted to RUB 15.4 billion. As at 31 December 2009 CBM had RUB 294.3 million in undrawn loan commitments and RUB 11.1 billion in guarantees and letters of credit.

Capital Adequacy

The following table sets forth certain capital ratios of CBM as at the dates indicated. The capital ratios have been calculated in accordance with Basel I guidelines issued in 1988, with subsequent amendments, including the amendment to incorporate market risks, on the basis of IFRS data, as described in Note 20 to the Interim Financial Statements included in this Prospectus.

	As at 30 September	As at 31 December		
	2012	2011	2010	2009
	RUB thousands			
Tier 1 capital				
Share capital and additional paid-in capital	22,559,058	15,337,135	7,300,774	7,300,774
Retained earnings	13,585,794	9,823,364	5,937,830	2,916,454
Total tier 1 capital	**36,144,852**	**25,160,499**	**13,238,604**	**10,217,228**
Tier 2 capital				
Revaluation surplus for buildings	500,424	500,424	500,424	500,424
Revaluation reserve for investments available-for-sale	(7,302)	(53,017)	28,067	325,794
Subordinated loans				
Subordinated loan from EBRD	401,920	482,942	579,061	604,884
Subordinated loan from Black Sea Trade and Development Bank	525,587	643,922	609,538	–
Subordinated shareholder loans from Mr. Roman Avdeev (via Wellcreek Corporation)	2,248,585	2,745,236	6,000,000	–
Less limitation of subordinated capital to 50% of Tier 1	–	–	(569,297)	–
Total tier 2 capital	**3,669,214**	**4,319,507**	**7,147,793**	**1,431,102**
Total capital	**39,814,066**	**29,480,006**	**20,386,397**	**11,648,330**
Risk-weighted assets				
Banking book	240,803,271	184,090,083	119,410,805	67,618,009
Trading book	28,017,307	21,012,847	30,390,992	15,619,814
Total risk weighted assets	**268,820,578**	**205,102,930**	**149,801,797**	**83,237,823**
Total capital expressed as a percentage of risk-weighted assets (total capital adequacy ratio)	**14.8**	**14.4**	**13.6**	**14.0**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital adequacy ratio)	**13.4**	**12.3**	**8.8**	**12.3**

CBM has raised new equity capital in each of 2009, 2010, 2011 and the nine months ended 30 September 2012, in order to maintain its capital adequacy at sufficient levels. CBM will need to continue to raise new equity capital going forward to support the continuing growth of its assets.

Retained earnings have comprised a significant portion of CBM's Tier 1 capital as at each of 30 September 2012 and 31 December 2011, 2010 and 2009. CBM has not paid any dividends to date and has no current plans to do so. See "*Shareholders – Dividends and Dividend Policy*".

Pursuant to CBM's financing arrangements with EBRD, IFC and BSTDB, CBM has agreed to comply with a covenant to maintain a total capital adequacy ratio of 12%.

CBM's Tier 1 capital increased by 44% to RUB 36.1 billion as at 30 September 2012 from RUB 25.2 billion as at 31 December 2011. This increase was due to an increase in retained earnings and the completion, in the third quarter of 2012, of CBM's share issuance to EBRD and IFC in an aggregate amount of RUB 5.8 billion. CBM's Tier 1 capital increased by 90% to RUB 25.2 billion as at 31 December 2011 from RUB 13.2 billion as at 31 December 2010. This increase is attributable to a 65% increase in retained earnings and due to an issuance in July 2011 by CBM of new shares to its controlling shareholder in the amount RUB 4.5 billion. CBM's Tier 1 capital increased by 30% to RUB 13.2 billion as at 31 December 2010 from RUB 10.2 billion as at 31 December 2009 due to a 104% increase in retained earnings.

CBM's Tier 2 capital decreased by 15.1% to RUB 3.7 billion as at 30 September 2012 from RUB 4.3 billion as at 31 December 2011 due to the amortisation of subordinated loans from EBRD and BSTDB as well as the conversion of part of subordinated loans from CBM's controlling shareholder into additional paid-in capital. See *"– Financial Condition – Total Liabilities – Deposits by Customers"* for further information on the conversion of the subordinated loans to additional paid-in capital. CBM's Tier 2 capital decreased by 40% to RUB 4.3 billion as at 31 December 2011 from RUB 7.1 billion as at 31 December 2010 due to conversion of subordinated loans from its controlling shareholder into additional paid-in capital. CBM's Tier 2 capital increased by 399.5% to RUB 7.1 billion as at 31 December 2010 from RUB 1.4 billion as at 31 December 2009 due to the receipt by CBM of a RUB 6.0 billion subordinated loan from its controlling shareholder during 2010. See "– *Financial Condition – Total Liabilities – Deposits by Customers*".

In December 2012, CBM issued subordinated domestic bonds in an amount of RUB 3 billion with a fixed coupon of 12.25% and maturity in June 2018. CBM applied to the CBR for approval of the early repayment of a US$40 million subordinated loan from Roman Avdeev that was granted to CBM in June 2012. The CBR has approved the early repayment of this subordinated loan, and CBM expects to repay it in the first half of 2013. The repayment of this subordinated loan will not have a material effect on CBM's capital adequacy position.

Since 1 July 2012, CBM's loan portfolio has been subject to increased risk weights used for calculation of the stand-alone capital adequacy ratio in accordance with CBR regulations of April 2011. CBM estimates the negative impact of the new regulations on its stand-alone capital adequacy ratio calculated under RAS to be in the range of 0.2% to 0.3%. CBM's capital adequacy ratios under Basel guidelines will not be affected by this change in regulations.

Accounting Policies

Significant Accounting Policies and New Accounting Standards

A detailed description of CBM's main accounting policies are set forth in Note 3 to the 2011 Annual Financial Statements.

As at the date of the Interim Financial Statements, all new standards and amendments that are relevant to CBM's operations and are effective for accounting periods beginning on 1 January 2012 have been adopted. Details of these new standards, amendments and interpretations are set out in Note 3 to the 2011 Annual Financial Statements.

The following changes to accounting standards that may be relevant to CBM's operations in the future will be effective for annual periods beginning on or after 1 January 2013:

- IFRS 10 "Consolidated Financial Statements" will supersede IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). Where the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. CBM has not yet analysed the impact of adopting this standard on its financial position or performance.

- IFRS 11 "Joint Arrangements" will supersede IAS 31 "Interests in Joint Ventures". The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, in which case these arrangements are treated similarly to jointly controlled assets/ operations under IAS 31, or as joint ventures, for which the equity method only is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results in a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control.
- IFRS 12 "Disclosure of Interests in Other Entities" contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.

Critical Accounting Estimates and Judgments in Applying Accounting Policies

The preparation of the Financial Statements in conformity with IFRS requires CBM's management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgments made regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on CBM's management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgments that have the most significant effect on the amounts recognised in the Financial Statements include:

- Loan impairment estimates and accrual on recoverable amount;
- Building revaluation estimates; and
- Deferred tax assets.

Overview

Established in 1992, CBM is a universal commercial bank, the main purpose of which is to provide high quality banking products and services to its corporate and retail clients. CBM provides its clients with a comprehensive range of banking services, including corporate and retail lending, cash collection and delivery, guarantees and letters of credit, trade and structured finance, factoring, leasing, deposit-taking, settlements, plastic card services and foreign exchange operations.

CBM currently operates exclusively in Moscow and the Moscow region (other than a small part of its cash collection and delivery business which is conducted in regions neighbouring the Moscow region), as it considers these markets to be the most promising for its future business development. As at 30 September 2012, CBM had 61 branches, 13 cash offices, 672 ATMs and 4,175 payment terminals. According to RBC Rating, as at 30 July 2012, CBM was ranked 7th in Moscow based on number of ATMs and 2nd in Moscow based on number of payment terminals. As at 30 September 2012, CBM was the 20th largest bank in Russia based on net assets and the 24th largest bank in Russia based on the size of its equity capital, in each case according to Interfax-100, based on Russian Accounting Standards. According to RBC Rating, as at 30 September 2012 CBM was rated 16th among Russian banks based on the size of its loan portfolio and 20th among Russian banks based on amount of customer deposits.

Corporate banking is CBM's core business area, representing 79.1% of total gross loans to customers as at 30 September 2012, as compared with 81.6%, 82.8% and 83.3% of total gross loans to customers as at 31 December 2011, 2010 and 2009, respectively. CBM's strategy includes aiming to increase the size of its retail banking business as a percentage of its overall business. However, CBM expects corporate banking to continue to represent the majority of CBM's overall business for the foreseeable future.

CBM is one of the market leaders in providing cash collection and delivery services to businesses in Moscow and the Moscow region. It was the 3rd largest cash collection and delivery service provider in Moscow, according to an Interfax survey conducted in 2011. A large portion of CBM's client base is comprised of large Moscow-based wholesale and retail trading companies which make use of CBM's cash collection and delivery services because of their cash-intensive businesses.

As of the date of this Prospectus, CBM's shareholders are Mr. Roman Avdeev (85%), EBRD (7.5%), IFC (2.9%) and the IFC Russian Bank Capitalization Fund (4.6%). Mr. Avdeev acquired 100% of CBM in 1994, and in August 2012, EBRD and IFC each acquired a 7.5% equity stake in CBM by purchasing newly-issued shares of CBM. In December 2012, IFC transferred a 4.6% equity stake to the IFC Russian Bank Capitalization Fund, which forms a group of companies with IFC.

As at 30 September 2012, CBM's total assets were RUB 279.2 billion, as compared with RUB 232.4 billion as at 31 December 2011, RUB 165.5 billion as at 31 December 2010 and RUB 87.1 billion as at 31 December 2009. CBM's net income for the nine months ended 30 September 2012 was RUB 3.8 billion compared to RUB 2.4 billion for the nine months ended 30 September 2011. CBM's net income was RUB 3.9 billion, RUB 3.0 billion and RUB 780 million for the years ended 31 December 2011, 2010 and 2009, respectively. CBM's total equity was RUB 36.7 billion, RUB 25.6 billion, RUB 13.8 billion and RUB 11.0 billion as at 30 September 2012, and 31 December 2011, 2010 and 2009, respectively.

As at the date of this Prospectus, CBM is rated by Fitch, Moody's and Standard & Poor's. CBM's long-term global and local currency deposit rating and financial strength rating by Moody's are B1 and E+, respectively. CBM's long-term issuer default and short term issuer default ratings by Fitch are BB- and B, respectively. CBM's long term counterparty default and short term counterparty default ratings by Standard & Poor's are B+ and B, respectively.

CBM is headquartered in Moscow, and is registered as an open joint-stock company operating under general banking licence No. 1978 issued by the CBR.

Competitive Strengths

CBM's management believes that CBM has a number of competitive advantages in the Russian banking market, including the following.

Resilient business model focused on corporate banking and cash collection and delivery

CBM's business model is focused on its core corporate banking business, with its strong position in the cash collection and delivery market providing a basis for cross-selling CBM's other banking services.

In addition to being a profitable business line for CBM, generating 27.6% of CBM's total fee and commission income in 2011 and 25.3% in the nine months ended 30 September 2012, CBM's cash collection and delivery business has enabled it to strengthen its relationships with its corporate banking customers and cross-sell its other services. Retail and wholesale trading businesses that use CBM's operations services represent a significant portion of CBM's total loan portfolio. CBM's cash collection and delivery services also assist CBM in monitoring and controlling the credit risks of borrowers by identifying any warning signs of liquidity constraints at an early stage. Furthermore, CBM has the ability to offer specialised products to its customers that non-banking cash collectors and non cash-collecting banks cannot offer, such as lending against collected revenue. The Moscow market for cash collection and delivery services is highly concentrated with the three leading providers holding almost 80% of the overall market share, according to an Interfax survey conducted in 2011. The cash collection and delivery segment of the market also has substantial industry entry barriers, as only well-established businesses of sufficient scale can perform cash collection and delivery services efficiently.

CBM's business demonstrated strong resilience throughout the recent global financial crisis. Notwithstanding difficult economic conditions as a result of the global financial crisis, CBM's loan portfolio grew from RUB 58.3 billion as at 31 December 2009, to RUB 103.9 billion as at 31 December 2010, to RUB 159.0 billion as at 31 December 2011 and to RUB 204.3 billion as at 30 September 2012. CBM's net interest income also increased in 2009, 2010, 2011 and the nine months ended 30 September 2012, in each case as compared to the corresponding period in the prior year.

Established position in the Moscow banking market

CBM has an established presence in Moscow and the Moscow region, which is the area of its focus. Moscow and the Moscow region are the most developed and financially-active area in the Russian Federation, accounting for 27.3% of Russia's overall GDP in 2010 according to Rosstat. CBM's network, which currently consists of 61 branches, 13 cash offices, 672 ATMs and 4,175 payment terminals, serves as an effective physical platform for offering its products, including as a developed point-of-sale network for servicing retail banking clients. CBM's branches are located to provide maximum convenience to its customers and have long opening hours to suit the needs of its retail customers. Because its business is focused on Moscow and the Moscow region, CBM has lower operational costs than most of its competitors and is not exposed to the risks and costs involved in managing an extensive regional branch network.

Quality and liquidity in loan and securities portfolios

CBM's NPLs together with renegotiated loans amounted to RUB 3.5 billion, or 1.7% of the gross loan portfolio, as at 30 September 2012, as compared to RUB 2.7 billion, or 1.6% of the gross loan portfolio, RUB 2.9 billion or 2.7% of the loan portfolio, and RUB 2.4 billion, or 4.1% of the gross loan portfolio, as at 31 December 2011, 2010 and 2009, respectively. CBM's relatively low NPL rates compared to other Russian banks are a result of its focus on quality corporate borrowers, such as retail business chains and top-tier companies, and on retail banking customers who are employees of CBM's corporate banking clients. The relatively high quality of CBM's loan portfolio is also a result of CBM's monitoring its clients, many of which regularly use CBM's cash collection and delivery services and CBM's conservative risk management practices, which were substantially improved in 2009.

In addition, a high proportion of CBM's corporate loans are of short maturities and therefore carry lower credit risk. Of CBM's net loan portfolio as at 30 September 2012, RUB 72.3 billion or 35.4% had a maturity of more than one year, RUB 32.0 billion or 15.6% had a maturity profile of between six months and one year, RUB 35.9 billion or 17.6% had a maturity of between three months and six months and RUB 62.2 billion or 30.5% had a maturity of between one day and three months. CBM also has a relatively high level of diversification in its loan portfolio across economic sectors, and it continues to pursue a policy of high loan portfolio diversification as a means of lowering credit risk.

CBM has a policy of maintaining a low level of engagement in high-risk products such as equity securities and illiquid securities. As at 30 September 2012, 0.1% of the securities in CBM's proprietary securities portfolio were equity securities, and 83.5% of CBM's total bonds portfolio was composed of highly-liquid securities from the CBR's Lombard and Repo lists. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Total Assets – Securities Portfolio*". CBM uses its securities portfolio mainly for liquidity management purposes.

Long-term relationships with strategic international partners

CBM has multi-year relationships with several international financial institutions, such as EBRD, IFC and BSTDB, pursuant to which these institutions have provided various forms of funding to CBM. EBRD and IFC have recently further strengthened their relationship with CBM by becoming shareholders in CBM in August 2012. The transparent structure of CBM's business operations and financial activities has been one of the factors that has enabled it to successfully establish partnerships with these institutions. CBM's ability to raise finance from these international financial institutions has supported its development in general as well as in particular product areas such as SME lending and mortgage lending. See "– *Corporate Banking – SME Lending*" and "– *Retail Banking – Mortgage Lending*". Pursuant to the terms of its agreements with these international financial institutions, CBM is required to comply with certain covenants and criteria relating to risk management, transparency and corporate governance, which requirements are in line with CBM's internal policies in these areas.

History of strong shareholder support

CBM's controlling shareholder is Mr. Roman Avdeev. Mr. Avdeev purchased CBM in 1994 and currently owns 85% of CBM's shares. Of Mr. Avdeev's assets, CBM is the asset with the highest value, with commercial real estate representing the majority of Mr. Avdeev's other assets. Mr. Avdeev has historically provided financial support to CBM to support its capital growth and made a total of RUB 15.8 billion in capital contributions between 2009 and the date of this Prospectus. See "*Risk Factors – Risks Relating to CBM's Business and Industry – The interests of CBM's controlling shareholder may conflict with those of Noteholders*" and "*Risk Factors – Risks Relating to CBM's Business and Industry – CBM's capital position may deteriorate*".

Flexible and innovative approach to services

Across all of its business areas, CBM takes an individualised approach to its customers and seeks to be as flexible as possible in supporting its clients in various circumstances and with various needs. CBM's moderate size and focus on Moscow and the Moscow region enables it to be flexible with policies where appropriate and to make decisions more quickly than many of its competitors. CBM offers its customers a fast decision-making process on loan applications, while at the same time maintaining high standards of credit risk management. While CBM believes that larger, state-owned banks are not its primary competitors in terms of pricing, it aims to provide a high-quality customer service, including a faster decision-making process, in order to provide consumers with an alternative to such banks.

CBM utilises advanced information technology to providing its customers with a user-friendly services, and it is expanding its retail operations through the provision of innovative products and marketing techniques. CBM has a CRM system for its corporate and retail banking businesses and is currently in the process of improving the system to make it more advanced and efficient. This allows CBM's client relationship managers to monitor and analyse the overall operations of each individual client within CBM. As part of its strategy, CBM is actively developing new delivery channels for customers, including the delivery of a wide range of banking products and functionality through full scale branches, retail outlets (cash advance outlets for corporates and retail customers, ATMs, payment terminals), and remote banking through the use of Client-Bank Electronic Payment Systems and Internet banking systems. CBM was the first provider in Russia to introduce the VISA INFINITE diamond-encrusted card, and maintains a wide range of products for all levels of the retail banking market.

CBM was ranked 12th among Russian banks in 2011 according to the CEI, which is a tool used to measure the quality and consistency of CBM's customer experiences based on five pillars: Brand, Communication, Environment, Offering and Culture. The research is carried out by Senteo Gmbh. CBM shares the 9th-12th ranking positions with certain other banks in terms of its mobile banking according to Markswebb Rank & Report Rank 2012.

Experienced management team

CBM's management team has a wide range of experience, expertise and an understanding of the Russian business environment. CBM's Management Board consists of eight members, each of whom has in-depth knowledge of CBM and the Russian banking sector. CBM's President has worked as CBM since 1994. CBM's Supervisory Board consists of twelve members, of which seven are independent directors. The Supervisory Board members have wide experience in the international banking sector and expertise in various areas such as finance, investments, capital markets accounting and corporate law. See "*Management*".

Strategy

CBM's objective is to be one of the most efficient and stable universal commercial banks in Russia and to provide high-quality financial products and services, offering mass-market as well as banking products based on best international and Russian practices. CBM aims to provide high-quality and reliable banking services to both corporate (including large companies and SMEs) and retail customers, while simultaneously achieving sustainable and efficient performance.

CBM aims to gradually increase the proportion of retail banking in its overall business and for the retail and corporate banking businesses to become self-financing from their funding sources. In terms of growing its retail banking customer base, CBM plans to acquire new reliable retail banking customers from among the employees of its corporate banking customers, and to introduce customer profiling based on transactions made via its ATMs, payment terminals and banking offices. Through analysing client information regarding consecutive usage, CBM can offer targeted loans, deposit products and fee-generating services.

The following are the key elements of CBM's medium-term strategy:

Continue to focus on core corporate banking business

CBM plans to continue its primary focus on corporate banking, with its cash collection and delivery business providing a basis for cross-selling and credit optimisation. CBM plans to further develop its corporate lending with its core client base, which is largely comprised of large wholesale and retail trading companies which make use of CBM's cash collection and delivery services because of their cash-intensive businesses. These clients are also direct importers of goods, and are the main users of CBM's trade finance services. CBM is also focused on fully developing its client relationships and follows a long-term strategy of developing its business in order to satisfy the various needs of its clients and their employees. CBM intends to continue this strategy, which it believes has minimised its risk exposure during the global economic crisis.

Part of CBM's corporate banking strategy is to maintain a diversified loan portfolio. CBM has an internal policy, which is in line with covenants in certain of its financing arrangements, that no economic industry sector may represent more than 20% of the total gross corporate loan portfolio. During the global economic crisis CBM diversified its client base and attracted new clients, including companies from sectors of the real economy, such as metallurgy, the utilities sector, the power industry, the food sector and the petrochemical industry.

CBM also views lending to SME companies as an important market segment within the corporate banking area, and it intends to gradually increase the volume of its SME loans, particularly to medium-sized companies, within its corporate loan portfolio as a means of increasing profitability. CBM's SME programme is partly financed by funds raised from international financial institutions.

Leverage corporate banking strengths to expand retail banking business

A key element of CBM's strategy is leveraging its strengths in corporate banking to grow its retail banking business, particularly through cross-selling retail products to the employees of its corporate customers. CBM uses synergies within its business to cross-sell products to existing customers and to monitor existing corporate customers for risk management purposes through CBM's cash collection and delivery services. In particular, CBM uses its relationships with its corporate customers to cross-sell retail banking products and services to their employees, which are a customer group that CBM considers to have a relatively predictable credit risk.

In addition to its cross-selling efforts, since 2010 CBM has been aggressively marketing its retail banking products and services in Moscow and the Moscow region through methods such as billboard advertising and advertising in public transportation as well as lotteries and competitions.

Retail banking is a priority for CBM as part of its growth and revenue diversification strategy. The targeted share of retail banking in CBM's loan portfolio is at least 30%, which CBM aims to achieve within the medium term. In its retail banking business, CBM is focused on increasing the range of products and services it provides to its existing customers, as well as increasing the range of products and services it cross-sells to the employees of its corporate clients, both of whom CBM considers to be a lower credit risk than "walk-in" retail customers. With respect to retail lending, CBM's target market segments are short-term consumer loans and credit cards. CBM is already active in these areas and views them as having substantial growth potential.

Maintain geographical focus on Moscow and the Moscow region

Historically, CBM has focused its business exclusively on the city of Moscow and the Moscow region, and this geographic area continues to represent substantially all of CBM's business. CBM views Moscow and the Moscow region as having high growth potential, and this geographical focus enables CBM to leverage its strengths and avoid the costs and risks associated with maintaining an extensive regional network. In the short term, CBM plans to maintain its focus on Moscow and the Moscow region, although in the medium-term CBM aims to significantly increase the volume of its lending to Moscow-based companies which operate at a national level as opposed to operating only in Moscow and the Moscow region due to the potential for CBM to generate higher levels of interest and fee income from such companies. Although CBM believes there is a significant potential for the expansion of its branch network in Moscow and the Moscow region, it is considering the possibility of expanding its business into other regions of Russia in the medium-term. Any such plans are expected to focus on regions with very dense populations, a highly-developed organised retail trading sector, a notable presence of CBM's key customers and personal income levels above Russia's average.

Continue to improve operational efficiency

In order to enhance its profitability and to increase the value of its business, CBM aims to improve its management and control systems to enhance the efficiency of its operations. Because its business is focused on Moscow and the Moscow region, CBM has lower operational costs than most of its competitors and is not exposed to the costs involved in managing an extensive regional branch network. CBM's strategy also includes reducing maintenance costs of its ATM and payment terminal network by installing them along the cash collection routes and using advanced technological solutions when serving its clients, such as through remote access. As a means of further improving operational efficiency, CBM plans to expand payment terminal network in line with the point-of-sales networks of its corporate customers from the retail trading sector and simultaneously use those networks for advertising purposes. CBM has also established partnerships with other certain other banks for the sharing of each others' ATM networks.

Continue to diversify funding sources

CBM's funding strategy is to continue to develop a diversified funding policy in order to achieve an optimum balance between its own capital, domestic and international borrowings to cover the growing needs of CBM's business, both in terms of currency and maturity. CBM's funding base relies primarily on deposits from retail and corporate customers. Retail deposits represented 58.9%, 58.2%, 53.3% and 69.6% of CBM's total deposits by customers as at 30 September 2012 and 31 December 2011, 2010 and 2009, respectively. Corporate deposits represented 41.1%, 41.8%, 46.7% and 30.4% of CBM's total deposits by customers as at 30 September 2012 and 31 December 2011, 2010 and 2009, respectively. CBM aims to broaden its corporate banking deposit base and increase the share of on-demand funds in its liabilities. CBM plans to diversify its retail deposit funding by increasing the amount of "cost free" transactional balances of individuals by issuing plastic cards and encouraging customers to open "member areas" where they can deposit funds for future payments. As part of CBM's general strategy, it aims for the retail and corporate banking businesses to become self-financing from their funding sources.

Subsidiaries

CBM has two subsidiaries: MKB-Leasing LLC, which is CBM's leasing services company for corporate clients, and MKB Invest LLC, through which CBM conducts its proprietary trading activities. MKB-Leasing is a Russian limited liability company that as at 30 September 2012 was 100% owned by Lamont Alley Corp., a British Virgin Islands company represented by Mr. Igor Lebedev. MKB-Invest is a Russian limited liability company that as at 30 September 2012 was 99.75% owned by Twistlewood Corporation, a British Virgin Islands company, and 0.25% owned by Mr. Andrey Novikov. Twistlewood Corporation is currently represented by Mr. Andrey Novikov. Mr. Alexey Goryachev holds the position of General Director of MKB-Invest. CBM has concluded option agreements with Lamont Alley Corp. and Twistlewood Corporation under which CBM has control over these entities through its right to exercise an option to purchase these entities at any time. In accordance with IFRS accounting rules, each of these entities is consolidated into CBM's IFRS financial statements.

The Issuer, CBOM Finance p.l.c., is a special purpose entity that is not owned by CBM but is consolidated into CBM's IFRS financial statements in accordance with IFRS accounting rules.

Competition

The Russian banking market is highly competitive. According to the CBR, as at 1 December 2012, 1,094 banks and non-bank credit organisations were registered in Russia and the 20 largest banks held 70.1% of total banking assets. A substantial part of the Russian banking industry is concentrated in Moscow and the Moscow region. The largest Russian banks are concentrated in Moscow (where CBM's business is concentrated), while large regional banks conduct most of their business in the central cities of their respective regions.

CBM faces competition from the leading domestic banks in each of the business areas in which it operates, and also from a number of foreign banks in certain business areas. However, as corporate customers often use a number of banks, CBM is not always in direct competition with its larger rivals in the Russian banking sector. As a result of the effects of the global financial crisis, CBM now faces far greater competition from state-controlled banks such as Sberbank, VTB and Gazprombank, in addition to competition from subsidiaries of non-Russian financial institutions. Due to direct ratings support of the Russian Federation, state-controlled banks have access to cheaper sources of funding from international capital markets and are major beneficiaries of government programmes, including anti-crisis aid. Using these advantages, these banks can attract the largest clients by offering credit products with lower interest rates, and, as a result, maintain or increase their market share, without compromising net interest margins. Nonetheless, CBM and other moderately-sized private banks are able to compete with the large state-controlled banks on the basis of the products they offer and the service they provided to their customers.

During the most acute stage of the global financial crisis in 2008 and 2009, many of CBM's competitors experienced financial difficulties and relied on state support, as a result of which CBM was able to attract clients from its competitors. Following this period, CBM has continued to expand its client base.

CBM considers its major competitors in the corporate lending market to be, Promsvyazbank, Alfa-Bank, Petrocommerce, Uralsib, Gazprombank, and NOMOS Bank.

In the retail lending sector, CBM's most significant competitors include Home Credit and Finance Bank, Russian Standard Bank, OTP Bank, Alfa-Bank, VTB 24 and Orient Express Bank. In the mortgage lending market in particular, CBM's most significant competitors include DeltaCredit, VTB 24, Sberbank, Moscow Mortgage Agency and Bank of Moscow.

CBM considers its main competitors in the factoring market to be Promsvyazbank, National Factoring Company (Uralsib), Alfa-Bank, Petrocommerce and VTB Factoring.

See "*Risk Factors – Risks Relating to CBM's Business and Industry – There is significant competition in the Russian banking market, particularly from state-owned banks*".

Corporate Banking

CBM offers its corporate clients traditional and tailored commercial banking products, including corporate loans and guarantees, cash management services, trade and structured finance, factoring, leasing, international payments, foreign exchange services and payroll projects. As at 30 September 2012, CBM had 25,544 corporate customers, compared to 24,200 as at 31 December 2012, 22,300 as at December 2010 and 21,200 as at 31 December 2009. CBM was ranked 15th in Russia based on volume of corporate loans as at 1 October 2012 by RBC Rating. CBM's customers include 15 out of the 30 largest retail chains in Russia, according to INFOLine Retail Russian TOP-100 data on the 100 largest retail chains in Russia as at the end of 2011.

A large portion of CBM's client base is comprised of large Moscow-based wholesale and retail trading companies which make use of CBM's cash collection and delivery services because of their cash-intensive businesses. Among CBM's corporate banking customers are a number of publicly-listed companies, which regularly use CBM's deposit services and short-term loan products and which have special requirements, including credit risk monitoring due to periodic disclosure requirements and the need for short-term working capital loans.

In its corporate banking business, CBM is focused on building its relationships with its corporate customers, to whom it can then cross-sell a range of different products and services, including the sale of retail products to their employees. CBM does not always seek to be the main lending bank for its corporate customers, which usually also conduct banking business with large state-owned banks, but rather CBM aims to provide additional value-added and complimentary services alongside the services provided by the state-controlled banks, rather than seeking to compete with them directly, in light of

their competitive advantages in terms of size, cheaper sources of funding and large market share. See "– *Competition*".

CBM has four corporate banking centres, each located in a different part of Moscow, which are dedicated to serving CBM's corporate banking customers. CBM's corporate clients are also able to conduct banking business at any of CBM's other branches.

Corporate Lending

CBM offers its corporate customers a wide range of lending products, including overdrafts, loans backed by sales receivables, current account facilities, working capital loans and short-term loans, long-term fixed asset financing, Lombard loans, short-term loans and trade finance instruments, such as guarantees and letters of credit.

The gross volume of CBM's total corporate loan portfolio was RUB 165.4 billion as at 30 September 2012, as compared to RUB 132.8 billion, RUB 88.3 billion and RUB 50.1 billion as at 31 December 2011, 2010 and 2009.

In line with CBM's risk management policy of minimising all lending on an unsecured basis in its corporate lending, CBM takes collateral, either in the form of a pledge of assets or a corporate guarantee, in almost all circumstances. All overdrafts are unsecured.

As at 30 September 2012, CBM had loans outstanding with 830 different corporate borrowers. The largest part of CBM's corporate client base has traditionally been large wholesale and retail trading companies. As at 30 September 2012, 11.6% of CBM's corporate loans were to companies in the consumer electronics, appliances and computers sector, 10.9% were to companies in the food and farm products sector, 7.8% were to companies in the residential and commercial construction and development sector and 5.7% were to companies in the industrial equipment and machinery sector. While CBM has several strategic corporate customers, it aims to maintain a diverse corporate loan portfolio to minimise the risk of any major impact on the overall business.

See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Total Assets – Loans to Customers*" and "*Risk Management – Credit Risk*".

SME Lending

Under Russian law, small businesses are defined as companies which both employ fewer than 100 employees and have annual revenues of less than RUB 400 million, and medium size businesses are defined as companies which both employ between 100 and 250 employees and have annual revenues of less than RUB 1 billion. CBM considers SME lending to be lending to such small and medium size businesses.

SME lending products CBM offers include overdrafts, loans against collected cash, traditional loans and guarantees. CBM's SME lending services are offered at its Lukov Pereulok corporate banking centre, which is one of CBM's four corporate banking centres. CBM also participates in implementation of the State Programme for Support of Small and Medium Businesses, and since February 2012 CBM has cooperated with the Fund of Small Business Credit Assistance of Moscow, which was formed in order to develop the system of guaranteeing loans to SMEs in Moscow.

CBM's SME programme is partly financed by funds raised from international financial institutions, with which CBM partners in relation to SME lending programmes. In particular, CBM has had three lines of credit from EBRD to finance SME lending, two of which are still open. A US$10 million line was opened in 2005, and this US$10 million facility was repaid in 2012. A second line in the amount of US$5 million was opened in 2008 with repayment due in 2013; and a third line was opened in 2010 for US$20 million, repayable in 2015. In 2011 Black Sea Trade and Development Bank granted CBM a US$30 million credit line with repayment due in 2017 for the purpose of SME financing. CBM also has had 4 credit lines from "SME Bank" to finance SME lending, three of which are still open. A RUB 1 billion line for the purpose of SME financing was opened in September 2010 and repaid in 2011 and a second line in the amount of RUB 50 million was opened in November 2011 with repayment due in 2014 for financing of CBM's clients trading with counterparties in India. A third line in the amount of RUB 800 million was opened in November 2012 with repayment due in 2013. In November 2012, a fourth line in the amount of RUB 1 billion was opened with repayment due in 2015 for the purpose of providing loans to CBM's SME clients.

While the volume of CBM's SME loans is not significant relative to CBM's total gross corporate loan portfolio, CBM views lending to SME companies, particularly medium-sized companies, as a

target market segment within the corporate banking area, and it intends to gradually increase the percentage of SME loans within its corporate loan portfolio as a means of increasing profitability.

Trade Finance

CBM currently transacts with more than 40 foreign banks in trade finance and is one of the leaders in this market segment among medium-sized Russian banks. CBM provides letters of credit, guarantees and pre-export financing.

Since May 2005, CBM has been an active participant in EBRD's Trade Facilitation Programme which gave it access to a US$15.0 million line of credit, which has been increased several times subsequently, with the most recent increase being from US$67.0 million to US$100.0 million in August 2011. CBM has also obtained from the IFC under its Global Trade Finance Programme a line of credit which began at US$10.0 million in February 2006, and has been increased several times subsequently, with the most recent increase being from US$100.0 million to US$ 140.0 million in October 2010.

The volume of CBM's trade finance transactions was US$585.0 million in the nine months ended 30 September 2012, $822.0 million in 2011, US$409.0 million in 2010 and $200.0 million in 2009. For the nine months ended 30 September 2012, CBM completed 385 trade finance transactions.

CBM co-operates with a number of export credit agencies ("**ECAs**") to structure long-term transactions for equipment purchases for its corporate clients. CBM was one of the first Russian banks to engage in ECA transactions after the 1998 Russian financial crisis, and CBM works with ECAs on both long-term and short-term deals. Its payment guarantees for short-term transactions are accepted by Hermes (Germany), Ex-Im Bank (USA), SACE (Italy), COFACE (France), CESCE (Spain), EKN (Sweden), ASHR'A (Israel), OeKB (Austria), MEHIB (Hungary), EDC (Canada), KUKE (Poland), ONDD (Belgium) and FINNVERA (Finland), thereby allowing CBM access to the provision of long term capital goods financing to its customers. CBM now has access to more than US$1 billion of trade finance facilities with financial institutions globally.

In October 2012, CBM was recognised by IFC as one of two "Best Issuing Banks" in Eastern Europe for 2011 under IFC's Global Trade Finance Programme. CBM received awards under IFC's Global Trade Finance Programme for "Most Active Issuing Bank" in Europe and Central Asia for 2008 and 2009 and "Most Active Issuing Bank" in Eastern Europe for 2010. In May 2012, CBM was awarded by EBRD as the "Most Active Issuing Bank in Russia in Short-Term Trade Finance" under EBRD's Trade Facilitation Program in 2011, which was the second award CBM has received from EBRD under the programme.

Guarantees and Letters of Credit

Bank guarantees and letters of credit represent an increasing and regular source of fee income for CBM and are particularly used by CBM's publicly-listed corporate customers. CBM offers bid guarantees, customs guarantees, performance bonds, instalment payments guarantees and advance payments guarantees. Guarantees and letters of credit represented 22.2% and 19.3% of CBM's total fee and commission income in the nine months ended 30 September 2012 and in 2011, respectively. Guarantees and letters of credit are an attractive product for CBM because, unlike loans, they are not priced based on CBM's cost of funds, which enables CBM to compete effectively with state-owned banks in this area.

International Payments

CBM has a broad correspondent account network in all major currencies with leading financial institutions worldwide. CBM's correspondent network includes approximately 80 accounts held with domestic and foreign credit institutions, enabling CBM to effect different types of payments to various parts of the world in a timely and cost-efficient manner.

Leasing

CBM provides leasing services to clients for financing assets such as machinery, vehicles and other specialist equipment. CBM has a specialist leasing subsidiary, MKB-Leasing, in order to provide lease finance to customers. CBM offers its leasing services through a subsidiary for tax efficiency reasons. CBM was rated 23rd by Expert RA in respect of leasing companies in Russia in 2011 based on volume of transactions as at 31 December 2011.

Factoring

CBM has also offered its clients factoring services since 2005. In 2008, EBRD provided CBM with a US$20.0 million credit line to be used for its factoring business. Before July 2011, most of the factoring services provided by CBM were offered on a recourse basis, with recourse to the original creditors of the debts purchased by CBM if the respective debtors did not fulfil their payment obligations. However, in July 2011, CBM launched a new factoring product, which provides non-recourse factoring services for the creditors of SME debtors. CBM plans to grow its factoring business in the future, both within Moscow and the Moscow region and in regions outside Moscow and the Moscow region. According to Expert RA, CBM was ranked 7th in Russia based on the size of its factoring portfolio as at 1 July 2012 and 10th in Russia based on the amount of companies served by CBM for factoring services for the six months ended 30 June 2012.

Corporate Funding

CBM provides current and term accounts to, and accepts deposits from, its corporate customers. In addition to its standard deposit services, CBM also provides its corporate customers short-term deposit services (for deposits of up to 30 days). CBM also offers its corporate customers an irreducible account balance scheme, where CBM offers a fixed rate of interest on deposits exceeding a prescribed minimum level.

As at 30 September 2012, the volume of deposits by corporate customers amounted to RUB 67.6 billion, compared with RUB 61.3 billion as at 31 December 2011, RUB 44.4 billion as at 31 December 2010 and RUB 13.9 billion as at 31 December 2009. As at 30 September 2012, the ratio of corporate deposits to total deposits by customers was 41.1% compared to 41.8%, 46.7% and 30.4% as at 31 December 2011, 2010 and 2009, respectively.

As at 30 September 2012, CBM had 21,478 corporate depositors, as compared to 20,744 as at 31 December 2011, 20,150 as at 31 December 2010 and 18,654 as at 31 December 2009. As at 30 September 2012, 18.0%, 16.6%, 9.3% and 7.4% of CBM's corporate deposit portfolio consisted of deposits by companies in the government sector, financial services sector, consumer electronics, appliances and computers sector, and the electricity utility sector, respectively. According to RBC Rating, as at 30 September 2012, CBM was ranked 21st among Russian banks based on amount of corporate deposits.

As at 30 September 2012, 31% of CBM's corporate deposits were on demand compared to 29%, 25% and 40% as at 31 December 2011, 2010 and 31 December 2009, respectively.

In November 2012, CBM introduced two new deposit products to help attract higher levels of corporate funding. The first is a deposit account that provides for capitalisation of interest and the second is "refillable product" whereby the customer can add to its deposits at a later stage while still benefitting from a favourable earlier interest rate.

In addition to its current and term accounts and deposit services, CBM offers its corporate customers the option to acquire promissory notes issued by CBM, being liquid financial instruments that can be further traded or pledged. As at 30 September 2012, CBM had promissory notes outstanding of RUB 7.7 billion, as compared to RUB 6.5 billion, RUB 16.1 billion and RUB 5.1 billion as at 31 December 2011, 2010 and 2009, respectively.

See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Total Liabilities – Deposits by Customers*" and "*Risk Management – Liquidity Risk*".

Retail Banking

CBM's retail banking services include retail loan products, including consumer loans, car loans, mortgage loans and credit cards; services to employees of corporate banking clients (corporate plastic cards and payroll services); and personal services, including deposits, debit cards, payments and transfers, foreign exchange, investments in mutual funds, travellers cheques and safe deposit boxes. CBM has been an active player in the Moscow retail banking market since 2002.

The main focus of CBM's retail banking business is general purpose consumer loans and plastic cards. CBM cross-sells products to its retail customers by offering special products and services to existing customers on a continuous basis. This approach helps minimise costs of attracting new clients, improves customer loyalty and helps to retain customers when the terms of their existing products are drawing to a close.

As at 30 September 2012, CBM had approximately 448,000 retail clients (including approximately 92,000 retail borrowers), as compared to approximately 370,000 as at 31 December 2011, approximately 251,000 as at 31 December 2010 and approximately 179,000 as at 31 December 2009. CBM was ranked 16th in Russia based on retail deposits and 25th in Russia based on loans to individuals as at 30 September 2012 by RBC Rating.

CBM's retail loan portfolio was RUB 43.8 billion as at 30 September 2012, as compared to RUB 29.9 billion, RUB 18.3 billion and RUB 10.0 billion as at 31 December 2011, 2010 and 2009, respectively. Retail loans represented 20.9%, 18.4%, 17.2% and 16.7% of CBM's total gross loan portfolio as at 30 September 2012 and 31 December 2011, 2010 and 2009, respectively. CBM has set a target of increasing the proportion of retail loans in its loan portfolio to up to 30% in the medium-term.

CBM divides its retail customers into the following three categories of customer risk profile:

- Category 1 retail customers include existing retail banking customers of CBM who have a positive credit history with CBM, have had an account with CBM with monthly turnover of RUB 20,000 for at least 5 months or have had a deposit account with CBM in the amount of at least RUB 200,000 for at least six months in the past three years. Category 1 customers also include employees of CBM or of companies that CBM considers to be its "strategic partners". Category 1 retail customers are considered the lowest credit risk by CBM.
- Category 2 retail customers include existing retail banking customers that have had an account with monthly turnover of at least RUB 1,000 for at least six months, have a positive credit history with other banks or have had a deposit account with CBM in an amount of less than RUB 200,000 for at least six months in the past three years. Category 2 customers also include employees of CBM's corporate banking customers, certain publicly listed companies, governmental organisations and state companies and companies that CBM considers to be its "partners".
- Category 3 retail customers are those who are not in categories 1 or 2 and include new retail customers, including those customers who have been with CBM for less than six months, customers referred by family members and acquaintances, users of CBM's ATM and payment terminal networks, and customers who have been attracted to CBM from having been exposed to CBM's advertising. Category 3 retail customers are considered the highest credit risk by CBM and are carefully screened, with priority being given to those with a previous short-term relationship with CBM.

CBM's management estimates that approximately 80% of its retail customers are currently in categories 1 and 2.

CBM is planning to further expand its retail banking business through organic growth by opening new branches in Moscow and the Moscow region. CBM plans to optimise its branch network by closing ineffective branches and opening new ones in more favourable locations that have higher levels of client turnover. CBM also plans to attract new retail customers through the convenience of the services it offers, with branches remaining open until 9pm, 24 hour banking facilities for services such as automated deposits and an internet banking system which allows retail customers to manage their accounts online. In addition, CBM aims to expand its retail banking business particularly through cross-selling its retail products to the employees of its corporate clients and lending to other customers in categories 1 and 2. CBM targets growth in these categories, as this supports the quality of the retail loan portfolio, which is growing and is relatively young and unseasoned.

CBM seeks to attract high net worth retail customers ("**VIP customers**") and offers an innovative range of products. CBM's VIP customers are generally retail banking customers with large amounts of deposits with CBM or who have conducted other large banking transactions with CBM. Many of CBM's VIP customers are owners or managers of CBM's corporate banking customers. CBM offers its VIP customers a higher level of customer service than its standard retail banking services and products that are more closely tailored to the customer's individual characteristics.

In 2012 CBM opened a dedicated Retail Business Centre (the "**Retail Business Centre**") in the centre of Moscow, where retail banking customers have access to the full range of CBM's retail banking services maximum comfort and a high level of customer service and the use of advanced technology such as electronic queues, electronic cashiers and a pneumatic conveying system. Due to the "one stop shop" principle applied in the Retail Business Centre, the time needed for each transaction has decreased significantly compared to CBM's typical bank branch. Each floor of the Retail Business

Centre has special devices aimed at efficient automated control over client flow, leading to faster client servicing. The Centre also has a special VIP zone dedicated for high net worth retail customers.

As at 1 January 2012, CBM was ranked by RBC Rating as the 12th Best Retail Bank in Russia. Senteo also ranked CBM 12th in Russia, according to its 2012 Customer Experience Index, which measures the quality and consistency of a bank's customer experience based on brand, communication, environment, offering and culture.

General Purpose Consumer Loans

CBM offers general purpose consumer loans to finance various purchases and other activities. General purpose consumer loans are currently offered with maturities ranging from six months to seven years and with interest rates ranging from 18% to 33%. The market for general purpose consumer loans is highly competitive but is a profitable area due to high interest rates. The competitive advantages of CBM include selling through a network of terminals and easy loan repayment through CBM's own network of terminals and ATMs. CBM provides loans to borrowers with a good credit history and focuses on customers of categories 1 and 2.

General purpose consumer loans represented 11.9% of CBM's gross loan portfolio as at 30 September 2012, as compared to 9.8%, 4.9% and 4.2% as at 31 December 2011, 2010 and 2009, respectively.

As at 30 September 2012, CBM's gross consumer loan portfolio was RUB 24.8 billion, as compared with RUB 16.0 billion, RUB 5.2 billion and RUB 2.5 billion as at 31 December 2011, 2010 and 2009, respectively.

In the second quarter of 2011, CBM introduced insurance contracts processing services in respect of its consumer loans. CBM partners with several insurance companies to provide group unemployment and life insurance to its consumer loan customers in support of their loan obligations. Part of the commission paid by the customer is paid to the insurance company and part of it is retained by CBM as fee and commission income.

General purpose consumer loans are the focus of CBM's retail business and are expected to be the main focus for CBM's retail loan portfolio growth in future.

Bank Cards

CBM is a principal member of the VISA International and MasterCard payment systems. CBM offers a wide variety of debit cards and credit cards to its customers. The variety of cards and features available to a customer depends on the tariff subscribed to by that particular customer. CBM began to offer its customers credit cards in 2006.

As at 30 September 2012, CBM had 791,658 plastic cards in issue, as compared with 601,000 as at 31 December 2011, 389,000 as at 31 December 2010, 232,000 as at 31 December 2009.

CBM generates both interest income and fee and commission income from its bank card products. Fee and commission income from plastic cards was RUB 245.9 million or 8.8% of CBM's fee and commission income, in the nine months ended 30 September 2012, as compared to RUB 183 million in the nine months ended 30 September 2011. CBM's fee and commission income from plastic cards was RUB 273.7 million or 10.1%, RUB 116.9 million or 6.7% and RUB 59.7 million or 5.0% as at 31 December 2011, 2010 and 2009, respectively.

CBM aims to offer its retail customers innovative bank card products and to attract VIP customers to its plastic card offering. CBM has offered the premium VISA INFINITE card since 2009 and was the first provider to offer the VISA INFINITE diamond-encrusted card to the Russian market. In 2010 and 2011, CBM introduced a bank card which can be combined with a Moscow metro pass; a credit card aimed at customers who frequently travel; and a bank card aimed at making customs payments easier. In 2012 CBM offered a new "union card" to customers, which combines the features of a debit card and credit card.

Card security is a priority for CBM and, since 2012, CBM has issued only chip cards and introduced a 3D Secure security system for on-line credit and debit card transactions.

In December 2012, CBM launched a mobile point-of-sale plastic card acquiring services pilot project jointly with VSK insurance company and VISA. Under this project, VSK's insurance agents use the CBM Mobile application on smartphones to read the plastic cards of customers when they pay for insurance services. CBM intends that this pilot project will form a basis for CBM to provide this service to other companies going forward.

Car Loans

CBM began offering car loans in Russia in 2002 and was one of the first banks in Russia to enter this market segment. With little competition at that time, CBM established a strong franchise for car loans, which has been of value to CBM as other banks have entered the market. Car loans represented 4.6% of CBM's gross loan portfolio as at 30 September 2012, as compared to 3.8%, 5.1% and 3.2% as at 31 December 2011, 2010 and 2009, respectively.

As at 30 September 2012, CBM's gross car loan portfolio was RUB 9.7 billion, as compared with RUB 6.2 billion, RUB 5.5 billion and RUB 1.9 billion as at 31 December 2011, 2010 and 2009, respectively. The significant increase from 2009 to 2010 is in line with higher car sales throughout the Russian Federation in 2010, with an increase in the associated financing.

All of CBM's car loans are secured by the cars that the customer purchases with the loan proceeds. All customers obtaining car loans are obliged to insure the vehicle upon which the loan is secured, and to assign the benefit of such policy in favour of CBM. Under CBM's car loan programme launched in June 2011, CBM offers retail customers car loans for up to seven years with a minimum annual interest rate of 13.25%.

As at 1 July 2012, CBM was ranked by RBC Rating as 15th in Russia based on the aggregate Rouble amount of car loans extended during the first half of 2012, 16th in Russia by the number of car loans extended during the first half of 2012 and 16th in Russia by the size of its total car loans portfolio as at that date.

CBM plans to further develop partner and joint programs for auto loans with car manufacturers and dealers.

Mortgage Lending

CBM's mortgage loan products are focused on retail customers with medium and high income for the purchase of residential properties generally of a value between RUB 0.7 million and RUB 7.0 million. CBM currently offers mortgages with maturities ranging from 12 months to 20 years and with interest rates ranging from 12% to 17%. The average interest rate is 13%. All mortgage loans are insured by one of the leading Russian insurance companies and secured by mortgage deeds.

As at 30 September 2012, CBM has outstanding mortgage loans of RUB 9.3 billion, as compared to RUB 7.7 billion, RUB 7.6 billion and RUB 5.6 billion as at 31 December 2011, 2010 and 2009, respectively. Mortgage loans represented 4.4% of CBM's gross loan portfolio as at 30 September 2012, as compared to 4.7%, 7.2% and 9.3% as at 31 December 2011, 2010 and 2009, respectively.

CBM's mortgage lending programme is partly financed by a US$5.0 million eight-year mortgage loan facility granted by the IFC, which was the first housing finance loan from the IFC to a Russian-owned bank when it was disbursed in 2005. This facility is due to expire in June 2013.

As at 1 July 2012, CBM was ranked 21st in Russia based on the volume of mortgage loans extended during the first half of 2012 and 17th in Russia by the size of its total mortgage loans portfolio as at that date.

Retail Funding

Deposits from retail customers are a significant source of funding for CBM. As at 30 September 2012, retail deposits represented 58.9% of CBM's total deposits by customers, as compared to 58.2%, 53.3% and 69.6% as at 31 December 2011, 2010 and 2009, respectively.

Over the past several years, CBM has significantly increased its retail customer deposits base as a result of improvements it has made to its product range, an aggressive marketing campaign, the expansion of its branch network in Moscow and the improvement of customer service. As at 30 September 2012, CBM had 187,175 retail deposit customers. According to RBC Rating, as at 1 July 2012 CBM ranked 16th among Russian banks based on amount of retail deposits. As at 30 September 2012, CBM had retail deposits in the amount of RUB 97.0 billion, as compared to RUB 85.4 billion, RUB 50.7 billion and RUB 31.7 billion as at 31 December 2011, 2010 and 2009, respectively.

CBM's deposit accounts include current and term accounts and are denominated in Roubles, U.S. dollars and Euros. The substantial majority of CBM's retail deposits are term deposits, which accounted for 93.4% and 94.3% of the total retail deposit portfolio as at 30 September 2012 and 31 December 2011, respectively.

The average term on CBM's deposits from retail customers as at 30 September 2012 was 18 months, as compared with 16 months as at 31 December 2011 and 9 months as at 31 December 2010.

Cash Collection and Delivery

CBM's cash collection and delivery services consist of cash collection and delivery solutions for businesses. CBM is one of the market leaders in providing cash collection and delivery services to businesses in Moscow and the Moscow region. CBM was the 3rd largest cash collection and delivery service provider in Moscow, the 4th largest in Russia as a whole and the largest private bank providing cash collection and delivery services in Moscow, in each case according to an Interfax survey conducted in 2011. Cash collection and delivery services are in high demand in Russia, where the majority of transactions are settled in cash. CBM believes that the provision of cash collection and delivery services helps to differentiate CBM from its competitors, thereby assisting CBM to attract and retain corporate clients.

CBM's clients in the cash collection and delivery area are comprised of large Moscow-based wholesale and retail trading companies which have cash-intensive businesses as well as other banks that outsource their cash collection and delivery function. CBM can credit collected cash to the deposit account of its customers at CBM, which is convenient for customers and also provides a source of funding for CBM's banking business. CBM offers an electronic banking system which is becoming increasingly popular, with the volume of payments routed through this system rapidly growing. CBM's cash collection and delivery services have enabled it to develop long-term customer relationships and offered it the opportunity to cross-sell its other corporate services and also allowed it to use the insight cash collection and delivery gives it into the financial condition of its corporate customers as part of its risk management strategy. In the course of its lending to corporate customers, CBM may take recourse to cash collected through its cash collection and delivery services should corporate borrowers fail to meet their obligations under their loan agreements with CBM.

CBM has cash collection settlement centres in both north and south Moscow, where cash is physically delivered, calculated and credited to clients' accounts. Approximately 95% of CBM's cash collection and delivery business is operated in Moscow and the Moscow region, with the remaining 5% operated in areas surrounding the Moscow region. CBM uses more than 170 armoured cash collection vehicles to perform its cash collection and delivery services.

As at the date of this Prospectus, CBM collects cash from 8,016 cash collection points, as compared to 6,483, 4,753 and 3,146 as at 31 December 2011, 2010 and 2009. CBM's cash collection points are at the locations of its Russian corporate clients. CBM collected cash with a value of RUB 455 billion in the nine month period ended 30 September 2012. As at 30 September 2012, CBM had over 139 cash collection routes, compared to 122 as at 31 December 2011, 96 as at 31 December 2010 and 80 as at 31 December 2009. As at the date of this Prospectus, CBM has over 730 cash collection and delivery customers (of which 18 are banks) and CBM's client base is diversified across different segments of the retail trading sector, wholesale trading sector and financial sector.

For the nine months ended 30 September 2012, 25.3% of CBM's fee and commission income was generated from its cash collection and delivery services, compared to 27.6% for the year ended 31 December 2011, 31.3% for the year ended 31 December 2010 and 37.2% for the year ended 31 December 2009. CBM generated RUB 709.2 million, RUB 750.5 million, RUB 549.5 million and RUB 443.5 million of fee and commission income from its cash collection and delivery services for the nine months ended 30 September 2012 and the years ended 31 December 2011, 2010 and 2009, respectively.

Since 2009, CBM has provided cash collection and delivery services to other banks and their clients, which gives CBM exposure to the client bases of other banks. Banks tend to outsource cash collection and delivery as they fall outside of what they consider to be their core banking business. CBM, therefore, has the ability to offer specialised products to its customers that non-banking cash collectors and non cash-collecting banks cannot offer, such as lending against collected revenue.

In December 2010, CBM began to provide a new banking service named "INKASSLOGIST", which collects accounting documents from cash collection points for further delivery to the client's head office or to a branch of CBM near to an office of the client.

Financial Markets, Treasury and Trading Securities

CBM participates in the interbank foreign exchange, international, domestic, government and corporate bonds and securities markets.

CBM conducts foreign exchange activities both for its own account and on behalf of customers. CBM's income or expense from net foreign exchange gains or losses primarily represents net gains or losses from currency transactions performed on behalf of corporate and retail customers and the purchasing and selling by CBM of currency derivatives. CBM generates income from net foreign exchange transactions performed on behalf of customers because CBM's selling price for a particular currency is higher than its purchase price. CBM typically incurs losses on its derivative transactions, which are hedging expenses that CBM incurs in order to limit its foreign currency exposure and to manage its liquidity position. CBM does not engage in derivative transactions for speculative purposes. CBM's foreign currency position is managed by the Treasury, which reports to CBM's Analytical Division and the Assets and Liabilities Committee (the "**ALCO**"). See "*Risk Management – Market Risk – Currency Risk*".

In the nine months ended 30 September 2012, CBM had a net foreign exchange loss of RUB 107 million, as compared to a net gain of RUB 381 million in the nine months ended 30 September 2011. This loss was attributable to losses in CBM's operations with foreign currency derivatives aimed at hedging foreign currency risk, the volume of which increased significantly during 2012 as compared to 2011 as a result of an expansion in CBM's business and a significant increase in the volume of CBM's international funding. Also contributing to the loss was in increase in the cost in the market for executing currency derivative transactions. In 2011, 2010, and 2009, respectively, CBM had a net foreign exchange gain of RUB 473 million, a net foreign exchange gain of RUB 232 million and a net foreign exchange gain of RUB 212 million.

CBM's securities portfolio consists primarily of Russian government and municipal securities, corporate bonds and promissory notes at Russian banks. CBM has a conservative policy with respect to its securities portfolio and trades securities on a proprietary basis solely for the purpose of managing its liquidity. CBM's securities portfolio is almost exclusively bonds, with equity securities representing 0.1% of CBM's total securities portfolio as at 30 September 2012, as compared to 0.1%, 0.2% and 0.4% as at 31 December 2011, 2010 and 2009, respectively. CBM's financial instruments at fair value through profit or loss, together with available-for-sale securities, represented 9.8% of its total assets as at 30 September 2012 , as compared to 10.7%, 19.3% and 18.0% of CBM's total assets as at 31 December 2011, 2010 and 2009. As at 30 September 2012, 83.5% of CBM's total bond portfolio was represented by bonds in the CBR's Lombard and Repo lists. The CBR Lombard list is a list of securities which are accepted by the CBR as security for the loans granted by the CBR. The CBR Repo list is a list of securities which are accepted for repo transactions.

CBM has established internal limits applicable to proprietary transactions in respect of individual issuers of bonds and promissory notes, interbank limits, and limits on the total volume of equity and debt instruments. The limits are established by the Analytical Division of CBM and approved by the ALCO.

See "*Management Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Total Assets – Securities Portfolio*" and "*Risk Management – Market Risk – Securities Portfolio Risk*".

Branches, Payment Terminals and ATMs

Branches and Other Bank Offices

The number of CBM's branches increased from 41 as at 31 December 2009 to 51, 60 and 61 as at 31 December 2010, 31 December 2011 and 30 September 2012, respectively. CBM's current 61 branches include four corporate banking centres dedicated to serving corporate customers (one of which also offers SME lending services) as well as CBM's Retail Business Centre in the centre of Moscow.

CBM owns four of its 61 branch offices, including its head office and its Retail Business Centre. Other CBM branches operate in leased premises. CBM owns each of its two cash collection and delivery centres.

Payment Terminals

CBM has a network of payment terminals at which a wide range of payments by individuals can be made, including payments for mobile telecommunications services, internet and cable television services, housing services, utilities services and traffic fines. Customers can also use CBM's payment terminals to repay loans extended by CBM and by other banks.

As at 30 September, CBM had 4,175 payment terminals, compared with 4,014 as at 31 December 2011, 1,737 as at 31 December 2010 and 820 as at 31 December 2009. CBM's payment terminal network is one of the largest such networks in Russia. According to RBC Rating, as at 1 July 2012, CBM was ranked 2nd in Moscow based on the number of its payment terminals.

Payments to over 400 companies can be made through CBM's payment terminals. It is also possible for individuals to repay loans to CBM and other banks through such payment terminals and the payment terminals also provide a service whereby change for excess payments made through a payment terminal can be directed towards an individual's mobile telephone account. The functionality of CBM's payment terminals corresponds to the best market practices, and CBM aims to continue to expand such functionality by offering a wide range of banking services unavailable from most other payment terminal networks in Moscow and the Moscow region.

In addition to generating fee and commission income for CBM, CBM's payment terminals help to reduce credit risk, because CBM uses information related to customer payments made through payment terminals, by customers who have set up a payment terminal registration account with CBM, to make credit decisions on making loans to such customers. CBM's customer relationships with retail chains have assisted CBM with placing its payment terminals in the stores of a number of retail chains.

CBM leases the space where its payment terminals are located. CBM's payment terminals are located in CBM's branches and also in shopping malls, entertainment complexes and supermarkets located in Moscow, the Moscow region and the neighbouring regions of Tver, Ryazan, Kaluga and Vladimir.

ATMs

CBM had 672 ATMs in its ATM network as at 30 September 2012, as compared to 604, 402 and 240 as at 31 December 2011, 2010 and 2009, respectively. According to RBC Rating, as at 30 July 2012, CBM was ranked 7th in Moscow based on number of ATMs. CBM leases the space where its ATMs are located.

Since February 2011 CBM's retail banking customers have also been able to use ATMs of another Russian bank, Rosgosstrakh Bank (formerly Russ-Bank), which has ATMs located in 60 cities of the Russian Federation, and in December 2012 CBM and Alfa-Bank united their ATM networks. CBM also has a similar arrangement in place with UniCredit Bank. As a result of these ATM partner programmes, CBM's customers can use ATMs in a network including more than 2,700 ATMs in 232 cities throughout Russia on the same terms as using CBM's ATMs.

Information Technology

Information technology is an integral part of CBM's operations. CBM's IT development policy is directed at the improvement of CBM's technologies as well as the development, optimisation and enhancement of CBM's information systems. CBM seeks to continuously improve its IT systems in order to increase CBM's competitive position and improve the quality of client services.

CBM has invested in a reliable IT infrastructure. It is based on equipment manufactured by leading firms such as IBM, HP and Cisco. CBM has three secure independent data processing centres, which were established in 2007, 2008 and 2012. These centres have independent power supplies and are fitted with firefighting and air conditioning systems.

CBM uses software purchased from vendors such as Oracle, Microsoft, IBM, SAP, SAS, and software developed by CBM specialists. All of CBM's systems are regularly reviewed and updated in order to ensure the reliability of the system and security of the data which CBM holds. As at the date of this Prospectus, there have been no system failures which have affected CBM's operations.

CBM is a principal member of MasterCard WorldWide and VISA International. CBM's card processing centre is based on TSYS Card Tech software, and this year the processing centre was upgraded to EMV technology for both acquiring (processing card payments for a merchant) and issuing cards. The centre has its own personalisation bureau, ATM, POS terminal and kiosk networks. CBM's cards are protected by 3d-Secure and fraud monitoring systems.

CBM provides a wide range of remote services for individual and corporate clients, in addition to CBM's physical network of payment terminals and ATMs. In addition to its existing internet banking system, CBM Online, in 2012 CBM launched its new mobile application banking service, CBM Mobile, which can be accessed through the use of a mobile phone, iPad or similar devices based on the Android platform. In terms of operability of its internet banking system, CBM Online was ranked 8th in Russia by Expert RA and 9th in terms of information and financial security of its internet

banking system as at 1 April 2012. CBM Mobile was ranked joint 9th in Mobile Banking Rank 2012 by Markswebb Rank & Report.

CBM is currently in the process of implementing an upgrade to its customer relationship management (CRM) system. The first stage of the process involved the launch of a new "credit factory" system for the approval of general consumer loan applications. The remaining stages of the upgrade are expected to be completed in 2013 and 2014.

See "*Risk Factors – Risks Relating to CBM's Business and Industry – CBM's IT systems may malfunction or be insufficient to support future operations*".

Insurance

CBM has a comprehensive BBB insurance policy with Ingosstrakh Joint Stock Insurance Company ("**Ingosstrakh**"), one of Russia's major insurance companies. This policy covers a range of risks associated with CBM's operations, including, among other things, property (and the provision of temporary alternative premises when required), all deposits (such as those received via cash collection operations) and the risk of electronic fraud. The policy also covers the risk of criminal acts by CBM's employees. The policy also provides cover for CBM's property interests with regard to any damage caused to third parties in the course of its banking activities. The policy has no excess. The cost of the policy varies with the changing level of insurable assets, but CBM monitors the coverage to ensure that, as far as possible, it is neither under-insured nor over-insured.

In addition to the BBB insurance policy, CBM also has real estate and property insurance policies covering buildings/premises owned by CBM. CBM insures valuables on its premises, including cash in the operational offices, payment terminals and ATMs. CBM also maintains corporate and individual public liability insurance policies and policies covering CBM's property interests related to its liability to indemnify third parties for any bodily injury or property damage with regard to the rented premises. CBM also has a general liability policy, which, among other things, protects against unlawful acts of employees, loss of property, loss from fraud transaction with payments, securities and false banknotes. CBM insures its car loans and mortgages and is a member of the Russian Deposit Insurance System.

CBM's insurance does not cover all of CBM's assets and liabilities. The Russian insurance industry is poorly developed, and many forms of insurance offered in economically developed countries are unavailable to CBM on the terms common in such countries, including insurance coverage for business interruption. See "*Risk Factors – Risks Relating to CBM's Business and Industry – CBM may lack sufficient insurance coverage*".

Employees

The following table sets forth the number of employees of CBM as at 30 September 2012, and as at 31 December 2011, 2010 and 2009 by functional category.

	As at 30 September		As at 31 December					
	2012		2011		2010		2009	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Management Board	8	0.2	5	0.2	7	0.3	6	0.3
Senior management	13	0.3	11	0.3	3	0.1	2	0.1
Middle management	313	7.9	268	8.1	188	7.8	144	7.9
Specialists	2074	52.2	1751	52.7	1210	50.1	915	50.0
Cashiers and operators	876	22.0	712	21.4	561	23.3	407	22.2
Cash collectors	606	15.3	520	15.6	410	17.0	350	19.2
Other	85	2.1	55	1.7	35	1.4	6	0.3
Total	**3,975**	**100.0**	**3,322**	**100.0**	**2,414**	**100.0**	**1,830**	**100.0**

CBM had 3,975 employees as at 30 September 2012, as compared to 3,322 as at 31 December 2011, 2,414 as at 31 December 2010 and 1,830 as at 31 December 2009. The average age of CBM's employees is 32 years old and the majority of CBM's employees (more than 60%) have a higher

professional education. The majority of CBM's employees who do not have a higher professional education are students at higher educational institutions.

The increase in the number of CBM's employees is a result of the growth of CBM as described above, including the opening of new branches and the expansion of CBM's cash collection and delivery business.

CBM has its own internal corporate training centre where training specialists conduct various training programmes and courses on a regular basis. Training programs are in place for all employees and management including basic training for employees of any business line, skills training for the retail segment, a "Staff Reserve" program for the training of future directors of branches, a training and development program for the underwriting department, a training and development program for employees of the contact centre and a "Promotion School" project.

CBM has incentive programs for employees in the areas of corporate banking, retail banking, underwriting, loan recovery, legal and contact centre. The incentive programs involve payment of bonuses based on achieving target key quantitative performance indicators or success in specific projects for a particular business area or position, subject to defined criteria.

CBM does not have pension arrangements aside from the state pension of the Russian Federation. The Russian Federation pension system requires contributions from CBM in respect of its employees, calculated as a percentage of current gross salary payments. CBM does not have any stock option plans for its employees.

CBM's salaries and employment benefits increased by 66.2% to RUB 2.5 billion in the nine months ended 30 September 2012 from RUB 1.5 billion in the nine months ended 30 September 2011. For the year ended 31 December 2011, salaries and benefits increased to RUB 2.1 billion from RUB 1.4 billion for the year ended 31 December 2010. For the year ended 31 December 2010, salaries and benefits increased to RUB 1.4 billion from RUB 1.1 billion for the year ended 31 December 2009. These increases were primarily due to increases in the number of employees of CBM as a result of the expansion of CBM's retail and corporate businesses during the periods covered.

As at the date of this Prospectus, there were no collective bargaining agreements among CBM's employees.

Legal Proceedings

Although CBM is the subject of legal proceedings and adjudications from time to time, as at the date of this Prospectus, there are no, and have not been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which CBM is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of CBM.

RISK MANAGEMENT

Overview

The principal categories of risk inherent in CBM's business are solvency risk, liquidity risk, credit risk, market risk (including price, interest rate, foreign currency and securities portfolio risks), operational risk and reputational risk. The purposes of CBM's asset, liability and risk management policy are as follows:

- ***Risk identification and analysis:*** the identification of risk factors and the determination of risk sensitivity.
- ***Risk assessment:*** setting out a methodology to assess each of the risks and assessing of the acceptability and reasonableness of the risks.
- ***Risk response:*** using a system of early risk monitoring and a division of quick and appropriate response to prevent or mitigate the risk and setting out methods for responding to financial risk.
- ***Risk control:*** monitoring compliance with the limits approved by ALCO, the Credit Committee and the Management Board; reporting current open positions, risk magnitude, the state of limits and any violations to CBM's management; identifying and reporting any limit violations; and reviewing its risk assessment methods at least once a year.

CBM has designed its risk management policy to manage these risks by establishing procedures and setting limits, which are monitored by independent departments using advanced administrative and information systems. These systems can be modified to reflect changes in market conditions and product demand.

Organisation

CBM's risk management functions are carried out by several bodies that are responsible for establishing risk management policies and procedures, including the establishment of limits, and implementing CBM's policies and procedures, including monitoring and controlling risks and limits on a continuous basis. The following are CBM's principal risk management bodies:

- ***Audit and Risk Committee***. The Audit and Risk Committee is formed by the Supervisory Board. The committee's functions include:
  - o advising the Supervisory Board on:
    - selecting an independent auditor to undertake the annual independent external audit of CBM's financial statements;
    - appraising the quality of services provided by the independent auditor and its compliance with independence requirements;
    - efficiency of internal control and risk management procedures;
    - prioritising CBM's activities within the acceptable level of risk; and
    - compliance with applicable laws and regulatory requirements;
  - o maintaining the Supervisory Board's control over activities of CBM's executive bodies and ensuring co-operation with CBM's executive bodies on matters within the committee's competence; and
  - o implementing and promoting a culture of risk management within CBM;
- ***Management Board.*** The Management Board is the executive body which is responsible for CBM's operations and the implementation of decisions of the General Shareholders' Meeting and Supervisory Board. The Management Board is responsible for the overall direction of CBM's activities and makes decisions with respect to its current performance.

  The Management Board's functions include:
  - o forming committees and delegating to such committees part of its authority under the relevant regulations;
  - o approving risk limits and making decisions in relation to transactions that fall beyond the relevant management/committees authority;
  - o approving internal regulations, policies, guidances, instructions, rules and other internal documents;
  - o forming committees to ensure control over particular risks; and

- approving interest rates and tariffs for banking services.

- ***Corporate Credit Committee***. The Corporate Credit Committee contains two individual committees: the Smaller Credit Committee and the Main Credit Committee. The Smaller Credit Committee approves credit limits up to RUB 500 million and consists of six permanent members. The Main Credit Committee approves credit limits above RUB 500 million. Credit limits and transactions in above RUB 2,000 million are required to be approved by the Management Board. The committees' responsibilities include the following:
  - organising and managing CBM's lending activity and credit risks;
  - controlling the quality of CBM's loan portfolio;
  - approving credit exposure limits for borrowers, sectors, and industries;
  - delegating authority for the approval of loans to CBM's officers, within certain limits;
  - qualifying loans as problem loans;
  - setting credit ratings to reflect the relative risk of the various categories of borrowers; and
  - changing approved credit risk limits;
- ***Retail Credit Committee***. The Retail Credit Committee consists of five permanent members and meets several times a week. The composition and authority of the Retail Credit Committee is approved by the Management Board. The responsibilities of the committee include:
  - approving credit loans to individuals;
  - approving individual restructuring conditions;
  - approving non-standard conditions for basic products;
  - reviewing high risk applications; (with the authority to decline them)
  - reviewing analytical portfolio reports; and
  - escalating approval of applications to the Board level;
- ***ALCO.*** ALCO is responsible for establishing the strategy for the attraction and allocation of funds, the strategic and operating management of risks related to the deterioration of capital and liquidity, and currency and interest rate risks. ALCO's functions include:
  - defining the general structure of the Bank's assets and liabilities, including distributing assets by risk, profitability and maturity;
  - establishing types of financial instruments used by CBM and operations performed in the financial markets;
  - establishing credit risk limits for financial market counterparties and debt securities;
  - managing CBM's open currency position;
  - interest risk management; and
  - liquidity management;
- ***Risk Division***. CBM's Risk Division identifies, evaluates and manages banking risks. The Risk Division is responsible for:
  - evaluating, analysing and preparing independent opinion on credit risks;
  - evaluating and monitoring business reputation and sector research;
  - evaluating industry risks and their impact on the creditworthiness of corporate clients and the development of CBM's industry risk policy;
  - monitoring the credit portfolio in respect of sectors, customers (aggregate exposure within limits), collateral value and quality based on regular reviews, quarterly revaluation of collaterals and financial condition;
  - monitoring of customers' compliance with covenants;
  - monitoring of the lending activities of CBM's divisions; and
  - monitoring of the compliance of CBM's divisions with established limits;

  Credit risk factors are identified and reported to departments and management on an ongoing basis. Management decisions are made on the basis of daily, monthly and quarterly reporting across business lines.

CBM's current Chief Risk Officer is also the Director of CBM's Risk Division. The Risk Division includes the Corporate Risk Department, Retail Risk Department, Information and Analytical Department, Project Finance Department and Collateral Appraisal and Monitoring Service.

- ***Treasury Department***. The Treasury Department conducts the attraction and allocation of funds in financial markets and over-the-counter markets, and develops the principles of CBM's activities in financial markets for the purpose of managing CBM's liquidity position. The Treasury Department's main functions are:
  - o generating the preliminary daily financial plan for CBM;
  - o providing sufficient funds to CBM's correspondent accounts in order for rouble and foreign currency payments to be made;
  - o controlling CBM's liquidity and maturity forecast;
  - o analysing maturity forecasts in relation to severe market condition scenarios;
  - o monitoring and controlling the open foreign exchange position structure;
  - o forecasting changes in CBM's interest margin ;
  - o attracting and placing funds into interbank loans and deposits, foreign exchange buying and selling, interbank banknote transactions, conversion operations, executing operations on allocation/attracting funds at the exchange or OTC markets with the aim to settle CBM's liquidity position control; and
  - o providing recommendations on maturity, amounts and currency structure of the issued loans;
- ***Internal Control Department.*** The main responsibilities of the Internal Control Department include:
  - o ensuring CBM's compliance with the Russian law;
  - o ensuring an efficient and reliable system of internal control;
  - o controlling compliance with CBM's requirements regarding banking risk assessment and risk management; and
  - o controlling the assessment of financial viability and efficiency of banking transactions.

  The Internal Control Department consists of the Corporate Business Audit Unit, the Retail Business Audit Unit, the Operational Risk Management Unit, the Internal Audit Department and the Operational Risk Management Methodology Sector; and
- ***Analytical Division***. The Analytical Division provides comprehensive analysis of market risks and risks associated with financial markets and financial institutions. It is responsible for:
  - o assessing credit, financial and sector risks when executing financial markets operations, including recommendations on the amounts, structure and limits for the financial market counterparties;
  - o assessing and analysing market risks including interest, currency and price risks; and
  - o assessing proposals made by the Treasury Department on liquidity management and market risks; and
  - o controlling the compliance of CBM's subdivisions with regard to the limits placed on transactions with financial markets counterparties; and
  - o controlling the compliance of CBM with regard to market risks limits.

Solvency Risk

CBM monitors its own solvency on a daily basis using a methodology developed within CBM. According to this methodology, CBM's assets are measured at their market values by applying discounts to the book value of assets, thus allowing CBM to calculate its "net conventional capital" conservatively. CBM's objective is to maintain its solvency at a high level. Adherence to maintaining solvency within predefined levels protects CBM from making further investments in risky assets and allows it to reduce the risk of losses on the impairment of existing assets by selling them on the market at an appropriate time.

Liquidity Risk

Liquidity risk is the risk of a mismatch between the maturities of assets and liabilities, which may result in CBM being unable to liquidate a position in a timely manner at a reasonable price to meet its funding obligations. CBM is exposed to liquidity risk primarily in the funding of its customer loan and securities portfolio. CBM seeks to have sufficient liquidity to meet its current and future obligations and funding needs at reasonable market rates. CBM's operations are principally funded through customer deposits (both corporate and retail). CBM also has some interbank borrowings and debt funding in both Russian and international capital markets. In addition, a substantial portion of its securities portfolio is highly liquid and could be used to help CBM meet liquidity needs. CBM also has access to liquidity from the CBR on a secured and unsecured basis, but in practice it generally does not utilise such liquidity.

The ALCO approves liquidity assessment and management procedures, determines liquidity requirements and sets minimum necessary levels of liquid assets and maturity mismatch limits. Oversight of CBM's liquidity risk is shared with CBM's Treasury Department.

CBM is subject to liquidity requirements set by the CBR, which exercises strict control over liquidity risk by establishing instant (N2) and current (N3) liquidity statutory ratios. The risks relating to sources of funding are controlled by the CBR in accordance with the capital adequacy (N1) standard and long-term (N4) liquidity standard. The CBR requires that such ratios are complied with on a daily basis and CBM is required to provide a monthly statement demonstrating that it has complied with such ratios on a daily basis for the relevant statement period.

Managing liquidity risk includes monitoring CBM's asset and liability structure and forecasting its future movements. Liquidity risk is analysed by CBM in the following manner:

- projections are consolidated into cash-flow charts for each group of assets and liabilities;
- statistical analysis methods (such as stress tests) are employed in order to identify necessary levels of short- and long-term liquidity;
- liability forecasts are counterbalanced by highly liquid and liquid asset reserves, as needed to discharge payment obligations in full, even under stress;
- liquidity surpluses/shortages are identified throughout the forecast period, together with respective allocation/funding options;
- CBM uses temporary liquidity surpluses for the provision of interbank loans, repo deals and in some cases for short-term lending to corporate clients; and
- final decisions with respect to setting limits are carried out by the ALCO, which ensures ALCO has comprehensive control over liquidity risk.

The following table sets forth CBM's consolidated liquidity position as at 30 September 2012 and shows financial assets and liabilities by their remaining contractual maturity as at 30 September 2012.

As at 30 September 2012	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No maturity	Overdue	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
ASSETS								
Cash and cash equivalents	25,557,226	–	–	–	–	–	–	25,557,226
Obligatory reserves with the Central Bank of the Russian Federation	2,489,994	–	–	–	–	–	–	2,489,994
Due from credit institutions	2,677,636	5,068,505	4,784,033	–	–	–	–	12,530,174
Financial instruments at fair value through profit or loss	18,982,979	151,848	182,008	1,807,053	1	19	–	21,123,909
Available-for-sale securities	2,329,239	1,283,895	794,395	1,595,867	159,212	27,506	–	6,190,115
Loans to customers	18,129,944	80,051,666	31,959,318	63,813,757	8,531,772	–	1,859,468	204,345,925
Property and equipment	–	–	–	–	–	5,340,485	–	5,340,485
Other assets	223,910	514,581	617,498	–	–	311,783	–	1,667,772
Total assets	**70,390,928**	**87,070,496**	**38,337,252**	**67,216,677**	**8,690,985**	**5,679,793**	**1,859,468**	**279,245,600**
LIABILITIES								
Deposits by Central Bank of Russia	3,005,943	3,005,943						
Deposits by credit institutions	5,473,946	9,772,635	9,251,037	6,550,844	545,228		–	31,593,690
Deposits by customers	50,191,730	55,617,068	33,995,885	22,538,963	2,249,316		–	164,592,962
Debt securities issued	1,210,915	3,549,640	2,238,496	31,037,695	–		–	38,036,746
Income tax liability	33,399	–		–	–	2,393,672	–	2,427,071
Other liabilities	1,431,860	387,628	360,858	–	–	770,868		2,951,214
Total liabilities	**58,341,850**	**72,332,914**	**45,846,276**	**60,127,503**	**2,794,544**	**3,164,540**	**–**	**242,607,626**
Net liquidity position	12,049,078	14,737,582	-7,509,024	7,089,175	5,896,441	2,515,253	1,859,468	36,637,974
Accumulated gap	12,049.078	26,786,660	19,277,636	26,366,811	32,263,252	34,778,505	36,637,974	

The following table sets forth CBM's consolidated net liquidity position and accumulated gap as at 31 December 2011, 2010 and 2009.

	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No maturity	Overdue	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
Net liquidity position as at 31 December 2011	19,662,253	14,316,502	(25,057,507)	6,650,432	3,660,224	4,889,103	1,486,899	25,607,906
Accumulated gap as at 31 December 2011	19,662,253	33,978,755	8,921,248	15,571,680	19,231,904	24,121,007	25,607,906	
Net liquidity position as at 31 December 2010	19,065,046	(4,641,315)	(12,301,765)	8,062,152	(1,798,580)	4,330,272	1,051,285	13,767,095
Accumulated gap as at 31 December 2010	19,065,046	14,423,731	2,121,966	10,184,118	8,385,538	12,715,810	13,767,095	
Net liquidity position as at 31 December 2009	7,887,946	(2,979,644)	(1,742,242)	1,279,036	2,614,472	2,726,675	1,257,203	11,043,446
Accumulated gap as at 31 December 2009	7,887,946	4,908,302	3,166,060	4,445,096	7,059,568	9,786,243	11,043,446	

Credit Risk

As a result of its credit operations, CBM is exposed to credit risk, which is the risk that a counterparty will be unable to pay its obligations when due. Credit risk arises in the context of CBM's corporate and retail lending activities and interbank operations, as well as with respect to repo transactions and granting letters of credit or guarantees to third parties.

CBM has policies and procedures for the management of credit exposures (both for recognised and unrecognised exposures), including guidelines to limit portfolio concentration. CBM seeks to continuously monitor the performance of individual credit exposures and regularly assesses 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 CBM. The current value of collateral is regularly assessed by either independent appraisers or internal specialists and in the event of negative movements in market prices, the borrower is usually required to provide additional collateral.

Lending Policies and Procedures

In making a lending decision, CBM considers the following principal factors:

- information transparency (the ability to provide data that is sufficient to assess the borrower's financial position);
- personal responsibility of the business owners;
- the ability to provide collateral and the ability to service loans through operating cash flow; and
- whether the client is involved in any activities that are prohibited under the terms of CBM's borrowing arrangements with EBRD, IFC and BSTDB.

CBM has established procedures for approving loans and monitoring loan quality and for the extension and refinancing of existing loans. These procedures are set out in CBM's credit policy, established by CBM's Management Board. The credit policy sets out the framework for the provision of loans and clearly defines the criteria for the evaluation of potential and existing customers. CBM's credit policy also creates the framework for lending to corporate clients, requiring sufficient categories and values of security to be taken by CBM in respect of the loans that it originates in order to satisfy certain liquidity thresholds.

Corporate Loan Approval Process

CBM's Corporate Client Directorate and Corporate Lending Department analyse loan applications and prepare a borrower's creditworthiness report. The Risk Division then analyses the loan application and assesses the credit risks based on the reports of CBM's respective units on the borrower's corporate credit risk, collateral, legal risks and reliability. CBM's assessment procedure for corporate loans is ratings-based. The Risk Division of CBM also meets the borrower's management and undertakes site visits. The value of the collateral offered by the borrower is generally evaluated by CBM's Collateral Appraisal and Monitoring Service of Risk Division. CBM employs external specialists in cases where it requires additional capacity. CBM also assesses the feasibility of the proposed use of the loan with regard to its capacity to generate revenue to fund the repayment of the loan.

The level of authorisation required for risk approval of corporate loans, depends on the amount of credit risk and the extent to which a particular transaction deviates from CBM's standard lending terms. Loans provided for an amount:

- not exceeding RUB 100 million, are approved by the Vice-President of CBM;
- not exceeding RUB 150 million, are approved by the First Vice-President;
- not exceeding RUB 200 million, are approved by the Deputy Chairman of the Management Board or by the First Deputy Chairman of the Management Board;
- exceeding RUB 200 million, and up to RUB 500 million, are approved by the Smaller Credit Committee; and
- exceeding RUB 500 million, and up to RUB 2 billion, are approved by the Main Committee.

The Management Board approves loans in excess of RUB 2 billion or if the terms of a transaction deviate from CBM's standard lending terms.

Retail Loan Approval Process

CBM divides potential retail borrowers into different categories when reviewing their applications, with CBM's employees being the lowest risk, together with employees of publicly listed companies, clients with a good credit history (internal or external), public sector workers, and employees of CBM's corporate clients. CBM also lends to "walk-in" retail customers not connected with CBM, but subject to a more rigorous risk-evaluation procedure. See "*Business – Retail Banking*".

CBM assesses retail customers using a credit scoring methodology by which applicants are rated according to established criteria including the applicant's age, income, place of employment, employment history and credit history. Each criterion has a certain weighting depending on its performance and the credit decision is taken on the basis of the applicant's resulting credit score.

Decisions as to whether to approve a retail loan are made at different levels within CBM depending on the customer's credit limit. All applications are examined by an underwriter. Approval by at least two employees of CBM's Underwriting Department are required to approve a retail loan.

Various authorised persons within CBM have authority to approve retail loans, including the Head of the Underwriting Department, Director of Retail Business Directorate, First Deputy Chairman of the Management Board, Vice-President of Retail Network Directorate or heads of relevant units of the Underwriting Department of the Retail Business Directorate, subject to specified limits depending on the credit product type and standards applicable to such product.

Authority to approve loans of more than RUB 1 million is granted to particular persons by decision of the Management Board. Authority to approve loans of more than RUB 10 million is subject to approval either by the Credit Committee or by the Management Board. The Credit Committee comprises representatives from the Risk Division, Retail Business Directorate, Loan Recovery Department and Legal Division. Authority limits of Deputy Chairmen of the Management Board are set individually.

CBM's review of loan applications by product has several particular features:

- Pledged real estate is analyzed by the Legal Division and property with collateral value exceeding RUB 15 million is additionally appraised by the Collateral Appraisal and Monitoring Service of the Risk Division.
- Applications for loans for the purpose of purchasing commercial property and loans guaranteed by legal entities are reviewed by the Risk Division regardless of the amount.
- Applications for different types of loans have different threshold amounts, depending on which they can be qualified as applications subject to mandatory review by the Risk Division. For example, general-purpose loans filed by business owners are reviewed by the Risk Division when exceeding RUB 1.8 million, and mortgage loans are reviewed by the Risk Division when exceeding RUB 7 million).
- Applications, the analysis of which differs from the standard decision-making procedure, are escalated to a higher level of approval.

CBM regularly improves the procedure for making credit decisions, taking into account market trends and focusing on improving the efficiency of the retail loan portfolio and the reduction of credit risks.

In 2012, CBM introduced several new procedures to retail loan approval. These included making the complexity of verification dependent on an applicant's score, maintaining lists of companies with high or low credit risk employees, introducing a cross-sale strategy, the implementation of new authorisation limits and introducing new risk-based pricing.

The borrower appraisal process for retail loans includes the following steps:

- prioritisation of applications;
- review of the document package provided for accurate, and compliance with CBM's requirements;
- review of the borrower's credit history;
- verification of the information supplied;
- review of the applicant's capacity to adequately service the proposed borrowing;
- appraisal of the applicant's income and future stability of such income;
- analysis of the applicant's monthly expenses (i.e., current debt servicing), and disposable income available for servicing debt;
- calculation of the appropriate credit limit;
- with respect to mortgage loans, verification of the title and the enforceability of any pledged security, verification of the seller's authorisation to sell the property and verification of compliance with land use regulations, with the involvement of CBM's Collateral Evaluation and Monitoring Service, part of the Risk Division, where the value of the pledged collateral is over RUB 15 million (in which cases site visits may also be performed);

- preparation of an analyst's report, determining the applicant's eligibility and confirmation of the correct completion of the relevant documentation; and
- approval by the authorised person.

As part of its retail loan approval process, CBM utilises the services of several credit bureaus in Russia that maintain databases of retail borrowers' credit histories.

Collateral

To minimise risks and as required by existing regulations, CBM has an internal requirement that all corporate loan products and some retail loan products must be secured by either a pledge of assets or a corporate guarantee. Collateral is evaluated by the Risk Division's Collateral Appraisal and Monitoring Service and evaluation and suitability reports are prepared internally by the Collateral Appraisal and Monitoring Service) and/or independent experts or accredited independent appraisal companies. Collateral is also subject to the Legal Division's legal opinion.

Under its collateral policy, the Bank accepts as security any commercial and residential property, plots of land, combined property, equipment, vehicles (including self-propelled ones), inventory, property interests, claims, shares, participatory interests, securities, participation units and debt securities. The collateral portfolio is revaluated and maintained on the basis of regular on-site visits and reports by the Collateral Appraisal and Monitoring Service. As at 30 September 2012, approximately 58% of CBM's corporate loan portfolio was secured by a pledge of assets, with a majority of the remainder being secured by a corporate guarantee.

For CBM's retail loans, mortgage loans are secured by the underlying real estate and car loans are secured by the underlying car. Credit card overdrafts and general purpose consumer loans are unsecured.

The following table sets out information on collateral securing loans to CBM's corporate customers, net of impairment, by types of collateral as at 30 September 2012 and 31 December 2011. Such information is not available as at 31 December 2010 or 2009.

	As at 30 September (Unaudited)	As at 31 December
	2012	2011
	(RUB thousands)	
Real estate	30,476,190	25,098,278
Goods	26,025,170	18,937,944
Securities	18,958,889	15,069,861
Equipment and motor vehicles	7,838,754	8,272,587
Claims for contract receivables	11,124,547	5,071,560
CBM's own debts	400,507	5,658,958
Corporate guarantees and no collateral	70,705,790	54,735,070
Total loans to corporate customers	**165,529,847**	**132,844,258**

Loan Portfolio Monitoring and Control

CBM monitors its loan portfolio at three levels:

- ***General monthly macro-monitoring.*** This process involves the assessment of the overall loan portfolio quality, including the total number and amount of overdue loans, breakdown of loans by risk groups, regional, industrial, currency and product breakdown, the observance of limits and an assessment of the overall profitability.
- ***Micro-monitoring.*** This process involves the analysis of individual loans by monitoring a borrower's compliance with its lending restrictions, and monitoring its repayment profile (including the time of repayments and identifying any deterioration in credit quality). CBM's strong cash collection and delivery franchise gives it a good insight into the financial condition of some of its customers and CBM uses this insight to adjust its exposure to certain of its corporate customers based on an analysis of the dynamics of the customers' revenues. CBM is in a position to identify potential problems at an early stage by monitoring the customers' cash flows through its cash collection and delivery activities.

- ***Collateral monitoring.*** This is required on a continuous basis by internal regulations to confirm the actual condition and value of collateral, and timely identify any possible legal risks which could affect the quality of the collateral portfolio. The Collateral Appraisal and Monitoring Service reports any breaches identified to CBM's authorised bodies and recommends how to mitigate the risk of loss of collateral.

Loan Recovery

CBM has a Loan Recovery Department, which deals with both corporate and retail loan customers that have been identified as problematic loan customers. Retail loan recovery consists of the following multi-stage procedure:

- ***"Zero-stage".*** CBM sends an SMS text message to a borrower's mobile phone to inform the borrower before the closing day of due payments, in order to prevent loans from becoming past due.
- ***Soft collection.*** CBM's call centre contacts borrowers from the first day past the due date, for confirmation of payment or fraud detection.
- ***Hard collection.*** From 30 days (or 60 days for mortgages) past the due date, or earlier in the case of fraud, CBM's collection service starts the procedure of claiming the debt, negotiating with the borrower or guarantor, mailing an official claim to the borrower, commencing pretrial proceedings and visiting the client to try and negotiate.
- ***Legal.*** Following hard collection, CBM institutes court proceedings, court enforcement proceedings, arrest of pledge and sale of property.

Corporate loan recovery is dealt with on a case-by-case basis. It may include court proceedings, loan restructuring, arrest and sale of collateral, arrest of accounts or working with receivables assigned or with guarantors. CBM's Loan Recovery Department actively involves specialists from the Risk Division, Legal Division and Corporate Lending Division. Results are monitored, at least monthly, by the Risk Division.

Loan Portfolio Lending Limits

To limit its credit risk exposure, CBM has set limits in respect of credit risk by reference to product, type of collateral, geographical and industry concentrations. These limits are contained in covenants that CBM is subject to in certain of its financing arrangements. The most significant of such lending limits are:

- No economic industry sector may represent more than 20% of CBM's total gross corporate loan portfolio.
- CBM's exposure to an economic group (a single borrower or group of related borrowers) may not exceed 20% of CBM's total capital.
- CBM's aggregate exposure to all economic groups to which CBM individually has exposure in excess of 10% of CBM's total capital may not exceed 400% of CBM's total capital.
- CBM's total volume of point-of-sale consumer loans may not exceed 15% of CBM's total capital.
- CBM's internal limits for related party transactions are 5.0% of CBM's assets or 15% of CBM's total capital.

As at 30 September 2012, CBM's largest single borrower (grouped by holding company) to which it was exposed accounted for RUB 3.8 billion or 1.8% of CBM's gross loan portfolio, compared to RUB 4.5 billion or 2.8% of CBM's gross loan portfolio as at 31 December 2011, RUB 2.4 billion or 2.3% of CBM's gross loan portfolio as at 31 December 2010 and RUB 2.0 billion or 3.3% of CBM's gross loan portfolio as at 31 December 2009. CBM's largest related party lending exposure as a percentage of total capital was 0.1% as at 30 September 2012, 0.3% as at 31 December 2011, 2.3% as at 31 December 2010 and 3.4% as at 31 December 2009.

Loan Classification, Provisioning and Write-offs

CBM classifies loans overdue by 90 days or more as NPLs. CBM's loan portfolio also includes loans that have been renegotiates and would otherwise be past due or impaired. Such renegotiating activity typically includes agreeing a new repayment schedule with the borrower that enables the borrower to return to the original repayment schedule and is aimed at managing customer relationships and

maximizing the quality of the loan portfolio. Renegotiated loans are included in loans not past due unless the borrower is unable to comply with the renegotiated terms.

CBM aims to identify potential NPLs at an early stage and has established an internal policy on dealing with potential and actual NPLs. CBM writes off its NPLs and the respective provisions only if it believes that actions to recover debt would imply more costs than the amount recovered. Under CBM's internal policy, an NPL can be written off on the basis of the relevant credit committee's decision if the amount of the debt is less than 1% of CBM's own capital, or on the basis of a decision by the Management Board if the debt amount is over 1% of CBM's own capital, provided that there are documents evidencing the impossibility of recovering the debt, such as judicial orders or documents issued by state authorities.

The level of CBM's NPLs as a percentage of total loans to customers was 1.2%, 1.2%, 1.5% and 3.0% as at 30 September 2012 and 31 December 2011, 2010 and 2009. NPLs in CBM's corporate loan portfolio accounted for 0.5% of total loans to customers as at 30 September 2012, as compared to 0.4% as at 31 December 2011, 0.5% as at 31 December 2010 and 0.8% as at 31 December 2009. NPLs in CBM's retail loan portfolio accounted for 4.0% of total loans to customers as at 30 September 2012, as compared to 4.3% as at 31 December 2011, 1.4% as at 31 December 2010 and 2.2% as at 31 December 2009.

NPLs together with renegotiated loans amounted to RUB 3.5 billion, or 1.7% of the gross loan portfolio, as at 30 September 2012, as compared to RUB 2.7 billion, or 1.6% of the gross loan portfolio, RUB 2.9 billion or 2.7% of the loan portfolio, and RUB 2.4 billion, or 4.1% of the gross loan portfolio, as at 31 December 2011, 2010 and 2009, respectively.

CBM's ratio of total impairment allowance to overdue loans (classified as overdue by one day or more) was 133.0%, 141.5%, 128.0% and 79.7% as at 30 September 2012 and 31 December 2011, 2010 and 2009, respectively. CBM's ratio of total impairment allowance to NPLs was 191.2%, 208.6%, 171.6% and 101.7% as at 30 September 2012 and 31 December 2011, 2010 and 2009, respectively.

CBM regularly sells its NPLs to third parties. Under IFRS, such sales are treated as loans written off.

See Note 12 to the Interim Financial Statements, Note 13 to the 2011 Annual Financial Statements, Note 12 to the 2010 Annual Financial Statements and "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for the Nine Month Periods Ended 30 September 2012 and 2011 – Provision for Impairment of Loans*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for the Years Ended 31 December 2011, 2010 and 2009 – Provision for Impairment of Loans*", and "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Total Assets – Loans to Customers – Non-performing Loans*", "*– Renegotiated Loans" and "– Provision for Loan Impairment*."

Market Risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and securities prices will affect income or the value of portfolios. Market risk, *inter alia*, comprises currency risk, interest rate risk and securities portfolio risks. Market risk arises from open positions in interest rates, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

CBM manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. Limits and positions are monitored on a regular basis and reviewed and approved by CBM's ALCO. In addition, CBM uses stress tests to model the financial impact of different market scenarios. CBM keeps a securities portfolio largely as a liquidity cushion.

Currency Risk

Since CBM's assets, liabilities and other commitments are denominated in several currencies, it is exposed to currency risk as a result of the effects on its financial position and cash flows of fluctuations in the prevailing foreign currency exchange rates. CBM's currency risks primarily arise in the context of raising funds in foreign currency and that the majority of its operations are undertaken in the domestic currency

CBM conducts foreign exchange activities both for its own account and on behalf of customers. In the nine months ended 30 September 2012, CBM had a net foreign exchange loss of RUB 107 million,

as compared to a net gain of RUB 381 million in the nine months ended 30 September 2011. In 2011, 2010, and 2009, respectively, CBM had a net gain of RUB 473 million, a net gain of RUB 232 million and a net gain of RUB 212 million. CBM uses currency forwards to hedge its foreign currency exposure and to manage its liquidity position. CBM does not engage in derivative transactions for speculative purposes.

The ALCO sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the CBR. The following measures are taken to manage CBM's currency risk:

- CBM's compliance with CBR Instruction #124-I is ensured by the Treasury Department checking that CBM's open foreign currency position in certain foreign currencies and precious metals is below 3% of CBM's equity capital which is an internal limit of CBM that is significantly below the 10% limit of CBR Instruction #124-I.
- Limits are set on the amount of CBM's open position in each currency and are regularly reviewed using the VAR method and limits on losses connected with unfavourable currency exchange rates changes are set (stop-loss limits).
- CBM uses an automated system controlling the amount of its open foreign currency position.

These measures allow CBM to minimise the influence of currency risk on its performance.

The table below sets out the exposure of CBM's assets and liabilities to foreign currency risk as at 30 September 2012 and 31 December 2011.

	As at 30 September 2012				As at 31 December 2011			
	RUB	USD	Other currencies	Total	RUB	USD	Other currencies	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
Assets								
Cash and cash equivalents	17,316,693	6,062,704	2,177,828	**25,557,226**	28,513,466	2,853,88	3,066,064	**34,433,419**
Obligatory reserves with the Central Bank of the Russian Federation	2,489,994			**2,489,994**	2,259,170			**2,259,170**
Due from credit institutions	9,437,200	3,092,974		**12, 530,174**	1,620,332	3,262,873	418,207	**5,301,412**
Financial instruments at fair value through profit or loss	21,123,863	47		**21,123,909**	20,994,442	1,789,318		**22,783,760**
Available-for-sale securities	2,908,212	3,281,904		**6,190,115**	1,483,930	546,748		**2,030,678**
Loans to customers	170,094,625	25,609,275	8,642,024	**204,345,925**	132,935,173	18,186,054	7,898,594	**159,019,821**
Property and equipment	5,340,485			**5,340,485**		4,969,932		**4,969,932**
Other assets	1,542,943	91,483	33,346	**1,667,772**	1,494,063	38,388	40,110	**1,572,561**
Total assets	**230,254,015**	**38,138,388**	**10,853,198**	**279,245,600**	**194,270,508**	**26,677,270**	**11,422,975**	**232,370,753**
Liabilities								
Deposits by the Central Bank of the Russian Federation	3,005,943			**3,005,943**				
Deposits by credit institutions	9,481,101	19,501,892	2,610,697	**31,593,690**	6,504,539	16,752,464	1,707,125	**24,964,128**
Deposits by customers	138,670,279	16,634,808	9,287,875	**164,592,962**	123,628,785	12,883,207	10,178,894	**146,690,886**
Debt securities issued	31,955,412	6,070,698	10,636	**38,036,746**	24,407,370	6,700,568	10,931	**31,118,869**
Income tax liability	2,427,071			**2,427,071**	2,090,267	–	–	**2,090,267**
Other liabilities	2,907,048	32,738	11,428	**2, 951, 214**	1,898,697	28,413	29,843	**1,898,697**
Total liabilities	**188,446,854**	**42,240,136**	**11,920,636**	**242,607,626**	**158,471,402**	**36,364,652**	**11,926,793**	**206,762,847**
Net position before hedging	**41,807,161**	**(4,101,749)**	**(1,067,438)**	**36,637,974**	**35,799,106**	**(9,687,382)**	**(503,818)**	**25,607,906**
Spot contracts	**(4,604,731)**	**4,124,988**	**479,743**	**–**	**(9,606,635)**	**9,606,635**	–	**–**
Net position	**37,202,430**	**23,239**	**(587,695)**	**36,637,974**	**26,192,471**	**(80,747)**	**(503,818)**	**25,607,906**

The table below sets out the exposure of CBM's assets and liabilities to foreign currency risk as at 31 December 2010 and 2009.

	As at 31 December 2010				As at 31 December 2009			
	USD	RUB	Other currencies	Total	USD	RUB	Other currencies	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
Assets								
Cash and cash equivalents	1,887,758	17,550,107	3,898,561	**23,336,426**	830,003	5,889,957	1,909,815	**8,629,775**
Obligatory reserves with the Central Bank of the Russian Federation	–	756,584	–	**756,584**	–	401,006	–	**401,006**
Due from credit institutions	235,303	150,000	201,665	**586,968**	–	–	957,665	**957,665**
Financial instruments at fair value through profit or loss	2,059,403	25,415,750	–	**27,475,153**	–	12,472,290	–	**12,472,290**
Available-for-sale securities	127,883	4,333,762	–	**4,461,645**	1,601,721	1,566,744	66,580	**3,235,045**
Loans to customers	13,853,038	84,589,069	5,410,202	**103,852,309**	9,883,588	44,843,957	3,562,970	**58,290,515**
Property and equipment	–	4,255,117	–	**4,255,117**	–	2,616,418	–	**2,616,418**
Other assets	75,648	668,208	2,585	**746,441**	19,294	435,641	1,351	**456,286**
Total assets	**18,239,033**	**137,718,597**	**9,513,013**	**165,470,643**	**12,334,606**	**68,226,013**	**6,498,381**	**87,059,000**
LIABILITIES								
Deposits by the Central Bank of the Russian Federation	–	–	–	–	–	6,129,195	–	**6,129,195**
Deposits by credit institutions	10,978,350	15,463,943	1,420,991	**27,863,284**	4,469,566	5,518,362	1,064,975	**11,052,903**
Deposits by customers	8,341,260	76,321,425	8,893,095	**93,555,780**	6,442,761	31,945,888	7,236,042	**45,624,691**
Debt securities issued	702,440	27,681,738	399,166	**28,783,344**	397,599	11,281,757	706,546	**12,385,902**
Income tax liability	–	636,140	–	**636,140**	–	404,059	–	**404,059**
Other liabilities	9,263	853,417	2,320	865,000	**3,349**	415,268	187	**418,804**
Total liabilities	**20,031,313**	**120,956,663**	**10,715,572**	**151,703,548**	**11,313,275**	**55,694,529**	**9,007,750**	**76,015,554**
Net position before hedging	**(1,792,280)**	**16,761,934**	**(1,202,559)**	**13,767,095**	**1,021,331**	**12,531,484**	**(2,509,369)**	**11,043,446**
Spot contracts	1,316,113	(2,263,026)	946,913	–	(1,218,365)	(1,035,006)	2,253,371	–
Net position	**(476 ,167)**	**14,498,908**	**(255,646)**	**13,767,095**	**(197,034)**	**11,496,478**	**(255,998)**	**11,043,446**

Interest Rate Risk

CBM is exposed to interest rate risk, which is the risk of changes to CBM's financial condition or results of operations based on adverse movements in interest rates, when it lends to customers at interest rates, in amounts and at maturities that differ from the interest rates, amounts and maturities at which CBM attracts funding. Although most of CBM's assets and liabilities have fixed interest rates, the terms of CBM's main corporate loan products with terms of over one month generally provide for CBM's right to revise interest rates in accordance with market benchmark trends. However, this right is only exercised in extreme situations.

Fluctuations in interest rates have an impact upon the operations of CBM. Over the periods under review movements in short- and long-term interest rates have affected both CBM's interest income and interest expense, as well as CBM's level of gains and losses on its securities portfolio. From 2002 until the second half of 2007, borrowing conditions for Russian borrowers in the international markets were generally favourable, but they became more challenging amidst the global financial crisis. For example, in January 2008, the average rouble lending rate on the Russian interbank market was 3.0%, while in January 2009, it increased to 15.3% At the end of 2009, 2010, 2011 and 2012, the interbank lending rates were 5.4%, 3.2%, 3.9% and 5.4%, respectively.

CBM's interest rate policy is reviewed and approved by ALCO.

To minimise the impact of adverse interest rate fluctuations on CBM's financial results, CBM performs statistical analyses and makes projections to determine the optimal allocation of CBM's assets and the composition of its liabilities. CBM manages interest rate risk by maintaining an interest

margin (including an interest risk component), by matching funding and exposures with floating and fixed interest rates, and by matching maturities.

The table below sets out CBM's exposure to interest rate risk, based on matching maturities of interest-bearing assets and liabilities, as at 30 September 2012 and 31 December 2011.

	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
As at 30 September 2012						
Interest-bearing assets	29,179,949	89,765,246	40,409,016	91,321,289	1,859,468	**252,534,968**
Interest-bearing liabilities	36,664,834	76,989,926	49,283,419	46,692,818	–	**209,630,997**
Net interest sensitivity gap as at 30 September 2012	**(7,484,885)**	**12,775,320**	**(8,874,403)**	**44,628,471**	**1,859,468**	**42,903,971**
As at 31 December 2011						
Interest-bearing assets	25,742,936	66,905,576	29,718,988	78,704,652	1,486,900	**202,559,052**
Interest-bearing liabilities	23,680,936	51,799,268	54,273,753	49,427,278	–	**179,181,235**
Net interest sensitivity gap as at 31 December 2011	**2,062,000**	**15,106,308**	**(24,554,765)**	**29,277,374**	**1,486,900**	**23,377,817**

See Note 28 to the 2011 Annual Financial Statements and Note 29 to the 2010 Annual Financial Statements.

Securities Portfolio Risk

Securities portfolio risk is the risk of changes in the value of securities as a result of interest rate or price movements. CBM's securities portfolio, which it actively trades, consists primarily of Russian government and municipal securities, corporate bonds and promissory notes of Russian banks. CBM's total amount of financial instruments at fair value through profit or loss as at 30 September 2012 was RUB 21.1 billion, as compared to RUB 22.8 billion as at 31 December 2011, RUB 27.5 billion as at 31 December 2010 and RUB 12.5 billion as at 31 December 2009. Available-for-sale securities as at 30 September 2012 were RUB 6.2 billion, as compared to RUB 2.0 billion as at 31 December 2011 and RUB 4.5 billion as at 31 December 2010 and RUB 3.2 billion as at 31 December 2009.

As at 30 September 2012, 89.9% of CBM's total securities designated at fair value through profit or loss consisted of highly liquid securities from the CBR Lombard and Repo lists, which are eligible for repo transactions, which gives CBM the flexibility to seek liquidity from the CBR if required, but also reflects the fact that the securities can be relatively easily exchanged for cash in the relevant market.

CBM has established internal limits applicable to proprietary transactions in respect of individual issuers of bonds and promissory notes, interbank limits, and limits on the total volume of equity and debt instruments. The limits are established by the Analytical Division and approved by ALCO, taking into consideration CBM's liquidity position and various liquidity management scenarios. CBM has a general policy of not investing in equity securities. CBM's equity investments are insignificant and limited to liquid shares of Russian blue chips. Equity securities represented 0.1% of CBM's total securities portfolio as at 30 September 2012, as compared to 0.1%, 0.2% and 0.4% as at 31 December 2011, 2010 and 2009, respectively.

See "*Management's Discussion and Analysis of Financial Condition and Result of Operations – Total Assets – Securities Portfolio*" and "*Business – Financial Markets, Treasury and Trading Securities*".

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. CBM is exposed to several types of operational risk, including unauthorised transactions by employees, operational errors by employees such as clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems and the risk that CBM will be used for money laundering and financing of terrorist activities. To manage its operational risks, CBM has an Operational Risk Management Unit, which is part of the Internal Control Department. The Internal Control Department reports directly to the Supervisory Board and conducts internal audits of CBM on an ongoing basis.

The aims of the Operational Risk Management Unit are to obtain an operative and fair view of the state and extent of the operational risks facing CBM, evaluate the risk both qualitatively and quantitatively, identify the risk at an early stage and respond so as to prevent the risk from reaching levels that are considered substantial for CBM.

CBM's approach to dealing with operational risk is set out in the Operational Risk Management Policy, which implements Russian statutory requirements, recommendations of the CBR and the Basel Committee on Banking Supervision, and internationally recognised principles. CBM's uses both qualitative and quantitative tools to identify, evaluate, monitor and minimise risks. CBM gathers data on operational risk occurrences, continuously controls the risk level based on key risk indicators, and CBM's organisational units carry out self-assessment of risk and subsequently provide operational risk mapping across CBM.

To minimise its operational risks, CBM recruits qualified staff, provides training, updates operational procedures, monitors the security of its IT systems and ensures that its infrastructure systems are robust. Furthermore, CBM decreases its operational risk level by insuring its assets.

The efficiency of the arrangements put in place is controlled under the existing internal control system and is compliant with CBR regulations and recommendations of the Basel Committee on Banking Supervision.

Procedures for Prevention of Money Laundering and Terrorist Financing

CBM's anti-money laundering measures are based on relevant Russian legislation and international requirements for internal control in the area of anti-money laundering and combating financing of terrorism. CBM has procedures aimed at preventing money laundering and financing of terrorist activities, including a general anti-money laundering policy, internal control procedures that include a refusal policy whereby CBM refuses to conduct business with suspicious entities or individuals and rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities, as well as procedures for regular reporting to the FSFM.

CBM's procedures relating to the prevention of money laundering and financing of terrorist activities include "know-your-customer" procedures which require clear identification of clients, verification of their identities and evaluation of the risk that they may be involved in money-laundering activities or terrorist financing; detection of transactions that the Russian anti-money laundering legislation places under compulsory control, as well as suspicious transactions and activities; reporting; record-keeping; confidentiality; and training of personnel. CBM's "know-your-customer" procedures are designed to help recognise suspicious activity in a timely manner, to minimise the risk that CBM will be used as a channel for illegal activities of any kind, to prevent establishment of banking relationships with a clients until its true identity is known and to identify unusual or suspicious transactions or transactions inconsistent with the information that CBM has about the client or its regular business activities. See "*Risk Factors – Risks Relating to CBM's Business and Industry – CBM's measures to prevent money laundering and/or terrorist financing may not be completely effective*".

CBM uses an automated monitoring system that identifies client transactions, which are subject to mandatory control or appear suspicious in nature. A main priority of the internal monitoring system is the development of a risk-oriented approach, which is the primary means for increasing the operational efficiency of internal control mechanisms and procedures. The following are measures are taken by CBM in its risk-oriented approach, in accordance with Financial Action Task Force on Money Laundering ("**FATF**") requirements:

- paying particular attention when establishing correspondent relationships with, and performing transactions with, foreign banks incorporated in jurisdictions offering beneficial tax regimes and/or requiring no disclosure of information on financial transactions (offshore jurisdictions);
- not having accounts with banks incorporated in jurisdictions which do not comply with the recommendations of FATF;
- not establishing correspondent relationships with shell banks, which are incorporated in a jurisdiction in which they have no physical presence or in a jurisdiction with no permanent regulatory authorities; and
- taking measures to prevent the establishment of correspondent relationships with banks that are known to have correspondent relationships with banks incorporated in jurisdictions with no permanent regulatory authorities.

CBM's Anti-Money Laundering Officer is responsible for CBM's anti-money laundering internal controls and reports directly to the Chairman of the Management Board. The Anti-Money Laundering Officer is the head of CBM's Financial Monitoring and Currency Exchange Regulation Directorate, which includes the Compulsory Control Unit and the Methodology and Ongoing Financial Monitoring Unit. The Methodology and Ongoing Financial Monitoring Unit also includes a dedicated staff training group.

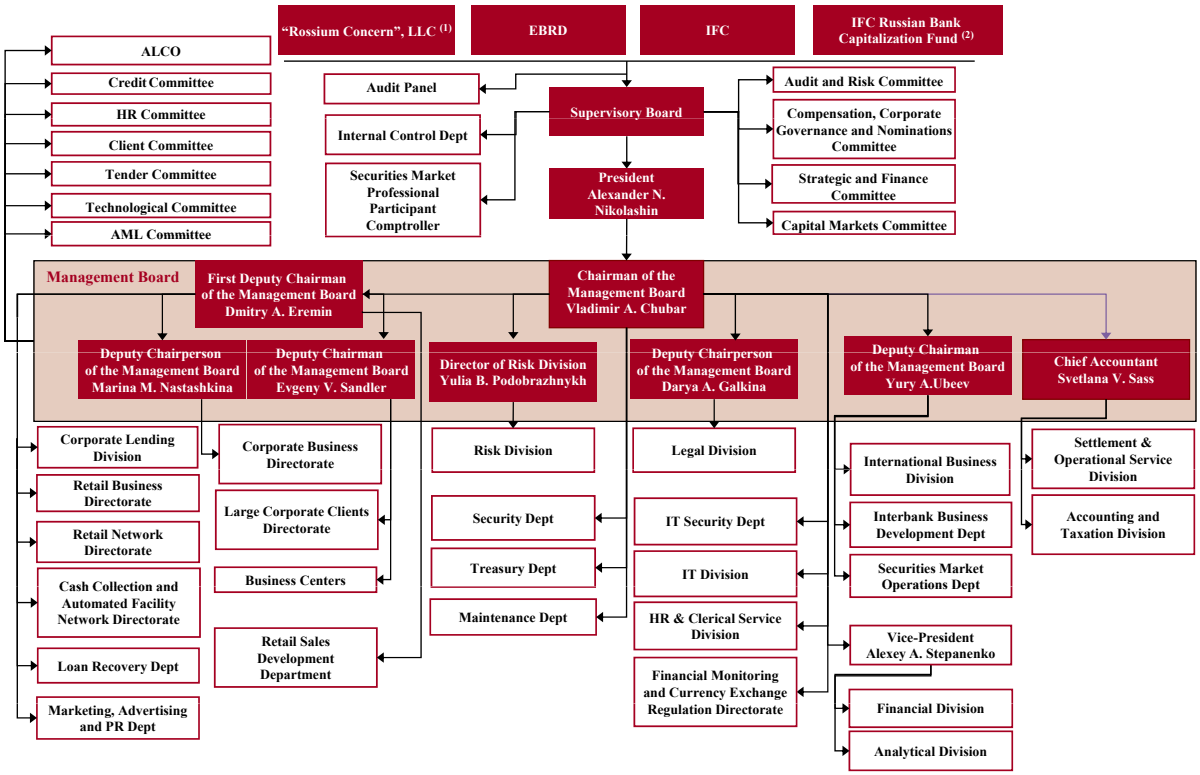
Reputational Risk

Reputational risk has the potential to negatively affect revenue, as a negative perception of CBM's creditworthiness, reliability, quality of services and its general trustworthiness may lead to a reduction in the number of customers. The possibility and amount of reputational risk-connected losses depend on the risk level in the Russian banking sector on the whole.

MANAGEMENT

Overview

The governance of CBM consists of various levels and sub-levels, each responsible for different aspects of CBM's overall activities. The following sets out the management structure of CBM and its corporate governance reporting lines.



Notes:

(1) Owned by Roman Avdeev via Wellcreek Corporation (87.5556%), Roman Avdeev directly (12.4364%), Galina Avdeeva (mother of Roman Avdeev) (0.0039%) and Ivan Avdeev (father of Roman Avdeev) (0.0041%).

(2) Shares are legally owned by RBOF Holding Company I Ltd., a wholly-owned subsidiary of IFC Russian Bank Capitalization Fund, LP, which forms a group of companies with IFC. IFC Russian Bank Capitalization Fund is managed by IFC Asset Management Company LLC, a wholly-owned subsidiary of IFC, for the benefit of IFC, Vnesheconombank and the Russian Government, each of which contributed to the capital of the fund.

The highest level of governance is conducted through the General Shareholders' Meeting, the ultimate decision-making body. The General Shareholders' Meeting elects the Supervisory Board, which is responsible for the general governance of CBM, including the determination of strategy, coordination and general supervision thereof. The Supervisory Board elects the Management Board, which is the collegial executive body of CBM, and appoints the Chairman of the Management Board, which is the sole executive body of CBM. The Chairman of the Management Board and the Management Board as a whole are responsible for the day-to-day operations of CBM. The Supervisory Board also elects the President of CBM, who is the senior officer responsible for comprehensive strategic planning and for the timely and accurate implementation of resolutions passed by the Supervisory Board and other executive and management bodies of CBM.

CBM continuously looks for ways to improve its internal governance and business processes and to adjust their functioning in response to challenging market conditions, while not compromising the business objectives of CBM.

General Shareholders' Meeting

The General Shareholders' Meeting is CBM's supreme governance body. The Supervisory Board convenes a shareholders' meeting at least once a year. Only the General Shareholders' Meeting can make decisions in respect of:

- alteration of CBM's charter except in instances specifically provided for by law;

- reorganisation and liquidation of CBM, appointment of a liquidation committee and approval of interim and final liquidation balance sheets;
- determination of the composition of the Supervisory Board, election of its members and early termination of their powers;
- determination of the amount, nominal value and type of authorised shares as well as the rights attached to these shares;
- increases in the instances provided by CBM's charter and reductions of CBM's charter capital;
- election of the Audit Panel and appointment of CBM's external auditor;
- approval of dividends;
- approval of annual statutory accounts and reports;
- approval of CBM's participation in financial groups and associations; and
- certain other matters provided for by law.

Supervisory Board

The Supervisory Board is responsible for general governance matters, with the exception of those matters that are designated by law and by CBM's charter as being the exclusive responsibility of the General Shareholders' Meeting. The Supervisory Board makes its decisions by simple majority so long as a quorum of at least half of the elected members of the Supervisory Board is present, unless otherwise required by law or CBM's charter. The Chairman of the Supervisory Board has a casting vote. The Supervisory Board meets on a regular basis, typically several times a month. CBM's shareholders elect members of the Supervisory Board until the next annual shareholders' meeting, and such members may be re-elected an unlimited number of times. There is no fixed term of office for Supervisory Board members. The Supervisory Board currently has 12 members. The last election of the Supervisory Board took place on 28 November 2012, at which William Owens and Vadim Sorokin were newly elected as members.

Pursuant to the terms of the shareholders agreement entered into among Rossium Concern, Wellcreek Corporation, Roman Avdeev, EBRD, IFC and RBOF Holding Company I Ltd dated 20 July 2012 and amended and restated on 6 December 2012 (the "**Shareholders Agreement**"), EBRD is entitled to nominate one member to the Supervisory Board and either IFC or the IFC Russian Bank Capitalization Fund is entitled to nominate one member to the Supervisory Board. As of the date of this Prospectus, neither IFC nor the IFC Russian Bank Capitalization Fund has exercised this right. In addition, pursuant to the terms of its subordinated loan agreement with CBM, BSTDB is entitled to nominate one member to the Supervisory Board. See "*Shareholders*".

The name, position and certain other information for each member of the Supervisory Board are set forth below.

Name	Year of Appointment	Position
Sandy Vaci	2008	Chairman, Independent Non-executive Director
Richard Glasspool	2008	Independent Non-executive Director
Genadi Lewinski	2010	Independent Non-executive Director
Andrew Gazitua	2012	Independent Non-executive Director
Mustafa Boran	2011	Independent Non-executive Director, Nominee of BSTDB
Nikolay Kosarev	2010	Independent Non-executive Director
William Owens	2012	Independent Non-executive Director
Roman Avdeev	2008	Executive Director, Controlling Shareholder
Alexander Nikolashin	2008	Executive Director, President
Vladimir Chubar	2010	Executive Director, Chairman of the Management Board
Vadim Sorokin	2012	Non-Executive Director, Nominee of EBRD
Anton Avdeev	2010	Executive Director, Vice President of Corporate Client Directorate

Sandy Vaci (born 1957) has been a member of the Supervisory Board since October 2008 and since joining the Supervisory Board he has served as the Chairman. Mr. Vaci is a member of the European Financial Management Association (Paris) and the Lafferty Board (London). Mr. Vaci has 30 years of international banking experience spanning 50 countries across four continents. Mr. Vaci started his

career at Procter & Gamble in North America and progressed through increasingly senior positions at Royal Trust of Canada, Canadian Imperial Bank of Commerce, Cadbury International, Citibank Global Consumer Bank, Raiffeisen International Bank-Holding AG and The Royal Bank of Scotland. Mr. Vaci has held management board positions at Citibank Global Consumer Bank and was a permanent delegate to the supervisory board of at Raiffeisen International Bank-Holding AG. His most recent position was with The Royal Bank of Scotland, as CEO of its operations in Austria and as Managing Director of its Central Eastern European operations. He was also a member of the Senior Leadership Team of The Royal Bank of Scotland Group, Europe. Mr. Vaci's current positions include his role as a director of Bay Devonshire Limited, Partner for Board Practice at Leaders' Den (a UK-based global strategic consultancy), senior lecturer in MBA studies at the Maastricht School of Management and at the Business School of Central European University and advisor to various institutions and companies including The World Bank, Morgan Stanley, Unilever and TEVA. Mr. Vaci holds a Bachelor of Science degree from University of Victoria (Canada) and an Honours Degree from the Canadian Securities Institute.

Richard Glasspool (born 1956) has served as a member of the Supervisory Board since October 2008. Mr. Glasspool began his career with Arthur Andersen & Co. in London. He became a finance manager at Amersham International plc and was later financial controller at Extel plc. Mr. Glasspool worked at KPMG for 17 years as adviser in relation to Bulgaria, the Middle East, Poland and Russia. He was a partner at KPMG Bulgaria and at KPMG Russia and CIS. Mr. Glasspool was a non-executive director and a member of the board of directors of "RESO Garantia", a non-executive director, member of the board of directors and head of the audit committee of Sobinbank and non-executive director of SLP Engineering (UK). Mr. Glasspool is currently a director at Bowker Glasspool Consult Ltd. and a non-executive director at Offshore Group Newcastle Limited. Mr. Glasspool graduated from the University of Manchester (England) with a Bachelor of Arts (Honors) degree. In 1983 he became a Fellow of the Institute of Chartered Accountants in England and Wales.

Genadi Lewinski (born 1976) has served as a member of the Supervisory Board since April 2010. Mr. Lewinski is a member of the Advocates' Chamber of Hamm and German Bar Association and built up a successful law firm over the last four years. Mr. Lewinski is authorised as an interpreter and translator in the German, Russian and Ukrainian languages. Mr. Lewinski graduated from the University of Bielefeld (Germany) with a degree in legal studies.

Andrew Gazitua (born 1962) has served as a member of the Supervisory Board since April 2012. Mr. Gazitua started his investment banking career in 1989 with Merrill Lynch & Co in New York, transferring to London in 1992 to work in the financial institutions group. In 1999, Mr. Gazitua joined Donaldson, Lufkin & Jenrette International (subsequently acquired by Credit Suisse) as a Senior Vice President in investment banking. After leaving Credit Suisse, Mr. Gazitua joined Putnam Lovell as a Managing Director in 2003 and subsequently rejoined Merrill Lynch & Co. in 2004 as the Chief Operating Officer for the European operations of investment banking and capital markets (collectively referred to as "**Origination**"). In 2007, he assumed responsibilities for Origination for Central and Eastern Europe, Middle East and Africa ("**CEEMEA**") and became the Chief Operating Officer for Global Origination. From 2009 to 2011, Mr. Gazitua was Head of CEEMEA Corporate and Investment Banking at Bank of America Merrill Lynch. At present he holds positions on the Supervisory Board of Civitas Partners Limited and on the Board of Directors of Web Financial Group S.A. Mr. Gazitua graduated from Haverford College (USA) with a Bachelor of Arts degree.

Mustafa Boran (born 1969) has served as a member of the Supervisory Board since February 2011. Mr. Boran started his career at the Undersecretariat of Treasury of the Republic of Turkey in 1993 as an Expert. After occupying progressively responsible positions, he became Chief of the Division at the General Directorate for Foreign Direct Investments in 2000. In 2004 he moved to the Directorate General for State Economic Enterprises (SEEs). From 2006 to June 2010 he was Deputy Director General and Deputy National Authorising Officer (NAO) with the Directorate General for Foreign Economic Relations negotiating, managing, implementing and evaluating EU-funded programs in Turkey and selecting projects for financing. Mr. Boran also served as a member of the BSTDB Board of Directors for Turkey in 2006-2009. Mr. Boran currently occupies the position of Vice President for Banking in BSTDB. Mr. Boran was nominated to the Supervisory Board by BSTDB. Mr. Boran graduated from Marmara University (Turkey) and received a Bachelor of Science degree in Economics from the University of Illinois (USA).

Nikolay Kosarev (born 1950) has served as a member of the Supervisory Board since October 2010. Mr. Kosarev has been a Member of the Federation Council of the Russian Parliament since 2001, being the representative of the Tambov Regional Duma. Mr. Kosarev has been Deputy Chairman of

the Federation Council Committee of Natural Resources and Environmental Protection of Russia since 2004. Mr. Kosarev graduated from Moscow State Institute of Irrigation Engineering. He received a degree of candidate of economic science from Moscow State Institute of Irrigation Engineering.

William Owens (born 1950) has served as a member of the Supervisory Board since November 2012. Mr. Owens began his career as a consultant at Touche Ross & Co. (now Deloitte) and later worked in the petroleum industry. From 1995 to 1999 he held the office of Colorado State Treasurer, and then served two terms as Governor of Colorado from 1999 to 2007. Following this, between 2007 and 2012, Mr. Owens served as an independent director of Far Eastern Shipping Company ("**FESCO**"), a Russian shipping, logistics and port company which is listed on the Moscow Exchange. Mr. Owens also served as Chair of FESCO's Strategy Committee. Mr. Owens is presently Managing Director of Renew Strategies, a Colorado-based water and land development company, and serves on the boards of Key Energy Services (NYSE), Cloud Peak Energy (NYSE), Bill Barrett Corporation (NYSE) and Federal Signal Corporation (NYSE). Mr. Owens received a master's degree in public affairs from the LBJ School at the University of Texas (USA) and a Bachelor of Science degree from Stephen F. Austin State University (USA).

Roman Avdeev (born 1967) has served as a member of the Supervisory Board since October 2008. Mr. Avdeev was the 100% beneficial owner of CBM from June 1994 to August 2012 and is now the majority owner of CBM, holding 85% of CBM's shares. He was Chairman of CBM's Supervisory Board from August 1999 until January 2008, Chairman of the Management Board from January 2008 until November 2008 and President of CBM from November 2008 until September 2010. Prior to this, he held positions as General Director of Rossium Concern and as a member of its Board of Directors. Mr. Avdeev also has other non-bank assets, apart from his shares in CBM, which are mainly represented by commercial real estate. Mr. Avdeev graduated from Lipetsk State Technical University (Russia) with a qualification as a design engineer and a candidate of engineering science degree.

Alexander Nikolashin (born 1966) has served as a member of the Supervisory Board since October 2008. As at the date of this Prospectus, Mr. Nikolashin also holds the position of the President of CBM. Mr. Nikolashin began working with CBM in 1994. Between 1996 and 2008, he held various positions including Deputy Chairman of the Management Board – President and First Deputy Chairman of the Management Board – President. He was the Chairman of the Management Board from 2008 to 2012. Prior to holding these posts, Mr. Nikolashin served as Head of CBM's Legal Department, Security Service and Cash Collection Department. Mr. Nikolashin graduated from Saratov Higher Military Command School named after E. Dzerzhinsky and graduated as a specialist from Moscow State Social University.

Vladimir Chubar (born 1980) has served as a member of the Supervisory Board since October 2010. Since February 2012, he also holds a position of the Chairman of the Management Board of CBM. Mr. Chubar has been with CBM since 2004, and has been a member of the Management Board since 2008. From January 2010 to February 2012, Mr. Chubar served as First Deputy Chairman of the Management Board and was responsible for CBM's Financial Division, Treasury, International Business and Financial Institutions Division and IT Department. Before he was appointed to the posts mentioned above, Mr. Chubar joined CBM as a Manager in the Accounting Unit, progressing to become the Head of the Accounting Unit, Head of Financial Department, Head of Financial Division and Deputy Chairman of the Management Board. Mr. Chubar graduated as an economist from the State Finance Academy (Russia).

Vadim Sorokin (born 1969) has served as a member of the Supervisory Board since November 2012. Mr. Sorokin is a Certified Public Accountant of the American Institute of Certified Public Accountants (AICPA) and member of the Institute for Professional Auditors of Russia. Mr Sorokin worked as CFO & VP at Aljba Alliance bank from 1995 to 1997. In 1997 he became a partner and the Head of the Financial Services Practice for the CIS at Deloitte. In 2008 he joined MDM Bank as a Deputy Chairman of the Management Board, where he supervised the bank's finance function and investor relations and led the bank's strategy development. Since 2010 he has been the CFO and a member of the Management Board and Board of Directors of Technosila. Mr. Sorokin was nominated to the Supervisory Board by EBRD, which owns 7.5% of CBM's share capital. Mr. Sorokin graduated as an economist from the State Finance Academy (Russia).

Anton Avdeev (born 1988) has served as a member of the Supervisory Board since October 2010. Mr. Anton Avdeev acts as Vice-President of the Corporate Client Directorate of CBM. Mr. Anton Avdeev is the eldest son of CBM's majority shareholder, Roman Avdeev.

The business address of each member of the Supervisory Board is CBM's registered office. No actual or potential conflicts of interest exist between the duties that any member of the Supervisory Board owes to CBM and such member's private interests or other duties.

President

On 31 January 2012, by resolution of the Supervisory Board of CBM, a new position of the President of CBM was established to help progress the comprehensive strategic planning and development of CBM. Mr. Alexander Nikolashin, who was formerly the Chairman of the Management Board, was appointed as President of CBM. The primary function of the President is to facilitate coordination between executive and other management bodies of CBM to ensure the timely and accurate performance by such bodies of resolutions passed by the Supervisory Board.

Management Board

The Management Board is CBM's collegial executive body, which is elected by the Supervisory Board. The Management Board meets regularly, at least once a week, and makes its decisions by simple majority, provided that a quorum of at least half of the elected members of the Management Board is present. The Chairman of the Management Board has a casting vote. The Management Board meets as often as is necessary, which tends to be weekly. The Management Board is responsible for CBM's day-to-day management and administration. The Chairman of the Management Board represents CBM and acts as its chief executive officer. The Management Board has several committees that help it carry out its management functions.

As at the date of this Prospectus the Management Board consists of eight members. The name, position and certain other information for each member of the Management Board are set out below. Unless otherwise indicated, members of the Management Board do not perform any external functions. There are no fixed terms of office for Management Board members.

Name	Year of Appointment to Management Board	Position
Vladimir Chubar	2008	Chairman
Dmitry Eremin	2008	First Deputy Chairman
Marina Nastashkina	2012	Deputy Chairperson
Evgeny Sandler	2012	Deputy Chairman
Darya Galkina	2010	Deputy Chairperson
Svetlana Sass	2008	Chief Accountant
Yulia Podobrazhnykh	2012	Director of Risk Management Division
Yury Ubeev	2012	Deputy Chairman

Vladimir Chubar (born 1980) has served as Chairman of the Management Board since February 2012. See "– *Supervisory Board*".

Dmitry Eremin (born 1978) has served as a member of the Management Board since April 2008. Mr. Eremin has been with CBM since 2002 and, as at the date of this Prospectus, he is First Deputy Chairman of the Management Board with responsibility for the corporate and retail businesses of CBM. Prior to this, he held various positions at CBM, including Head of Client Service Division, Head of Branch, Head of CBM's Sales Division and Client Service Manager at a branch. Previously Mr. Eremin worked at Commercial Bank "Raschetny Dom".

Marina Nastashkina (born 1970) has served as a member of the Management Board since February 2012. Ms. Nastashkina joined CBM in 1998 as a client network development associate. Her experience at CBM includes holding the positions of Unit Head, Deputy Branch Director and Branch Director. In 2009 she was appointed Vice President of the Corporate Client Directorate, and in April 2011 she became First Vice President of the Corporate Client Directorate.

Evgeny Sandler (born 1980) has served as a member of the Management Board since February 2012. Mr. Sandler joined CBM in 2008 as a Branch Director and in 2009 was appointed Vice President of the Corporate Client Directorate. Since November 2010 he has held the position of First Vice President of the Corporate Client Directorate.

Darya Galkina (born 1981) has served as a member of the Management Board since September 2010. During her career in CBM Ms. Galkina has held the positions of Principal Legal Advisor, Deputy Head of Lending Legal Support Unit, Head of Lending Legal Support Unit, Head of Business Legal Support Unit and Head of Lending Support Department. Since August 2010, Ms. Galkina has served as the Director of Legal Division. Before joining CBM, Ms. Galkina held the positions of Legal Advisor at LLC Audit firm "Troyka-Audit" and of Principal Legal Advisor at Commercial Bank "Integral".

Svetlana Sass (born 1965) has served as a member of the Management Board since November 2008. She also holds a position of the Chief Accountant of CBM. Mrs. Sass was previously Advisor to the Chairman of the Management Board. Before joining CBM, Mrs. Sass worked at the Commercial Bank "Holding Credit" Ltd. as Chief Accountant and Financial Director.

Yulia Podobrazhnykh (born 1975) has served as a member of the Management Board since March 2012. Before joining CBM in 2003 Ms. Podobrazhnykh worked for industrial companies based in Moscow, gaining experience in corporate economics and loans. She subsequently worked in a lending unit of Sberbank of Russia.

Yury Ubeev (born 1974) has served as a member of the Management Board since October 2012. Mr. Ubeev's prior experience includes the membership of management boards of various Russian credit organisations. Mr. Ubeev joined CBM in August 2011 as Vice President of CBM and in October 2012 he was appointed a Deputy Chairman of the Management Board. Mr. Ubeev supervises CBM's international and interbank businesses and operations in the securities market. He has oversight over CBM's open-market debt programmes and projects intended to enhance CBM's performance in financial markets and to expand cooperation with Russian and foreign financial institutions.

The business address of each member of the Management Board is CBM's registered office.

No actual or potential conflicts of interest exist between the duties that any member of the Management Board owes to CBM and such member's private interests or other duties.

Independent Advisor to Chairman of the Management Board

In April 2012, CBM established the position of Independent Advisor to the Chairman of the Management Board, who is responsible for providing advice to the Chairman of the Management Board with regard to international capital markets activities by CBM and other general strategic advice to CBM. Nicholas Haag has been appointed to this role. Mr. Haag also serves as a member of the Capital Markets Committee of the Supervisory Board, although he is not a member of the Supervisory Board.

Mr. Haag was educated at Eton College and also graduated from Oxford University with a 1st class degree in Modern Studies/Geography. Mr. Haag has extensive experience in private and public capital raisings and mergers and acquisitions in Europe and the emerging markets. He began his career in 1980 at Barclays De Zoete Wedd (now Barclays Capital) progressing to become Head of the Equity Syndicate. Subsequently, after several years at Nomura International he joined Paribas (now BNP Paribas) as Managing Director in equity capital markets, where he subsequently headed European investment banking origination and later built a market-leading technology sector banking group. From 1999 to 2007, Mr. Haag held senior positions in technology banking at ING Barings and ABN AMRO (London) where he was a senior Managing Director. From 2008 to 2012 he was a Managing Director and head of UK Equity Capital Markets at Royal Bank of Scotland/Hoare Govett, in charge of, among other things, all IPO activities by domestic UK and foreign companies raising capital in London. Mr. Haag is also a member of advisory and/or investment committees at various UK educational institutions.

Corporate Governance

CBM complies with the Russian Federation's corporate governance regime and aims to implement the best international corporate governance practices. Particular emphasis has been placed on these aims following the addition of CBM's new shareholders EBRD and IFC. Corporate governance at CBM has been carried out in accordance with the requirements of the Joint-Stock Companies Law, other rules governing the operation of joint-stock companies in the Russian Federation, CBM's charter and other internal documents of CBM. CBM's corporate governance practices satisfy or surpass the corporate governance requirements currently prescribed in the Russian Federation, and to a certain extent comply with concepts of corporate governance that are prevalent in Western Europe and the United States.

Furthermore, CBM's domestic bonds and exchange bonds have been listed on the Moscow Exchange (formerly MICEX) since 2005, and as a result, CBM is required to comply with a number of corporate governance requirements applicable to issuers of securities that are traded on the Russian stock exchange.

As part of its corporate governance regime, CBM follows its own Corporate Governance Code. The current version of the Corporate Governance Code was approved by CBM's Supervisory Board in April 2010 and is currently under review to reflect the most recent changes introduced as a result of the addition of the new shareholders.

CBM's Corporate Governance Code sets out CBM's main corporate conduct principles, promoting better performance of the management bodies of CBM. It was based on a balanced approach to the interests of CBM's shareholders, management bodies and other stakeholders, with a view to enhance reliability, accountability, business culture, control over CBM's performance and to ensure compliance with ethical standards with the intention of improving client satisfaction appropriate to level expected on the provision high quality bank services. The aims of the code are to improve and systemise approaches to providing client satisfaction in relation to the provision of high quality banking services and providing security in accordance with CBM's plan to evolve as a modern financial institution capable of raising investments to achieve such goals. To keep client service in line with high financial, business and technological standards, CBM voluntarily undertakes to follow the principles and rules of corporate governance as set out in the Corporate Governance Code. These principles and rules correspond to international best practices of corporate conduct and represent a high level of governance and performance control, business culture and compliance with high ethical standards. As corporate governance practice evolves in Russia and abroad, CBM will seek to further improve its corporate governance rules and principles and achieve a higher level of compliance with the principles set out in the Corporate Governance Code.

Among other things, CBM has implemented the following corporate governance features:

Independent Directors

According to the Regulation on the Supervisory Board of CBM, independent directors of CBM are those Supervisory Board members who have no direct or indirect relationship with CBM other than membership on the Supervisory Board, and who:

- are not, and have not been in the past five years, employed by CBM or its affiliates, where "affiliates" means, with respect to any person, any individuals or entities directly or indirectly controlling, controlled by or under common control with, that person and "control" means the power of an individual or entity, whether independently or jointly with other individuals or entities, directly or indirectly (through third parties), to influence activities of entities and/or individuals (including to direct the management or business policies of an entity through the direct or indirect ownership of more than 25% of its capital and/or by contract made between that individual or entity and the other individual(s) and/or entity(ies));
- are not affiliated with any non-profit organisation that receives significant funding from CBM or its affiliates;
- do not receive and have not received in the past five years, any additional payments from CBM or its affiliates other than their remuneration, and reimbursement of expenses related to their service, as Supervisory Board members (such remuneration and reimbursement may not constitute a significant portion (share) of any such independent director's total income for the calendar year in which such remuneration and reimbursement were paid);
- do not participate in any employee pension programme or share option programme of CBM or any of its affiliates;
- are not employed as the sole executive body or a member of the collective executive body of another entity where any of the members of CBM's collective executive body serve on that entity's board of directors;
- are not, nor have been at any time during the past five years, employed by or affiliated with an auditor of CBM or any of its affiliates;
- do not hold, and are not members of a management body of any entity, or general partners of any general partnership, or members of a business partnership, or partners (members) of an entity incorporated under foreign law in a legal form similar to that of general partnership or

business partnership, and cannot give binding instructions to or otherwise direct the activities of an entity that holds, any significant (more than 2%) portion of the outstanding shares in CBM or shares/interests in the capital of any of its affiliates;

- are not members of the immediate family, guardians or trustee of any individual who would not meet any of the tests set out above, or assistants to any such individual who is of age, legally capable and placed under guardianship, or executors of estate of any such individual who has been declared missing, or administrators or trustees of estate of any such individual who is or has been declared deceased; and
- have not served on the Supervisory Board for more than seven years.

The foregoing independence criteria exceed the requirements of the Joint-Stock Companies Law and FSFM guidance and are based on the requirements of CBM's shareholders EBRD and IFC. CBM's Supervisory Board includes seven independent directors. These directors are Sandy Vaci, Richard Glasspool, Genadi Lewinski, Nikolay Kosarev, Mustafa Boran, Andrew Gazitua and William Owens.

Supervisory Board Committees

According to the charter and other internal regulations of CBM, the Supervisory Board is responsible for creating specific committees including the strategic and finance committee, the audit committee (which, among other things, supervises CBM's banking risk management), the corporate governance, nominations and compensation committee, the capital markets committee and other committees. Such committees are formed to prevent conflicts of interest with respect to the Supervisory Board and ensure their substitutability. Descriptions of such currently existing committees of the Supervisory Board are provided below. Each committee contains at least one independent director.

Audit and Risk Committee

The Audit and Risk Committee of the Supervisory Board of CBM analyses the efficiency of CBM's internal control and risk management procedures and provides advice on their improvement to the Supervisory Board when making decisions with respect thereto. The Audit and Risk Committee members are elected from the Supervisory Board members who are not also members of CBM's executive bodies. Currently its members are Richard Glasspool, Vadim Sorokin and Anton Avdeev. The committee is headed by an independent director. The main purpose of the Audit and Risk Committee is to assist the Supervisory Board in controlling CBM's operations and ensuring effectiveness of CBM's internal control system and risk management systems. It aims to achieve this purpose by advising of the Supervisory Board on the following matters:

- selecting an independent auditor to undertake the annual independent external audit of CBM's financial statements;
- appraising the quality of services provided by the independent auditor and its compliance with independence requirements;
- efficiency of internal control and risk management procedures;
- prioritising CBM's activities within the acceptable level of risk; and
- compliance with applicable laws and regulatory requirements.

The Audit and Risk Committee's functions also include maintaining the Supervisory Board's control over activities of CBM's executive bodies and ensuring co-operation with CBM's executive bodies on matters within the committee's competence, and implementing and promoting a culture of risk management within CBM.

Capital Markets Committee

The Capital Markets Committee of the Supervisory Board was established in April 2012. The committee consists of three members. The committee is headed by an independent director. Currently the committee consists of Andrew Gazitua and Vladimir Chubar, each of whom is a member of the Supervisory Board, and Nicholas Haag, who serves as Independent Advisor to the Chairman of the Management Board and is not a member of the Supervisory Board. The Capital Markets Committee was formed to advise the Supervisory Board on CBM's international capital market funding strategy, optimisation of internal processes with respect to capital market activities and building an internal interaction model in connection with international capital market funding, and on any material investor relation issues.

Strategic and Finance Committee

The Strategic and Finance Committee of the Supervisory Board was established in August 2012. The committee consists of three Supervisory Board members, who are not also members of CBM's executive bodies. The committee is headed by an independent director. Currently the committee consists of William Owens, Andrew Gazitua and Alexander Nikolashin. The committee was formed to ensure the adoption of resolutions by the Supervisory Board in relation to setting CBM's strategic goals, selecting its priority lines of business, making recommendations on CBM's dividend policy and appraising CBM's long-term performance. The Strategic and Finance Committee also advises the Supervisory Board on adjusting CBM's existing development strategy with a view to enhance CBM's performance in consideration of the domestic and foreign market trends, performance results of CBM and its competitors and other factors. Additionally the committee assists the Supervisory Board in addressing any matters reserved to it.

Compensation, Corporate Governance and Nominations Committee

The Compensation, Corporate Governance and Nominations Committee of the Supervisory Board was first established in August 2012. The committee consists of two Supervisory Board members, who are not also members of CBM's executive bodies. The committee is headed by an independent director. Currently the committee consists of Sandy Vaci and Roman Avdeev. The Compensation, Corporate Governance and Nominations Committee was formed to direct the HR policy for recruiting highly qualified specialists to the Supervisory Board, Management Board and for the office of the Chairman of the Management Board. The committee is also responsible for formulating remuneration and compensation principles and the related criteria, developing a transparent motivation system and advising on the creation and implementation of effective corporate governance models and solutions.

Code of Corporate Ethics

On 30 November 2012 CBM also adopted a Code of Corporate Ethics, which sets out CBM's corporate values, the principles and regulations on corporate conduct, high moral and ethical standards and CBM's mission and information policy. The aims of the code include ensuring due adherence to the corporate business ethics standards and maintaining CBM's high reputation, which is attributable not only to compliance with legislation, but to compliance with the highest ethical standards and CBM's commitment to the principles of professional business conduct. The Code of Corporate Ethics applies to all employees of CBM. Employees are required to act in the interests of CBM and avoid situations where their personal interest conflict with CBM's interest. CBM views the adoption of the code as an important development in continuing to improve the corporate governance of CBM. The code also aims to assist with the integration of new employees into CBM's corporate culture.

Compensation

In the nine months ended 30 September 2012 and 2011, aggregate remuneration paid by CBM to the members of its Supervisory Board and Management Board was RUB 121.8 million and RUB 37.4 million, respectively. In 2011, 2010 and 2009, aggregate remuneration paid by CBM to the members of its Supervisory Board and Management Board was RUB 49.6 million, RUB 41.7 million and RUB 30.2 million, respectively. The increase in the total remuneration paid was primarily due to an increase in the number of members of the relevant management bodies.

As at the date of this Prospectus, CBM had service contracts with four of the members of its Supervisory Board. The members of its Management Board enter into employment contracts with CBM, which set forth their compensation in their capacity as employees of CBM.

Litigation Statement Concerning Management

For the previous five years, none of the members of the Supervisory Board or the Management Board:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or

- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Other Interests

No actual or potential conflicts of interest exist between the duties that any member of the Supervisory Board or the Management Board owes to CBM and such member's private interests or other duties.

General

As at 30 September 2012, CBM's charter capital amounted to RUB 12,667,832,952 and comprised of 12,677,832,952 ordinary shares each with a nominal value of RUB 1.00. As at the date of this Prospectus, CBM has 23,598,325,056 authorised but unissued ordinary shares with an aggregate nominal value of RUB 23,598,325,056.

The table below sets forth information regarding CBM's shareholders as at the date of this Prospectus.

	Ordinary shares owned as at date of this Prospectus	
Shareholders	**Number**	**Percentage (%)**
"Rossium Concern", LLC[1]	10,776,158,008	85.0
European Bank for Reconstruction and Development	950,837,472	7.5
IFC Russian Bank Capitalization Fund, LP[2]	583,837,472	4.6
International Finance Corporation[2]	367,000,000	2.9
Total	**12,677,832,952**	**100.0**

Notes:

(1) "Rossium Concern", LLC is owned by Roman Avdeev via Wellcreek Corporation (87.5556%), Roman Avdeev directly (12.4364%), Galina Avdeeva (0.0039%) and Ivan Avdeev (0.0041%).

(2) Shares are legally owned by RBOF Holding Company I Ltd., a wholly-owned subsidiary of IFC Russian Bank Capitalization Fund, LP, which forms a group of companies with IFC. IFC Russian Bank Capitalization Fund, LP is managed by IFC Asset Management Company LLC, a wholly-owned subsidiary of IFC, for the benefit of IFC, Vnesheconombank and the Russian Government, each of which contributed to the capital of the fund.

The table below sets forth information regarding CBM's shareholders as at 30 September 2012.

	Ordinary shares owned as at 30 September 2012	
Shareholders	**Number**	**Percentage (%)**
"Rossium Concern", LLC[1]	10,776,158,008	85.0
European Bank for Reconstruction and Development	950,837,472	7.5
International Finance Corporation	950,837,472	7.5
Total	**12,677,832,952**	**100.0**

Note:

(1) "Rossium Concern", LLC, is owned by Roman Avdeev via Wellcreek Corporation (87.5556%), Roman Avdeev directly (12.4364%), Galina Avdeeva (0.0039%) and Ivan Avdeev (0.0041%).

Roman Avdeev

"Rossium Concern", LLC, which is controlled by Roman Avdeev, is the owner of 85% of CBM's shares. Mr. Avdeev is the 99.992% owner of "Rossium Concern", LLC, with the remaining 0.008% held by his mother and father. Prior to the acquisitions of shares by EBRD and IFC in July 2012 as discussed below, Mr. Avdeev was the 100% beneficial owner of CBM.

See "*Risk Factors – Risks Relating to CBM's Business and Industry – The interests of CBM's controlling shareholder may conflict with those of Noteholders*" and "*Management – Supervisory Board – Roman Avdeev*".

European Bank for Reconstruction and Development

EBRD is an international financial institution, with its headquarters at One Exchange Square, London EC2A 2JN, United Kingdom. EBRD is owned by 63 countries and two intergovernmental institutions.

In August 2012, EBRD became a shareholder of CBM following an increase in CBM's charter capital, with EBRD acquiring a 7.5% stake in CBM. Pursuant to the Shareholders Agreement (as defined below), EBRD is entitled to nominate one member to the Supervisory Board. Vadim Sorokin was nominated by EBRD to the Supervisory Board and elected at the extraordinary General Shareholders' Meeting held on 28 November 2012.

EBRD has stated that its equity investment in CBM aims to achieve the following objectives: support a dynamic private bank in Russia to capitalise on its successful recent growth and implement its strategy to become one of the leading universal private banks; strengthen CBM's capital platform for further business growth; contribute to CBM's further institutional strengthening and corporate governance; and assist CBM to carry out an anticipated initial public offering.

International Finance Corporation

IFC is an international financial institution, with its headquarters at 2121 Pennsylvania Avenue North West, MSN F 11K-1100, Washington, DC 20433, USA. IFC is member of the World Bank Group. The mission of IFC is to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives. IFC finances private sector investments in the developing world, through the provision of loans, equity, structured investments and risk management products. IFC also mobilises capital in the international financial markets, helps clients improve social and environmental sustainability, and provides technical assistance and advice to governments and businesses.

In August 2012, IFC became a shareholder of CBM following an increase in CBM's charter capital, with IFC acquiring a 7.5% stake in CBM. On 6 December 2012, IFC transferred 583.8 million shares (4.6% of CBM's charter capital) to IFC Russian Bank Capitalization Fund, LP by transferring the shares to RBOF Holding Company I Ltd., a wholly-owned subsidiary of IFC Russian Bank Capitalization Fund, LP. The transaction resulted in IFC directly holding 2.8994% of CBM shares and IFC Russian Bank Capitalization Fund, LP indirectly holding 4.6052% of CBM's shares. See "– *IFC Russian Bank Capitalization Fund*".

Pursuant to the Shareholders Agreement, IFC and RBOF Holding Company I Ltd. (a wholly-owned subsidiary of the IFC Russian Bank Capitalization Fund) jointly are entitled to nominate one member to the Supervisory Board.

IFC has stated that the main purpose of its equity investment in CBM is to improve access to finance for clients of CBM, mainly represented by mid-sized companies, and to strengthen the capital of CBM in view of its regional expansion and its preparation for an initial public offering in the mid-term.

IFC Russian Bank Capitalization Fund

IFC Russian Bank Capitalization Fund, LP is an investment fund focused on investments in Russian banks. The IFC Russian Bank Capitalization Fund, LP indirectly holds 4.6052% of CBM's shares through its wholly-owned subsidiary RBOF Holding Company I Ltd. The IFC Russian Bank Capitalization Fund, LP, which forms a group of companies with IFC, was established in June 2012 and is managed by IFC Asset Management Company LLC, a wholly-owned subsidiary of IFC, for the benefit of IFC, Vnesheconombank and the Russian Government, each of which contributed to the capital of the fund. The acquisition of its present equity stake in CBM was the first transaction undertaken by the IFC Russian Bank Capitalization Fund, LP.

Rights of CBM's Shareholders

Pursuant to CBM's charter and Russian legislation, CBM's shareholders have the following rights: to participate in the general shareholders' meeting of CBM and vote on all matters on its agenda; to receive dividends; to elect members to the Supervisory Board; to receive an amount of CBM's assets upon its liquidation proportionate to its level of shareholding remaining after satisfaction of claims of CBM's creditors; to have unrestricted access to certain documents of CBM listed in Russian legislation; and other rights envisaged by Russian legislation and CBM's charter. Depending on their level of shareholding, groups of shareholders may have additional rights. However, none of CBM's shareholders however have voting rights under CBM's charter or Russian legislation that differ from any other holder of ordinary shares. CBM is not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of CBM.

Shareholders Agreement

Rossium Concern, Wellcreek Corporation, Roman Avdeev, EBRD, IFC and RBOF Holding Company I Ltd (a wholly-owned subsidiary of the IFC Russian Bank Capitalization Fund) have entered into a shareholders agreement (the "**Shareholders Agreement**"), dated 20 July 2012 and amended and restated on 6 December 2012, in order to set forth the understanding of the parties with regard to their ownership in, and the governance of, CBM. CBM is not a party to the Shareholders Agreement.

The Shareholders Agreement contains, among other things, provisions relating to appointment of the members of the Supervisory Board, the conduct of the Supervisory Board and shareholders meetings and "reserved matters" which include those decisions of the Supervisory Board or the shareholders requiring an affirmative vote of each of EBRD, IFC and RBOF Holding Company I Ltd. or each director appointed by them. See "*Management – Supervisory Board*".

Pursuant to the Shareholders Agreement, Mr. Avdeev has agreed not to participate in other banks or lending institutions in Russia without the consent of EBRD, IFC and RBOF Holding Company I Ltd. (the "**Investors**").

Pursuant to the Shareholders Agreement, the parties agreed to procure that CBM would adopt a new charter which would conform with the provisions of the Shareholders Agreement to the extent permitted by applicable law. On 28 November 2012 CBM adopted a new charter which was registered with the CBR on 20 December 2012.

The Shareholders Agreement contains certain provisions whereby certain of the parties have made agreements regarding the retention and/or disposal of their respective shareholdings, in each case under certain circumstances and subject to the satisfaction of certain conditions. As a part of the Shareholders Agreement arrangements, Mr. Avdeev, Rossium Concern and Wellcreek Corporation have each agreed to acquire the shares of CBM owned by the Investors at the option of the Investors upon the occurrence of certain specified events.

Policy Agreement

CBM has entered into a policy agreement (the "**Policy Agreement**") with the Investors, dated 20 July 2012 and amended and restated on 6 December 2012, in order to define certain reporting and compliance obligations of CBM related to its corporate governance and business operations. The Policy Agreement contains, among other things, provisions relating to indemnification by CBM of the Investors (and their officers) against any losses in connection with, among other things, any failure by CBM to perform its obligations under the transaction documentation pursuant to which the Investors subscribed for their shares in CBM. In the Policy Agreement, CBM has agreed to the following obligations, among others: (i) to submit certain information to the Investors on a regular basis, (ii) to maintain the corporate governance structure as agreed among CBM's shareholders and (iii) to maintain an aggregate exposure to related borrowers of no more than 15% of CBM's capital.

Dividends and Dividend Policy

CBM's general shareholders' meeting determines whether to pay annual, semi-annual, nine months or first quarter dividends, as well as the amount, form and date of payment. According to CBM's charter, the dividends must be paid in cash. Dividend payments must not exceed the amount recommended by the Supervisory Board.

CBM has not paid any dividends to date and has no current plans to do so.

CBM's Reserve Fund

Pursuant to CBM's charter and Russian legislation, CBM has created a reserve fund that must be in the amount of not less than 5% of the charter capital of CBM. The fund's facilities can only be used for two purposes: (i) compensation for losses of CBM and (ii) redemption of CBM's bonds and buy-back of its own shares, in each case provided there are no other sources of funding available to CBM.

RELATED PARTY TRANSACTIONS

The following is an overview of CBM's transactions with related parties as at the dates provided below. CBM's financial information set forth herein has, unless otherwise indicated, been extracted without material adjustment from the Financial Statements.

According to IFRS, parties are considered to be related if one party has the ability to control the other party, is under common control with, or exercises significant influence over, the other party's financial or operational decisions, as defined by IAS 24 "Related Party Disclosures". In determining each possible related party relationship, one must consider the substance of the relationship and not merely the legal form. CBM's majority shareholder is Roman Avdeev, with whom CBM maintains a number of balances and conducts certain transactions from time to time. CBM enters into banking transactions in the normal course of its business with shareholders, management, subsidiaries and companies with which it has significant shareholders in common. These transactions include settlements and deposit placement and taking. CBM provides loans to the members of CBM's management from time to time for different purposes, including mortgage loans, car loans, general-purpose loans and overdrafts. All such transactions are made on market terms. These transactions are priced predominantly at market rates. It is CBM's policy to conduct transactions with related parties on the same terms and conditions as it applies to non-related party transactions.

CBM's internal limits for related party transactions are 5% of CBM's assets or 15% of CBM's total capital. The 15% of total capital limit is also contained in certain covenants to which CBM is subject in its financing agreements with IFC, EBRD and BSTDB and certain other foreign banks.

The tables below set out the outstanding balances as at 30 September 2012 and 31 December 2011, 2010 and 2009 with related parties and income and expense items resulting from transactions with related parties for the periods indicated, in each case according to IFRS. EBRD and IFC became shareholders in CBM in August 2012. CBM had borrowings from EBRD and IFC at 30 September 2012 and incurred interest expense to such shareholders in the nine months ended 30 September 2012. Such loans and interest expense have not been included in the tables below because such transactions are not considered related party transactions under IFRS. See "*Management's Discussion and Analysis of Financial Condition and Result of Operations – Total Liabilities – Deposits by Credit Institutions*" and "*Shareholders*". Since 30 September 2012, CBM has continued to enter into related party transactions within the normal course of business.

	As at 30 September (Unaudited)	As at 31 December		
	2012	2011	2010	2009
	(RUB thousands, except percentages)			
Total capital	39,814,066	29,480,006	20,386,397	11,648,330
Loans to customers				
Roman Avdeev	–	70,208	308,765	207,682
Under control of Roman Avdeev	–	87,138	333,697	411,475
Management	72,264	43,977	39,529	27,188
Total loans to related parties	**72,264**	**201,323**	**681,991**	**646,345**
Deposits by customers				
Roman Avdeev	299,261	31, 993	51,069	247,217
Under control of Roman Avdeev	–	2,909,463	6,310,867	128,451
Parent company[1]	252,476	250, 896	5,489	41,060
Management	116,107	35, 481	17,913	4,446
Other	2 ,341,570	–	–	–
Total deposits by related parties	**3,009,414**	**3,227,833**	**6,385 338**	**421,174**
Related party exposure/Total capital (as per Basel norms)	**0.2%**	**0.7%**	**3.3%**	**5.5%**

Note:

(1) "Rossium Concern" LLC, which owns 85% of CBM, and which is in turn owned by Roman Avdeev via Wellcreek Corporation (87.5556%), Roman Avdeev directly (12.4364%), Galina Avdeeva (0.0039%) and Ivan Avdeev (0.0041%).

	Nine months ended 30 September (Unaudited)		Year ended 31 December		
	2012	2011	2011	2010	2009
	(RUB thousands, except where otherwise specified)				
Interest income on loans to customers					
Roman Avdeev	1,981	27,694	34,236	12,244	14,809
Under control of Roman Avdeev	–	–	38,956	17,377	51,537
Management	4,492	3,664	4,786	2,980	3,371
Other	5,044	39,097	–	–	–
Total interest income on loans to customers from related parties	**11,517**	**70,455**	**77,978**	**32,601**	**69,717**
Interest expense on deposits by customers					
Roman Avdeev	11,044	275	459	18,692	23,369
Under control of Roman Avdeev	–	–	166,694	49,890	2,569
Management	1,006	1,202	1,716	1,523	575
Parent company[1]	15,334	26,595	31,743	922	6,500
Other	58,055	126,344	–	–	–
Total interest expense on deposits by customers to related parties	**85,439**	**154,416**	**200,612**	**71,027**	**33,013**

Note:

(1) "Rossium Concern" LLC, which owns 85% of CBM, and which is in turn owned by Roman Avdeev via Wellcreek Corporation (87.5556%), Roman Avdeev directly (12.4364%), Galina Avdeeva (0.0039%) and Ivan Avdeev (0.0041%).

Of Mr. Avdeev's assets, CBM is the asset with the highest value, with commercial real estate representing the majority of Mr. Avdeev's other assets. When affirming CBM's long-term issuer default rating in January 2013, Fitch expressed the view that certain of CBM's loans in an aggregate amount of RUB 9.7 billion as at 30 September 2012, including loans to certain agricultural companies, could be considered related party transactions because in Fitch's view Mr. Avdeev may have a relationship with the relevant borrowers. Whilst Mr. Avdeev previously held assets in the agricultural sector, Mr. Avdeev no longer has assets in such sector and does not have control over, or any relationship with, the relevant agricultural borrowers, and as a result CBM does not consider these loans to be related party transactions.

As at 30 September 2012, loans to related parties represented 0.03% of CBM's total gross loans to customers and deposits from related parties represented 1.8% of CBM's total deposits by customers. For the nine months ended 30 September 2012, total interest income from loans to related parties was RUB 11.5 million and total interest expense for deposits by related parties was RUB 85.4 million. As at 30 September 2012, the average interest rate for deposits by related parties was 7.0% and the average effective interest rate on loans to related parties was 10.9%.

As at 31 December 2011, loans to related parties represented 0.1% of CBM's total gross loans to customers and deposits from related parties represented 2.2% of CBM's total deposits by customers. For the year ended 31 December 2011, total interest income from loans to related parties was RUB 78.0 million and total interest expense for deposits by related parties was RUB 200.6 million. As at 31 December 2011, the average interest rate for deposits by related parties was 7.9% and the average effective interest rate on loans to related parties was 11.7%.

As at 31 December 2010, loans to related parties represented 0.6% of CBM's total gross loans to customers and deposits from related parties represented 6.7% of CBM's total deposits by customers. For the year ended 31 December 2010, total interest income from loans to related parties was RUB 32.6 million and total interest expense for deposits by related parties was RUB 71.0 million. As at 31 December 2010, the average interest rate for deposits by related parties was 6.3% and the average effective interest rate on loans to related parties was 10.7%.

As at 31 December 2009, loans to related parties represented 1.1% of CBM's total gross loans to customers and deposits from related parties represented 0.9% of CBM's total deposits by customers. For the year ended 31 December 2009, total interest income for loans to related parties was RUB 69.7

million and total interest expense for deposits by related parties was RUB 33.0 million. As at 31 December 2009, the average interest rate for deposits by related parties was 9.2% and the average effective interest rate on loans to related parties was 16.2%.

See "*Risk Factors – Risks Relating to CBM's Business and Industry – A part of CBM's business is with related parties*".

Policy Agreement

CBM has entered into a Policy Agreement with its minority shareholders EBRD, IFC and the IFC Russian Bank Capitalization Fund, LP dated 20 July 2012 and amended and restated on 6 December 2012, in order to define certain reporting and compliance obligations of CBM related to its corporate governance and business operations. See "*Shareholders – Policy Agreement*".

Overview of the Russian Federation and Key Macroeconomic Indicators

According to the IMF, in 2011 Russia was the 9th largest economy in the world and the largest economy in Central and Eastern Europe as well as the CIS with a GDP of US$1,850 billion. It recorded one of the highest GDP growth rates among the top 12 global economies between 2000 and 2011, with an average annual real GDP growth rate of 5.3% during this period, exceeded only by China (10.2 %) and India (7.3 %). At the same time, while, according to the IMF, Russia's GDP per capita for 2011 of US$12,993 was roughly on par with that of Brazil (US$12,789) and more than double that of China (US$5,417), it still lags significantly behind those of Western European countries.

The following table contains certain key Russian macroeconomic data for the periods indicated:

	For the year ended 31 December[1]				
	2007	2008	2009	2010	2011
Nominal GDP (billions of roubles)	33,248	41,277	38,809	45,173	54,586
Real GDP index (%) (2003 prices=100%)	133.8	140.9	129.8	135.4	141.2
Real GDP growth/(decline) (%, year-on-year)	8.5	5.2	(7.8)	4.3	4.3
Nominal GDP per capita (roubles)	233,948	290,771	273,376	316,091	380,342
Real GDP per capita index (%) (2003 prices=100%)	136.1	143.4	132.3	137.0	142.8
Real GDP per capita growth/ (decline) (%, period-on-period)	8.8	5.4	(7.8)	3.5	4.3
GDP deflator (%, period-on-period)	13.8	18.0	2.0	11.6	15.4
Inflation, (%, year-on-year)	11.9	13.3	8.8	8.8	6.1
Total population, millions (end of year)	142.0	141.9	142.9	142.9	143.0

Source: Rosstat.

(1) Certain data presented in this table differ from previously published data due to regular revisions by Rosstat. Figures in this table are current as at 31 March 2012.

Russia's economic performance improved between 2000 and 2011 (aside from a decline in 2009), despite the economic crisis between 2008 and 2010. According to Rosstat and the Ministry of Finance, GDP increased almost eight-fold from RUB7,306 billion in 2000 to RUB 54,586 billion in 2011; the CPI dropped from 20.2% in 2000 to 6.1% in 2006; and government debt as a share of GDP decreased from 62% to 9% during the same period. The growth in GDP was driven to a large extent by rising exports of goods (which increased from US$105 billion in 2000 to US$522 billion in 2011), an increase in labour productivity due to rise in capital investments from US$ 36.3 billion in 2000 to US$347.6 billion in 2011, as well as domestic personal consumption, which increased more than eight-fold during the same period, from RUB 3,813 billion in 2000 to RUB 32,052 billion in 2011, and, in turn, laid a strong foundation for growth in the banking sector (all data according to Rosstat). Similar trends continued in the six months ended July 1, 2012: according to Rosstat, the GDP went up by 4.0% year-on-year, the inflation decreased to 4.5% year-on-year, while the population increased to 143.1 million. These growth and stability trends that started in 2000 led to an improvement of Russia's sovereign credit ratings, which attained investment grade levels in 2003. Fitch, Moody's and Standard & Poor's have increased Russia's ratings from a low of "CCC"/"B3"/"CCC" in 1999 to "BBB"/"Baa1"/"BBB" in 2010 respectively, and the ratings have remained the same since 2010 with a "stable" outlook.

The European debt crisis so far has had a limited impact on the Russian economy, primarily because it has not led to significant declines in the prices of Russia's key exports, mainly natural resource commodities, including oil and gas, as well as due to Russia's relatively healthy fiscal finances including a low debt-to-GDP ratio, small budget deficit and a high level of international reserves. In the aftermath of the global financial crisis, Russia's GDP fell by 7.8% in 2009 compared to 2008 according to Rosstat. The Russian economy was particularly affected by significant decreases in the prices of crude oil, gas and other commodity exports in the second half of 2008 and the first half of

2009, which, in turn, had a significant impact on internal consumption. Since then commodity prices have increased and Russia's GDP has recovered, growing by 4.3% in real terms in 2010 and a further 4.3% in 2011. Should the ongoing crisis lead to a worsening of the global macroeconomic situation and/or impact commodity prices and global trade flows, Russia's overall economic and financial position could also be negatively affected.

Compared with the other BRIC nations, Russia is well positioned in terms of its endowment with rich natural resources. According to the BP Statistical Review of World Energy dated June 2012, quantities of oil and gas reserves in 2011 in Russia were substantially higher than those of India, China and Brazil, with Russian oil reserves amounting to 12.1 billion tons, compared to 0.8, 2.0 and 2.2 billion tons for India, China and Brazil respectively, and Russian gas reserves amounting to 1575.0 trillion cubic feet, compared to 438.0, 107.7 and 16.0 trillion cubic feet for India, China and Brazil respectively. Strong natural resource exports and the government revenue they help generate have strengthened Russia's economic position relative to other large global economies in terms of international trade, international currency reserves and fiscal position. In 2011, Russia had an export surplus of 12.4% of GDP according to Rosstat, and the second highest current account balance among G8 countries, equal to 5.34% of GDP according to the IMF. Strong exports have helped Russia to accumulate substantial international monetary reserves, which amounted to US$497 billion as at 31 December 2011 and were the third largest among G8 countries, according to the World Bank.

Income from taxation of oil and gas exports and production has also enabled Russia's government to build up substantial sovereign wealth funds. In 2004, to smooth out the impact of volatility in global natural resource prices on exports and government revenue, as well as to control inflation by absorbing excess liquidity, the Russian government set up the Stabilisation Fund that accumulated oil and gas taxation revenues generated above specific oil price cut-off levels. In 2008, Russia split the Stabilisation Fund into two sovereign wealth funds: the Reserve Fund, with approximately US$61.35 billion in assets under management as at 1 November 2012, and the National Welfare Fund, with approximately US$87.19 billion assets under management as at 1 November 2012 (according to the Ministry of Finance). Russia's fiscal finances in 2011 were healthier than those of many other major world economies. For example, in 2011 Russia had a budget surplus of 1.6% and an external government debt to GDP ratio of 9.6%, which was the lowest such ratio of all BRIC and G8 countries according to the IMF. Further, according to estimates by Rosstat, in the second quarter of 2012 real GDP increased by 4.0% compared to the same period in 2011.

In addition to its vast natural resources, Russia has a well-educated population, with a 2011 HDI Education index of 0.784, as reported by the United Nations Development Programme (the highest among BRIC countries), which is a positive both in terms of availability of a high quality workforce and domestic demand for more complex products, such as financial services. Another positive for Russia's economy and domestic demand has been the recent decrease of the unemployment rate (in accordance with the ILO definition of unemployment, as a percentage share of the economically active population) from 9.1% in the first quarter of 2009 to 5.3% in the nine months ended 1 October 2012, according to Rosstat.

Despite the financial crisis in 2008 and 2009 and the substantial decline in GDP, banking sector lending in Russia demonstrated only a minor drop of just over 2% in 2009 according to the CBR. As Russia's economy recovered and interest rates started declining in 2009, deposits increased by 16.9%, while the loan compound rate decreased by 2.5% year on year. In 2010 and 2011, deposits increased by 23.0% and 23.5%, respectively, while growth in lending has also recovered to 12.6% year on year and 28.2% year on year as at January 1, 2011 and 2012, respectively. As at 1 October 2012, banking assets accounted for 76.3% of Russia's GDP compared to 60.5% in 2008 according to the CBR and Rosstat data.

History and Development of the Russian Banking Sector

Before the reforms carried out in 1987 and 1988, the Soviet banking system consisted of (i) the State Bank of the USSR, or Gosbank, which functioned as the central bank and as a commercial bank simultaneously, (ii) Stroibank of the USSR, which primarily serviced payments for capital expenditures on construction and infrastructure projects, and (iii) Vneshtorgbank of the USSR, which serviced foreign trade by Soviet entities. Gosbank operated a network of savings cash offices located throughout the country, having a monopoly on retail banking services, mainly deposit taking and processing of utility payments.

In 1988, as part of the liberalisation reforms of the Russian economy, five specialised state-owned banks were established in addition to Gosbank to service specific industries, including farming (Agroprombank), housing and social development (Zhilsotsbank), foreign economic activity (Vnesheconombank of the USSR) and manufacturing and construction (Promstroybank). As part of this reform, state-run savings cash offices throughout the USSR were reorganised into Sberbank of the USSR, which continued to service the retail banking needs of the Soviet population.

In 1988 and 1989, further reform of the banking sector saw the emergence of newly formed private commercial banks. In 1991, three of the specialised state-owned banks became joint-stock companies. Some regional branches of these specialised state banks became independent from their head offices through management buy-outs. Furthermore, after the collapse of the Soviet Union in December 1991, the CBR assumed all of Gosbank's central bank functions in Russia, and Gosbank was liquidated one month later.

During the rapid growth of the banking system from 1991 to 1998, the number of commercial banks in Russia increased from approximately 350 in 1990 to more than 1,600 in 1998, some of the largest of which grew together with the large financial-industrial groups formed during the same period.

In 1998, the Russian financial markets went through a crisis caused in part by the financial crisis in Asia that began in 1997, plus the subsequent decline in demand and prices of crude oil and nonferrous metals. As a result of the crisis, the Russian government had to default on its sovereign debt and the CBR announced a devaluation of the rouble, the imposition of a repayment moratorium on certain loans to foreigners, as well as the compulsory restructuring of approximately US$40 billion in short-term treasury instruments. During this period, many banks were reorganised, went bankrupt or were eventually placed under the administration of the Agency for the Restructuring of Credit Organisations ("**ARCO**"), a state corporation established in 1999 to restructure defaulting banks and protect their creditors.

In October 2003, the last credit organisation exited ARCO's administration, and subsequently ARCO was liquidated, with its assets being transferred to the newly established State Corporation Agency for Deposits Insurance (the "**Deposits Insurance Agency**"). Federal Law No. 177-FZ "On the Insurance of Retail Deposits in the Banks of the Russian Federation" of December 23, 2003 (the "**Retail Deposit Insurance Law**") introduced a government guarantee for retail deposits at participating banks of up to RUB100,000. This threshold was later increased to RUB190,000 (from August 2006), RUB400,000 (from March 2007) and RUB700,000 (from October 2008).

In 2003 and 2004, as a result of various market rumours and, in some cases, regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their own client base. At the same time, such banks faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed, ceased trading or were forced to reduce their operations significantly. Several steps were taken to help the sector overcome the turmoil, including reduction of the rate of mandatory reserves that banks keep with the CBR and the introduction of legislation to compensate retail customers of insolvent banks not participating in the retail deposit insurance system.

Between 2005 and 2008, the Russian banking sector experienced rapid growth, with total lending increasing by approximately 131% during this period according to the CBR. The same period was characterised by high level of activity both in the capital markets and in M&A. Sberbank and VTB, the two largest Russian banks, conducted large equity offerings in 2007. Additionally, a number of significant acquisitions by foreign banks took place, including:

- OTP Bank's acquisition of more than 90% of the shares in Investsberbank in 2006;
- Raiffeisen's acquisition of Impexbank in 2006;
- KBC Bank N.V.'s acquisition of Absolut Bank in 2007;
- Société Générale's acquisition of a majority stake in Rosbank in 2006 – 2008; and
- Bank of Cyprus' acquisition of a majority stake in Uniastrum bank in 2008.

After this period of recovery and expansion, the Russian banking sector was affected by the global financial crisis resulting in a reduced number of credit organisations due to the revocation of licences by the CBR and in some cases bankruptcy of those that did not have sufficient liquidity. According to the CBR, as at 1 November 2012, there were 961 credit organisations licensed in Russia, compared to 1,136 as at 1 January 2008. In December 2011, the Russian President signed legislation raising

minimum capital requirements for Russian banks to RUB300 million by 2015, which could further increase the consolidation process in the medium and long term.

In the second half of 2008, the Russian government and the CBR took measures to support the Russian financial sector, as well as agriculture and production in the midst of the financial crisis. Under the Financial System Support Law, the government was to provide up to RUB910 billion in subordinated loans to private and state-owned banks, while the CBR established a new facility to provide uncollateralised lending to any Russian bank with a positive rating (as determined by the Board of the CBR). See "*Russian Banking Regulation*" The government continued to implement intensive anti-crisis measures in 2009 and 2010. The government increased the guaranteed retail deposit amount up to RUB700,000 per customer for all deposits at a certain bank, and the CBR exercised its authority to guarantee interbank lending transactions for state-owned banks until 31 December 2010.

On 5 April 2011, the Russian government and the CBR adopted the "Strategy for the Development of the Russian Banking Sector until 2015" (the "**Banking Sector Development Strategy**"). Its primary aim is to improve the banking sector in Russia through expanded product ranges, better quality service, use of modern technologies and greater long-term effectiveness and stability. According to this strategy, the Russian government and the CBR will take steps to improve the legal environment, enhance banking regulation, develop banking infrastructure, increase the quality of corporate governance and risk management in credit organisations, and secure financial stability.

Although the CBR took some initial steps for the implementation of Basel II in Russia, it has not yet provided any detailed roadmap or timeline for the process. The CBR recommended that elements of Basel II be incorporated in the CBR statutory reporting forms, but the CBR does not yet require full-scope Basel II-based reporting. In the long term, Basel III rules are also expected to be gradually introduced in Russia. New regulatory capital requirements are expected to come into effect between 2013 and 2015, and be followed by a new Basel III-based leverage ratio (i.e. the ratio of capital to total assets and off-balance sheet items without taking into account risk exposure) requirement from 1 January 2018. Additionally, new liquidity and funding requirements will be gradually implemented between 2012 and 2018. See "*Banking Regulation in Russia – Capital Requirements – Basel Implementation in Russia.*"

Following the adoption of the Banking Sector Development Strategy, the CBR pursued its intention to increase the banks' capital cushion for certain types of risky operations. As such, it increased risk weighting for a number of asset categories which became effective from 1 July 2012, and will impact the regulatory capital adequacy requirements for Russian banks.

On 28 October 2011, the CBR approved the "Guidelines for the Uniform State Monetary Policy in 2012 and for 2013 and 2014" (the "**Monetary Policy for 2012-2014**"). This policy sets forth a relatively conservative approach to state budgeting, with the focus of the CBR's supervision powers on risk management in the banking sector, particularly taking into account various risk profiles and prevention of risk concentration. The Monetary Policy for 2012-2014 also provides for development of the system of supervision by the CBR over systemically important credit organisations, as well as streamlining of legislation on banking mergers and acquisitions.

Role of the Financial Services Sector in the Russian Economy

As the share of the Russian financial services sector in GDP grew over the last decade, from 2% in 2001 to 4.5% in 2010 before declining to 4.1% in 2011 according to Rosstat, its role in the Russian economy became increasingly important. As at 1 January 2012, banking assets accounted for 76.3% of Russia's GDP as compared to 60.5% as at 1 January 2008 according to the CBR.

Although banks play an increasingly important role in the Russian economy, the industry still remains underdeveloped in certain respects. The banking sector is still under penetrated. Corporate banking in the Russian Federation is currently at levels (relative to GDP) that are much lower than Western European economies and broadly in line with other CEE economies (at 32.3% in 2009, 31.1% in 2010 and 32.6% in 2011).

Similarly, the retail banking market in the Russian Federation remains in relatively early stages of development, with market penetration staying well below CEE and developed countries, measured by levels as a proportion of GDP – (at 9.7% in 2008, 9.2% in 2009, 9.0% in 2010 and 10.2% in 2011). While the ratio of retail loans to GDP between the Russian Federation and the CEE countries is expected to converge in the long term, this ratio is currently lower in the Russian Federation than in such countries due in part to the slow recovery of the Russian economy. Retail lending represented

22.5% and 23.9% of the total lending in the Russian Federation as at 31 December 2010 and 31 December 2011.

Between 2001 and 2007, retail loans increased substantially at a compound growth rate of 77.6% and retail lending as a percentage of GDP increased from 1.0% in 2001 to 8.9% in 2007. However, in 2008, the retail loan annual growth rate declined to 35.2% In 2009, the retail loan portfolio declined by 11.0% while in 2010 it recovered to 14.3% with growth momentum strengthening in 2011 to 35.9% year on year.

At the same time, Russia's average annual banking sector profit between 2007 and 2011 (where profitability is calculated by multiplying average return on average assets, as sourced from the IMF, by average banking sector assets from 2010-2011, as sourced from Business Monitor International) was comparable to Italy and Germany and about twice as high as that for Turkey and Japan, according to Business Monitor International and the IMF.

The following table sets forth certain information regarding the Russian banking sector for the periods indicated:

	As at 1 October 2012	As at 31 December		
		2011	2010	2009
Total assets/liabilities (not including capital) (in trillions of RUB)	45.8	41.6	33.8	29.4
Total assets/liabilities (percentage of GDP)	N/A(1)	76.3	74.8	75.8
Own funds (capital) (in trillions of RUB)	5.6	5.2	4.7	4.6
Loans to customers over total assets (%)	70.4	68.9	65.6	67.5
including loans to credit organisations (%)	8.3	13.8	8.6	9.3
Deposits from individuals over total liabilities (%)	28.5	28.5	29.0	25.4
Number of operating credit organisations	962	978	1,012	1,058
Assets of the five largest credit organisations over total assets (%)	50.7	50.0	47.7	47.9
Credit organisations located in Moscow and the Moscow region (%)	52.5	52.4	51.9	50.6
Number of profitable credit organisations (including zero profit)	884	924	931	938

Source: CBR
Note:
(1) Data not available.

The following table sets out certain information on corporate and retail lending and deposits for the periods indicated:

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	CAGR 2002-2011
	U.S. dollar billions, except percentages										
Corporate lending	50.7	78.1	114.9	145.5	220.4	379.5	425.8	414.7	461.4	550.2	30.5%
% of GDP	*15%*	*17%*	*19%*	*19%*	*22%*	*28%*	*30%*	*32%*	*31%*	*33%*	
Retail lending	*4.5*	10.2	22.3	41.0	78.4	121.0	136.7	118.2	134.0	172.4	50.3%
% of GDP	*1%*	*2%*	*4%*	*5%*	*8%*	*9%*	*10%*	*9%*	*9%*	*10%*	
Total lending	*55.2*	88.3	137.2	186.4	198.8	500.5	562.5	532.9	595.4	722.6	33.3%
% of GDP	*16%*	*20%*	*22%*	*25%*	*29%*	*37%*	*40%*	*41%*	*40%*	*43%*	
Corporate deposits	*31.6*	42.2	62.0	90.7	148.3	275.1	289.2	309.5	357.4	425.3	33.7%
% of GDP	*9%*	*9%*	*10%*	*12%*	*15%*	*20%*	*21%*	*24%*	*24%*	*25%*	
Retail deposits	*32.9*	52.3	*72.3*	*95.7*	144.1	210.2	201.1	247.5	322.1	368.7	31.0%
% of GDP	*10%*	*12%*	*12%*	*13%*	*14%*	*16%*	*14%*	*19%*	*22%*	*21%*	
Total deposits	*64.5*	94.5	134.3	186.3	292.3	485.2	490.2	557.0	679.5	794.0	32.1%
% of GDP	*19%*	*21%*	*22%*	*25%*	*29%*	*36%*	*35%*	*43%*	*46%*	*46%*	

Source: CBR

Overall, the performance of Russian banks remains positive and has shown improvement as the sector has recovered from the global financial crisis. According to the latest CBR statistics, total RAS pre-tax profits for the sector were RUB 1,018 billion in 2011, implying an annualised pre-tax RoAE of

20.5% This demonstrates 48% growth in RAS pre-tax profits in 2010 of RUB 688 billion, implying a pre-tax RoAE for the full year of 14.8% In the nine months ended 1 October 2012, the banking system recorded net income of RUB750.1 billion, leading to an annualised pre-tax RoAE of 24.1% Higher profitability has been partly driven by improving asset quality and lower provisioning levels, as the share of overdue loans has declined from 5.5% as at 31 December 2010 to 3.9% as at 31 December 2011 and increased slightly to 4% as at 1 October 2012. The overall capital adequacy ratio for the sector was 13.1% as at 1 October 2012, demonstrating decrease from 14.7% as at 31 December 2011 but a more significant drop compared to a ratio of 18.1% as at 31 December 2010.

Geographically, Russia's banking sector and financial services infrastructure remain concentrated around a few large economic centres primarily in the Western part of the country, especially Moscow. Approximately 52.5% of Russia's banks are headquartered in Moscow and the surrounding region and have limited national presence, according to the CBR. Only a small number of banks in Russia have a broad presence across the country, including Sberbank, VTB, Russian Agricultural Bank and Rosbank (which is part of the Société Générale Group).

Russian banks can be categorised into four major groups: (i) state-controlled or state-affiliated, (ii) large private banks, (iii) foreign-owned banks and (iv) other smaller banks.

State-Controlled or Affiliated Banks

As at 1 October 2012, those state-controlled or affiliated banks that are among the top ten banks in Russia by assets held approximately 54% of the sector's assets and continue to play a leading role in the sector. Among them, Sberbank with approximately 27.9% market share by total assets and VTB (including Bank of Moscow and TransCreditBank) with approximately 16.6% market share by total assets, are the largest.

Large Private Russian Banks

Those large privately-owned banks among the top 30 Russian banks by total assets include Alfa-Bank, NOMOS Bank, Promsvyazbank, Uralsib, Russian Standard Bank and MDM Bank. They typically function as universal commercial banks servicing corporate and retail customers. Several privately-owned banks such as Bank Saint-Petersburg, Bank Vozrozhdenie and NOMOS Bank have publicly traded shares.

Foreign Banks

Foreign banks are prohibited by Russian law from directly conducting banking operations in Russia, but can do so via a Russian-incorporated subsidiary and are subject to applicable requirements of Russian law. Although certain foreign-owned banks focus primarily on servicing multinational corporations operating in Russia or cash settlement operations for non-residents, many foreign-owned banks, such as UniCredit Bank, Raiffeisenbank and Rosbank (majority owned by Société Générale) have increased their presence in Russia in the last ten years and offer a full range of services to both retail and corporate clients.

According to the CBR, as at 1 October 2012, 42 credit organisations controlled by foreign groups holding more than 50% of their shares were operating in Russia, while the number of fully owned subsidiaries of foreign banks amounted to 75.

Other Smaller Banks

Other Russian banks are primarily locally owned and normally focus on certain regions or product segments. Compared to the top 20 Russian banks by total assets, these smaller banks are in some cases characterised by lower levels of corporate governance and risk management, as well as lower transparency of operations. Taking into account that the number of credit organisations in Russia has been steadily decreasing over the past several years, as well as tightening regulatory requirements, there is a chance that these smaller private banks could be the subject of future merger and acquisition activity in the banking sector.

Overview of Key Trends in the Russian Banking Sector

Market Consolidation

Over the past several years, the banking sector in Russia has gone through certain consolidation. According to the CBR, the total number of credit institutions with active banking licenses decreased from 1,311 in 2000 to 962 as at 1 October 2012, driven primarily by domestic consolidation through

acquisitions or some banks ceasing operations and losing their banking licenses due to the global financial crisis. The top ten banks in Russia have been active in domestic consolidation through strategic acquisitions. As a result, concentration has increased among the top ten banks: their share accounted for 56.8% of total assets in 2007 as compared to 65.3% of total assets as at 1 April 2012, according to the CBR.

Recent notable transactions in the Russian banking sector include:

- Société Générale's consolidation of its holdings in Rosbank, Delta Credit, Rusfinance and Bank Societe Generale Vostok ("BSGV"). In June 2011 the Société Générale Group announced the completion of the merger of BSGV and Rosbank. This was the final step in Société Générale's process of consolidating its Russian assets, which consisted of three stages: (i) a capital increase of Rosbank in the second half of 2010; (ii) the consolidation of 100% owned subsidiaries Delta Credit and Rusfinanbank; and (iii) a merger of BSGV and Rosbank. According to BSGV, upon the merger, the combined entity was among the top five banks in terms of loans with a network of approximately 700 branches in 340 Russian cities.
- NOMOS Bank's acquisition of Khanty-Mansiysk Bank ("**KhMB**"). In December 2010, NOMOS Bank completed the acquisition of a 51.3% stake in KhMB, a regional Siberian financial institution, for RUB 12.1 billion. The combined entity had approximately 280 outlets and assets of approximately RUB 448.9 billion. KhMB also added approximately 820,000 retail clients to the consolidated banks' client base.
- The merger of URSA Bank into MDM Bank, establishing a strong private bank by combining the two bank's complementary strengths in retail and corporate banking, as well as Eastern and Western Russia geographical coverage, respectively.
- VTB's acquisition of TransCreditBank and Bank of Moscow. By the end of September 2012, after several stages of acquisitions, VTB acquired 99.6% of TransCreditBank, after a final purchase of 21.8% from Russian Railways. In 2011, VTB also acquired a 46.5% stake in Bank of Moscow from the Moscow city government and further increased its stake to 94.8% as at December 2011. Both acquisitions increased VTB's market share by total assets to nearly 17.9% as at 1 January 2012 according to the CBR.
- Sberbank's acquisition of Troika Dialog, one of the oldest private investment banks in Russia, completed in January 2012, which has contributed to strengthening Sberbank's presence in the investment banking sector.
- The acquisition of 26.53% of NOMOS Bank by Financial Corporation Otkritie, Aleksander Mamut and Oleg Malis in an equity swap with PPF in August 2012.

Russian Banking Sector Presence in Capital Markets

During the past several years Russian banks have been expanding to international capital markets, attracting financing through IPOs and follow-on offerings.

Significant equity capital markets transactions conducted since 2007 include:

- In March 2007, Sberbank sold RUB230.2 billion of shares in a secondary offering on MICEX and RTS.
- In May 2007, Russia's second largest bank by assets, VTB, raised approximately US$8 billion through a placement of a 22.5% stake in an IPO. In February 2011, the Russian government received a further US$3.3 billion from the sale of a 10% stake in VTB.
- In April 2011, NOMOS Bank completed its IPO, raising approximately US$718 million at US$35 a share.

In addition to equity transactions, Russian banks have also been successful in tapping international debt markets. Total volume of issued debt (taking into account public Eurobond issuances only) increased from US$148.9 million in 2000 to US$14.1 billion in 2010, before dropping to US$6.1 billion in 2011 according to Dealogic. In 2010 alone, VTB, Bank of Moscow, Russian Agricultural Bank and Alfa-Bank issued approximately US$3.6 billion in the international bond markets according to the Financial Times. In 2011, the main transactions included a US$1 billion issue by Sberbank in June, a US$1 billion issue by Alfa-Bank in April and a US$0.8 million issue by Russian Agricultural Bank in May.

Improving market conditions in 2012 resulted in greater market demand for Russian debt. In March 2012, there was a US$750 million issue by VEB, followed in April by a US$1.5 billion issue by VTB

and a US$500 million issue by NOMOS Bank, while Gazprombank issued US$1.0 billion in Eurobonds over April and May 2012. Between June and August 2012, the relatively low dollar interest rate environment enabled Russian banks to raise debt financing in the international capital markets. In June 2012, Russian Agricultural Bank issued US$500 million before tapping the issue for a further US$350 million shortly thereafter. This was quickly followed by issuances of US$1 billion by each of VEB and Sberbank.

In July, there was a total issue volume of US$4.9 billion, which comprised a variety of securities issued in a range of currencies. The issuers ranged from private, non-investment grade banks such as Standard Bank, with a three-year US$350 million issue and CHF issues by Russian Agricultural Bank and Gazprombank to a US$750 million dollar tap issue by Sberbank of its series 9 bonds. In addition, VTB issued a US$1 billion perpetual bond, representing the first ever tier 1 Eurobond from Russia and the first benchmark unrated tier 1 hybrid capital deal for any bank. In August, Sberbank returned to the market by tapping its existing series 8 bonds for an additional US$300 million, reflecting the positive macro-environment for Russian banks to raise financing through Eurobonds.

Access to capital markets provides Russian banks with opportunities to implement an optimal funding strategy, supporting further banking sector growth. Due to the ongoing European crisis, which in turn impacted both credit and equity markets, Russian banks and corporations, similarly to their global peers, were constrained in their ability to attract financing at required levels. In October 2011, repo volumes with the CBR recorded their highest levels for the last two years, exceeding RUB 500 billion, while Mosprime rates increased by 100 to 200 basis points. As a result, Russian banks generally began increasing the rates on retail deposits to maintain their liquidity positions. In the nine months ended 1 October 2012, the repo market continued to remain active with the average market size increasing from RUB 200-300 billion during each month to RUB 400-500 billion at the end of each month, during periods of active repayments banks were required to make. In May 2012, the CBR published the results of its stress-tests. According to the results, under a pessimistic economic scenario, the Russian banking sector could record losses of approximately RUB 1.4 trillion (equivalent to 27% of total banking sector capital) and under an extreme economic scenario approximately RUB 2.0 trillion (equal to 37% of total capital) at the end of 2012.

BANKING REGULATION IN RUSSIA

General

Banking activity in Russia is governed primarily by the Federal Law of 10 July 2002, No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)", as amended (the "**CBR Law**"), the Federal Law of 2 December 1990, No. 395-I "On Banks and Banking Activity", as amended (the "**Banking Law**"), the Central Bank of Russia (the "**CBR**") regulations and, to a limited extent, the Federal Law No. 173-FZ "On Currency Regulation and Currency Control" dated 10 December 2003, as amended (the "**Currency Law**"), as well as certain other laws and regulations mentioned in this section. While the CBR is the primary regulator of the banking sector, other governmental entities also exercise regulatory and supervisory functions over banks in Russia. The FSFM issues licences that allow banking institutions to act as broker-dealers, or provide custodian services and other services in the Russian securities market. The tax authorities supervise tax assessments of banks.

The Central Bank of Russia

Under current legislation, the main functions of the CBR include: the organisation of cash and wire settlements; maintenance of budget accounts; administration of gold and currency reserves; the servicing of domestic state debt; implementation of credit and monetary policy; international activity; and banking regulation and supervision. As the primary regulator in the banking sector, the CBR has extensive regulatory and supervisory authority. The CBR grants state registration of credit organisations; issues, suspends and revokes banking licences of credit organisations; controls mergers and acquisitions in the banking system; establishes, and monitors compliance with, mandatory ratios and reserves as well as open position requirements; regulates the capital of credit organisations; establishes financial, accounting and statistical reporting standards for credit organisations; issues mandatory prescriptions to, and imposes administrative sanctions on, credit organisations; and appoints the temporary administration of credit organisations which are facing insolvency. Furthermore, pursuant to the Federal Law No. 161-FZ of 27 June 2011 "On the National Payment System", only credit organisations are permitted to perform electronic transfers of monetary funds. The CBR monitors and supervises the national payment system via which such electronic transfers are made. The CBR also establishes eligibility requirements for the positions of executive and chief accountant of credit organisations and candidates for such positions are subject to its prior approval before they are elected or appointed to the respective position.

Representative offices of foreign credit organisations are prohibited from conducting banking operations within the Russian Federation. Their activities are limited to facilitating the banking operations, and representing the interests of, their foreign parent entities. A foreign credit organisation may set up a representative office in the Russian Federation, subject to the approval of the CBR and compliance with a number of regulatory requirements.

The Federal Service for Financial Markets

The FSFM is the securities market regulator and issues licences that allow Russian credit organisations to act as the following professional functions in the Russian securities markets: broker; dealer; securities manager; custodian; clearing organisation; registrar; and arranger of trade. The licensing procedures are established in the FSFM Regulation No. 10-49/PZ-N of 20 July 2010, as amended. In addition, the FSFM has the right to conduct audits of credit organisations from time to time to check their compliance with the requirements of applicable securities laws and regulations. The FSFM is responsible for setting up certain additional reporting requirements for licensed credit organisations and has a right to monitor their operations.

The Association of Russian Banks

The Association of Russian Banks had 727 members (of which 518 are credit institutions) as at 23 November 2012 and was established under the Banking Law as a non-commercial, self-regulatory organisation. It offers various forms of technical support to its members and lobbies the Russian Government on behalf of banks.

Licensing Requirements

Banking licenses are issued by the CBR for carrying out the following banking operations: (i) to carry out banking operations in Roubles only, other than the acceptance of retail deposits; (ii) to carry out banking operations in both Roubles and foreign currencies, other than the acceptance of retail deposits; (iii) to take deposits in the form of precious metals; (iv) to accept retail deposits in

Roubles only; (v) to accept retail deposits in both Roubles and foreign currencies; (vi) to carry out banking operations in Roubles only, other than the acceptance of retail deposits and cash collection and cash servicing of customers; (vii) to carry out banking operations in both Roubles and foreign currencies other than the acceptance of retail deposits, and cash collection and cash servicing of customers; and/or (viii) a general licence.

Licence applicants must submit to the CBR a feasibility report, detailed information on senior management and their compliance with the relevant qualification requirements, documents certifying the source of funds contributed to the credit organisation's charter capital 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 the company's owners share joint liability 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:

- the 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 fail to meet qualification requirements; or
- a candidate for a position as a member of the credit organisation's board of directors has a business reputation which does not meet the established qualification requirements.

The Banking Law also provides a list of circumstances in which a banking license may be revoked by the CBR. These include: (1) the information upon which the license was issued or that the bank is required to disclose, is untrue and misleading; (2) the bank delays submission of its monthly report to the CBR for more than 15 days; (3) the bank conducts banking operations that are not permitted under its license; or (4) the bank's activities do not comply with Russian banking or anti money laundering legislation or CBR regulations.

The CBR must revoke a banking license from a bank if (i) its capital adequacy ratio falls below 2%, (ii) its regulatory capital is less than the minimal charter capital as set by the CBR, (iii) it fails to adjust its charter capital to its regulatory capital according to CBR requirements, (iv) the bank fails to satisfy the claims of its creditors or make mandatory payments (e.g., taxes and duties) amounting to an aggregate of RUB 100,000 or more, within 14 days of their maturity, and (v) the amount of the bank's regulatory capital is less than a certain statutory threshold during a certain defined period of time.

In December 2012, CBM requested that amendments be made to the terms of its banking licence, in order for such terms to correspond with amendments introduced to certain banking laws and regulations in connection with Federal law No.161-FZ "On the National Payment System" dated 27 July 2011. The CBR issued CBM's general banking license No. 1978 with the requested amendments on 21 January 2013.

Regulation of Acquisitions

CBR Regulation of Acquisitions

According to the Banking Law, the CBR must be notified of an acquisition of more than 1% of the share capital of, or participation interests in, a credit organisation by any individual or legal entity, or a group of individuals and/or legal entities (irrespective of whether they are residents or non-residents of the Russian Federation). The CBR must also give prior consent to an acquisition (including an acquisition on the secondary market) of more than 20% of the share capital of, or participation interests in, a credit organisation. Furthermore in accordance with the CBR Regulation No. 130-I of 21 February 2007, as amended, prior consent of the CBR is required for the acquisition or transfer into trust of more than 20% of the share capital of a credit organisation in the form of a joint-stock company and any subsequent increase in the ownership or trust holding above the relevant thresholds of 25%, 50% and 75% as well as an acquisition or transfer into trust of 100% of the share capital of a credit organisation in the form of a joint-stock company (with respect to an acquisition or transfer into trust of participation interests in a credit institution in the form of a limited liability company, the respective thresholds are 20%, $^{1}/_{3}$, $^{1}/_{2}$, $^{2}/_{3}$ and 100%). In each case an applicant must be

in a satisfactory financial condition and own sufficient funds (if the applicant is an individual); or have sufficient net assets and have been in existence for at least three years (if the applicant is a legal entity). CBR's approval is valid for one year from the date of issuance, and the applicant may acquire any amount of shares/participation interests in a credit organisation within the threshold and total acquisition price stipulated in the approval.

The Federal Antimonopoly Service

The Federal Antimonopoly Service is the anti-trust regulator. It controls mergers of credit organisations, acquisitions of shares and assets of credit organisations, and acquisitions of rights that would allow an acquirer to determine the terms of commercial activity or exercise the powers of the executive body of such credit organisations.

In accordance with the Federal Law No. 135-FZ "On Protection of Competition" of 26 July 2006, as amended (the "**Antimonopoly Law**") and the Government Regulation No. 335 of 30 May 2007, as amended, prior consent of the FAS is required for the following actions: (i) an acquisition of more than 25% of the voting shares of a credit organisation in the form of a joint-stock company and any subsequent increases of ownership above the thresholds of 50% and 75% of its voting shares (with respect to an acquisition of participation interests in a credit institution in the form of a limited liability company, the respective thresholds are $^{1}/3$, $^{1}/2$ and $^{2}/3$); (ii) a contribution of shares, participation interests and/or assets of a credit organisation into the charter capital of a commercial organisation; (iii) an acquisition of more than 10% of the assets of a credit organisation, in accordance with the most recent RAS balance sheet; (iv) an acquisition of rights to determine the activity of a credit organisation or to exercise the powers of its executive body; (v) the incorporation of a commercial organisation, if its share capital is paid for by the shares, participation interests and/or assets of a credit organisation, in each case from (i) to (v), provided that the value of such credit organisation's assets, in accordance with the most recent RAS balance sheet, exceeds RUB22 billion; and (vi) the merger and accession of credit organisations if the aggregate value of such credit organisation's assets, in accordance with the most recent RAS balance sheet, exceeds RUB22 billion.

The Antimonopoly Law provides for a 30-day review period for the pre-closing approval of transactions. The review period may be extended by an additional two months. Certain transactions require mandatory post-transactional notification to the FAS. Under the Antimonopoly Law, if an acquirer has acted in violation of the merger control rules and acquired, for example, shares without obtaining the prior approval of the FAS, the transaction may be invalidated by a court resolution issued pursuant to the FAS claim, provided that such transaction has led or may lead to the restriction of competition, for example, by means of strengthening a dominant position of the acquirer in the relevant market. More generally, Russian legislation provides for civil, administrative and criminal liability for the violation of anti-monopoly legislation.

Strategic Investments Law

The Federal Law No. 57-FZ "On the Procedure for Making Foreign Investments in Business Entities of Strategic Importance for the National Defence and Security of the Russian Federation", dated 29 April 2008, as amended (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 national defence and security ("**Strategic Companies**").

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 encryption technology and IT systems that are protected by encryption data systems; (ii) activities involving the distribution encryption technology; (iii) activities involving maintenance of encryption technology; or (iv) rendering services in the field of information encryption.

Pursuant to the Strategic Investments Law, foreign investors and/or their groups must notify the FAS following an acquisition of 5% or more of the share capital of a Strategic Company.

In addition, the Strategic Investments Law requires foreign investors to receive prior consent from the special state government committee (the "**State Committee**") before acquiring control over a Strategic Company, whether through acquiring a certain quantity of voting shares or certain management rights. The Federal Law No. 160-FZ "On Foreign Investments in the Russian Federation" dated 9 July 1999, as amended, and the Strategic Investments Law also provide that any acquisition (whether direct or indirect) by a foreign state or international organisation, or entities controlled by any of them, save for certain exemptions, of (i) more than 25% of voting shares of a Russian company (including a Strategic Company), or (ii) any powers to block decisions of the management

bodies of a Russian company (including a Strategic Company), require prior approval of the State Committee in accordance with the procedures set forth in the Strategic Investments Law.

Regulation of Expansion Abroad

The Banking Law authorises Russian credit organisations to incorporate subsidiaries and to open branches outside the Russian Federation with the prior approval of the CBR if the credit organisation has, among other requirements, a general license. The opening of a representative office of a Russian credit organisation outside the Russian Federation requires notification to be made to the CBR.

Regulation of Retail Banking

According to the Deposit Insurance Law, participation of a bank in the retail deposit insurance system is subject to certain requirements, which include sufficient financial stability, provision of true and accurate financial statements and/or reports to the CBR and full compliance with the CBR mandatory ratios.

Under the Deposit Insurance Law, protection for each client is limited and banks are required to make quarterly payments into a deposit insurance fund. Reimbursement is paid in full in relation to all deposits, however, the amount of any reimbursement shall not exceed RUB 700,000. Compensation from the deposit insurance fund is payable to a depositor, if a bank's licence has been revoked or if the CBR has imposed a moratorium on payments.

The Federal Law No. 96-FZ of 29 July 2004 "On Reimbursements by the Bank of Russia of Individual Deposits Held in Bankrupt Banks Not Participating in the Mandatory Individual Deposit Insurance System for Russian Banks", as amended (the "**Uninsured Deposits Law**"), establishes a protection system for retail clients of banks that did not participate in the retail deposit insurance system. The Uninsured Deposits Law contemplates, *inter alia*, that the CBR will make payments to the individual depositors of bankrupt Russian banks if such banks have not been admitted to the system of insurance of retail deposits prior to their bankruptcy. Under the Uninsured Deposits Law, reimbursement is paid in full in relation to all deposits, however, the amount of any reimbursement shall not exceed RUB 700,000.

In August 2012, the Russian government proposed amendments to the CBR Law. If those draft amendments are adopted into law, the CBR will have the power to limit interest rates on deposits offered by, and to appoint authorised representatives to (i) a credit organisation ranked within the top 100 credit organisations, as determined on the basis of assets and/or total funds deposited by retail and/or corporate clients, and (ii) a credit organisation, if its corporate and/or retail deposits equal or exceed 5% of the aggregate amount of retail and/or corporate deposits within a sub-federal unit of Russia.

In November 2009 and March 2010, the Supreme Arbitration Court of the Russian Federation issued two judgments declaring that charging an account fee to retail borrowers is a violation of Russian consumer protection laws. In Information Letter No. 147 issued on 13 September 2011, the Supreme Arbitration Court further indicated that a credit institution can only lawfully receive fees from a borrower if it is providing a separate service to the borrower other than the loan. Historically, CBM, in common with other major Russian banks, charged a range of fees and commissions in connection with its loans to retail and corporate customers, in addition to the interest rate payable on the loans. Following the issuance of Information Letter No. 147, CBM has changed its policy and approach with regard to charging such lending fees, although there remains a risk that certain fees charged by CBM to its loan customers could be challenged. If fees charged by CBM were to be deemed to be in violation of Russian consumer protection laws, CBM could be required to return such fees to the relevant clients and pay monetary penalties, which could have a material adverse effect on CBM's business, financial condition and/or results of operations.

On 3 September 2012 draft amendments to the Banking Law, prohibiting loan transactions with excessively onerous terms, was introduced in the State Duma of the Russian Federation. However, as at the date of this Prospectus, the first reading of the draft has not been scheduled. According to these amendments, the full value of the loan provided to an individual borrower cannot exceed a value of double the average full value for loans of a respective type (being a corresponding average value calculated by the CBR for a preceding quarter). If such circumstances arise, upon a claim by the borrower, the court can reduce the amount of interest and other charges applicable under the

corresponding loan agreement. The CBR should establish a list of the respective types of loans and methodology of a quarterly calculation of their average full values.

Regulation of Anti-Money Laundering and Terrorist Financing

In August 2001, the Federal Law No. 115-FZ "On Combating the Legalisation (Laundering) of Income Obtained by Criminal Means and Terrorist Financing" (the "**Money Laundering Law**") was adopted to comply with the requirements of the Financial Action Task Force on Money Laundering ("**FATF**"). The Money Laundering Law came into effect on 1 February 2002 and was subsequently amended multiple times. Credit organisations are required to comply with the provisions of the Money Laundering Law relating to, among other things, the development of appropriate internal standards and procedures, identification of the client, its representative and ultimate beneficiary, control over client operations and reporting suspicious operations performed by clients.

One of the main obligations of banks under the Money Laundering Law is the control function that involves the identification of banks' clients, their representatives and ultimate beneficiaries, gathering and recording of information with respect to client operations subject to control and the reporting of such operations to the Federal Service for Financial Monitoring, the anti-money laundering authority in Russia. The Money Laundering Law requires that banks control any operation with funds or other property, if the amount of such operation is equal to or exceeds RUB600,000 (or its equivalent in foreign currencies) and if such operation involves the following: certain cash transactions; transactions where at least one of the counter-parties is resident, or has a bank account, in a country that does not comply with the recommendations of the FATF (a country list corresponds to the "black list" issued by the FATF); certain operations with bank accounts or deposits; and certain transactions with moveable assets, including transactions involving precious stones, precious metals and other property. Banks also must control any operation in which the ownership of real estate is transferred, for an amount equal to or exceeding RUB 3 million (or its equivalent in foreign currencies). In addition, banks are required to control any operation involving individuals or organisations that are known to be involved in extremist or terrorist activities and legal entity controlled by them or their agents. If bank officers suspect that an operation is conducted in order to legalise any funds received as a result of illegal activity or to finance terrorist activities, the bank is required to report such operations to the Federal Service for Financial Monitoring whether or not such operation qualifies as subject to control. Banks are not allowed to inform clients that transactions are being reported to the Federal Service for Financial Monitoring, or of any other measures that have been undertaken to prevent money laundering (except for a notice regarding suspension of a banking operation, refusal to perform the client's instruction and certain other information). Certain transactions conducted by individuals are exempt from the identification requirements under the Money Laundering Law, in particular, foreign exchange operations that do not exceed RUB 15,000.

On 21 November 2011, amendments to the Money Laundering Law came into force, requiring credit organisations to develop and adopt new internal control regulations based on the requirements set out by the CBR Regulation No. 375-6, effective from 29 April 2012, within one year from such latter date. The Regulation extends criteria for identifying suspicious operations, in particular, introducing separate characteristics for operations that may be considered to be directed at terrorist financing or tax evasion, and requires that credit organisations establish procedures for their identification. Before these amendments, credit organisations developed internal control regulations based on the CBR recommendations and were required to get the approval of the CBR and, if they were professional securities market participants, of the FSFM. The amendments have removed this bureaucratic approval procedure. However, the banks will no longer benefit from a "safety net" of the CBR's sign-off on their internal control regulations, which increases the risk of related investigations and claims by the CBR and the likelihood of future controversies with the regulator. Further, the banks' responsible employees are now subject to a heightened risk of liability for technical non-compliance of the internal control regulations and the CBR requirements

Regulation of Credit Histories

In December 2004, the Federal Law No. 218-FZ "On Credit Histories" was adopted. This law, as amended, provides for the establishment of "credit bureaus" that will maintain a database of retail borrowers' credit histories. The law requires all credit organisations, starting from 1 September 2005, to provide at least one credit bureau with the credit histories of all borrowers that have consented to the distribution of their credit histories. The borrower's credit history consists of both public and confidential information and must include, among other matters, information on the borrower's

outstanding debt and interest on it, the terms of repayment and any legal proceedings involving the borrower in respect of loans and financings. The borrower's credit history may be distributed to a third party with the borrower's prior consent, which remains valid for one month after it has been granted. The general catalogue of credit histories is maintained by the CBR and includes cover pages of all credit histories and information about the credit bureau that maintains each credit history. The credit bureaus are supervised by the FSFM. As at 8 October 2012 the FSFM has registered 26 credit bureaus.

Regulation of Currency Control

Notwithstanding significant liberalisation of the Russian currency control regime in the last decade, the Currency Law continues to impose some limitations on currency operations. In particular, foreign currency operations between Russian residents are generally prohibited (except for certain specified operations, including foreign currency transactions between Russian authorised banks listed in the CBR Directive No. 1425-U of 28 April 2004). Moreover, certain limitations not applicable to credit organisations apply to the credit organisations' clients, such as the requirement to notify the Russian tax authorities of an opening of a bank account abroad. Finally, credit organisations are required to perform the functions of currency control agents: i.e., supervise compliance by residents and non-residents, as such terms are defined in the Currency Law, with the restrictions imposed by currency laws and regulations, including the requirements imposed on residents to maintain transaction passports for certain cross-border transactions and repatriate, subject to certain exceptions, export-related earnings to Russia.

The Insider Dealing Law

The Federal Law No. 224-FZ "On Combating the Unlawful Use of Insider Information and Market Manipulation and Introducing Amendments to Certain Legislative Acts of the Russian Federation" dated 27 July 2010, as amended, (the "**Insider Dealing Law**") came into force on 31 July 2011, save for the regulation regarding criminal liability for unlawful use of insider information and revocation of a banking license due to multiple instances of non-compliance with the Insider Dealing Law within a period of one year. The Insider Dealing Law lists categories of persons that can be considered insiders, including, among others, issuers, management companies, professional market participants (including brokers and dealers) and other persons who perform transactions, on behalf of their clients, involving financial instruments, foreign currency and/or goods, and who have received insider information from such clients. Furthermore, insiders must comply with certain new disclosure requirements, including maintaining an insiders list and sending notices of transactions by insiders to the FSFM and the relevant legal entities. Under the Insider Dealing Law, any person who illegally uses insider information and publishes misleading information may be held liable for misuse of information and/or market manipulation. In implementing the Insider Dealing Law and pursuant to the CBR Regulation No. 2723-U of 31 October 2011, the CBR began to disclose certain facts relating to Russian banks on its website, including, (i) the status and results of its inspections, (ii) licence revocations, (iii) cases in which an administrative liability has been imposed on a credit organisation and/or its CEO, (iv) an invalidation of the CBR's approval for taking retail deposits and opening and maintaining bank accounts for individuals, and (v) the stages of issuance of securities by banks. As the Insider Dealing Law was recently implemented, its specific interpretation and application is not yet certain.

Financial Consumer Protection

Financial consumer protection is generally based on the Law of the Russian Federation No. 2300-1 of 7 February 1992, "On Protection of Consumers Rights", as amended (the "**Consumer Protection Law**"). According to the Resolution of the Supreme Court of Russia No. 7 of 29 September 1994, the Consumer Protection Law is applicable to relations arising from financial services agreements, if entered into by retail customers for non-commercial purposes (including lending, settlement operations, opening and maintenance of bank accounts of retail consumers, and custody of securities).

In September 2011, the Supreme Arbitration Court issued further guidelines relating to the protection of financial consumers' rights. The Supreme Arbitration Court upheld the existing banks' practices of selling bad loans to specialised debt collection companies that typically function without a banking license, by stating that an assignment by a bank of non-performing retail loans to a non-banking organisation, complies with the legislation, and does not require a borrower's consent. However, on 28 June 2012, the Supreme Court supported the opposing position in its Resolution No. 17 "On Consideration by Judges of Civil Cases on Consumer Protection Disputes". Contrary to the position

of the Supreme Arbitration Court, the Supreme Court declared that the assignment by banks of receivables under retail loan agreements to non-banking organisations was inconsistent with the Consumer Protection Law, except where a borrower has consented to the assignment in advance.

In addition, a financial ombudsman, established as a non-governmental independent body at the Association of Regional Banks of Russia to consider and help resolve banks' disputes with consumers, has been active in Russia since October 2010. If the value of a dispute does not exceed a set threshold, a retail bank customer may turn to the financial ombudsman at the pre-trial stage in order to settle with the bank to avoid the need to go to court. Although decisions of the financial ombudsman are not binding, there have recently been various legislative initiatives in relation to the introduction of binding dispute settlement procedures involving the financial ombudsman.

In December 2012, the Russian Ministry of Finance proposed a draft law on "Consumer Loans", which is intended to bring more transparency into, and a higher level of regulation of, the interaction between Russian banks and retail borrowers. Among other things, the draft law, if enacted, would limit the amount of fees and penalties which an individual borrower may be charged on a loan, introduces cooling-off periods in connection with loans and requires detailed disclosure by banks of lending terms to retail borrowers.

The National Payment System Law

The Federal Law No. 161-FZ "On the National Payment System" was adopted on 27 June 2011, which, for the most part, came into force on 29 September 2011. This law provides the legal and organisational principles of the national payment system, and also establishes the procedure for rendering payment services, including transferring monetary funds and the use of electronic means of payment. Furthermore it establishes the requirements for the organisation and operation of payment systems, and the procedure for monitoring and supervising the national payment system. This law provides that only credit institutions may carry out electronic transfers of monetary funds. Credit institutions may enter into agreements with other organisations, under which the latter may render to the credit institutions operational and clearing services for the electronic transfer of monetary funds.

Accession of Russia to the WTO

On 16 December 2011, Russia signed the Protocol on its accession to the World Trade Organisation ("**WTO**"). The ratification procedures were completed on 21 July 2012, and on 22 August 2012 the accession to the WTO became effective. However, in relation to its banking sector, Russia made a reservation that it would review market access requirements for the establishment of branches of foreign banks and securities firms in the context of future negotiations on the accession of Russia to the OECD or within the framework of the next round of the WTO's multilateral trade negotiations. Currently, the CBR allows foreign banks either (i) to incorporate a subsidiary bank in Russia regulated by the CBR, or (ii) to maintain a representative office in Russia. A subsidiary of a foreign bank can only perform the operations stated in the scope of its Russian banking license, which must comply with Russian laws and CBR regulations (including regulations on mandatory ratios). Activities of a representative office are limited to facilitating banking operations and representing interests of the foreign parent. At present, a foreign bank may establish a subsidiary or a representative office in Russia, subject to the CBR's approval and provided that, among other things, the parent bank has a good reputation and has a good financial standing in its home country. In July 2012, the Russian government proposed a draft law explicitly prohibiting the establishment of foreign bank branches in Russia, which was adopted by the State Duma in the first hearing on 21 November 2012.

The accession of Russia to the WTO is also expected to necessitate unification of requirements applicable to private banks, banks under state control and foreign-controlled banks, including, among other things, abolishing some Russian law provisions that may be deemed to be discriminatory against foreign-owned banks in favour of banks controlled by Russian nationals or the state. However, Russia also managed to keep a limit on the overall amount of foreign investments made into the banking sector of Russia post-WTO accession. This limit provides that foreign investments shall not exceed 50% of the total equity capital of all credit organisations registered in Russia. If the threshold is exceeded, the CBR will have a right (i) not to authorise new foreign investments in the banking sector, and/or (ii) to impose a temporary ban on disposals of banks' equity capital to foreign investors, including, through an increase of equity capital at the account of a foreign investor.

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" (the "**Mortgage-Backed Securities Law**") and amendments to the Civil Code, the Tax Code and the Federal Law No. 102-FZ "On Mortgage" were enacted between 2003 and 2004. Under 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. This legislation was also intended 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 changes were made to the procedures for recording mortgage certificates, in order to facilitate transactions with such certificates and assist the issuance of mortgage-backed securities.

An owner of mortgage certificates may submit them to a depositary for recording rights to such mortgage certificates. 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.

Measures to Support the Banking and Finance System

Since October 2008, a set of federal laws and regulations was adopted to support the liquidity of the Russian banking sector, restore investor confidence and support mid-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 (the "**Financial System Support Law**"), introduced the framework principles to support the financial system of the Russian Federation and provided for specific measures and actions to be taken by the CBR and Vnesheconombank.

Under the Financial System Support Law, the Government and the CBR provided up to RUB910 billion in subordinated loans to state-owned and private banks under certain conditions. This influx of long-term subordinated loans (with a maturity of up to 31 December 2019) into the banking capital, was one of the key economic initiatives implemented to restore confidence in the Russian banking sector.

The Federal Law No. 317-FZ "On Amending Articles 46 and 76 of the Federal Law On the Central Bank of Russian Federation (Bank of Russia)", dated 30 December 2008, authorised the CBR to appoint its authorised representatives to those credit organisations, which have received any foreign currency loans and/or subordinated loans pursuant to the Financial System Support Law, or received certain other types of loans from the CBR. An authorised representative can participate, without voting rights, in the meetings of the management bodies, where the agenda relates to lending and/or management of assets and liabilities of such credit organisations. An authorised representative can also request information on transactions or operations which, among others, (i) relate to any disposal of real estate of such credit organisations, (ii) relate to any disposal of other property of such credit organisation, if its book value exceeds 1% of the credit organisation's assets, (iii) relate to the performance of any obligations, if the book value of such obligations exceeds 1% of the credit organisation's liabilities, (iv) relate to any transfer of funds to foreign banks, if the amount transferred exceeds 1% of such credit organisation's assets, or (v) are made with an interested party, affiliate, or an entity with respect to which such credit organisation is an interested party, if the amount of such transaction or operation exceeds 0.5% of the book value of the credit organisation's assets (liabilities).

According to the CBR Directive No. 2181-U of 9 February 2009, as amended, an authorised representative of the CBR can also request (i) information on assets securing the CBR loan, (ii) security agreements securing the CBR loan (if any), (iii) extracts provided by the depositary or registrar confirming the registration of a pledge on the securities that serve as collateral for the CBR loan, and (iv) copies of pledge instructions (where the loan is secured by a pledge of receivables under loan agreements, which are themselves secured by a pledge of certain securities).

The Federal Law No. 175-FZ "On the Additional Measures for Strengthening Stability of the Banking System for the Period up to 31 December 2014" dated 27 October 2008, as amended (the

"**Banking System Stability Law**"), came into effect on 28 October 2008. The Banking System Stability Law intended for the Deposit Insurance Agency to assist distressed banks through, (i) attracting investors to 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;
- direct acquisition of a controlling stake in a credit organisation in distress by the Deposit Insurance Agency (if there is no investor willing to participate in rehabilitation proceedings);
- provision of financial assistance to a credit organisation in distress subject to the acquisition of a controlling stake in such credit organisation by either a private investor or the Deposit Insurance Agency;
- conducting a public sale of the assets securing obligations of a credit organisation owed to its creditors, including the CBR; and
- appointment of the Deposit Insurance Agency by the CBR to act as temporary administrator in relation to a credit organisation.

Regulation of Insolvency

Pursuant to the Federal Law No. 40-FZ of 1999 February 25 "On Insolvency (Bankruptcy) of Credit Organisations", as amended (the "**Bank Insolvency Law**"), bankruptcy proceedings may not be initiated against a credit organisation before its licence is revoked.

Petition to the CBR for Licence Revocation

Under the Bank Insolvency Law, if a credit organisation cannot satisfy its creditors' claims and/or make mandatory payments to the budget, within 14 days of those obligations becoming due, and/or the value of its assets is insufficient to satisfy creditors' claims and/or make mandatory payments to the budget, the following persons may petition the CBR to revoke the credit organisation's banking licence, subject to certain procedural and evidentiary rules (the respective filing being a "**Licence Revocation Petition**"):

- the credit organisation itself;
- its creditors; and
- authorised governmental authorities.

If the CBR fails to respond to the Licence Revocation Petition within two months after its filing, or denies the revocation of the credit organisation's banking license, the respective petitioners can petition a court to declare the credit organisation insolvent (the respective filing being an "**Insolvency Petition**"). If an Insolvency Petition is filed with a court, while the banking licence of the allegedly insolvent credit organisation has not yet been revoked, the court must adjourn its consideration of the Insolvency Petition and request the CBR to either opine on whether there are grounds for revocation of the credit organisation's banking licence or, as the case may be, to provide the CBR order pursuant to which the credit organisation's licence has been revoked. If the CBR issues a negative opinion or fails to respond within one month, the Insolvency Petition must be dismissed. In the latter case, the CBR becomes liable for any losses the respective petitioner incurs as a result of the non-revocation of the banking licence or, as the case may be, as a result of a failure by the CBR to take insolvency preventive measures in respect of such credit organisation.

On revocation of banking licenses, see "– *Licensing Requirements*".

Consequences of the CBR Decision to Revoke a Banking License

If, in response to a Licence Revocation Petition, the CBR revokes the credit organisation's banking licence, any of the following entities can file an Insolvency Petition, subject to certain procedural and evidentiary rules:

- the credit organisation itself;
- its creditors;
- authorised governmental authorities; and

- the CBR.

Upon revocation of the credit organisation's banking licence, the CBR must appoint an interim administration for the credit organisation (if the CBR has not appointed such interim administration earlier, e.g., under certain circumstances set forth in the Bank Insolvency Law indicating the deteriorating financial condition of the credit organisation). The powers of the interim administration last until the appointment of a receiver. See "– *Appointment and Powers of a Receiver*". Within two months after an Insolvency Petition is filed, the court should decide on the insolvency of the credit organisation and, if applicable, the opening of a receivership. A nationwide newspaper "Kommersant" and a local periodical must publish information on the court's decision that declared the credit organisation insolvent. Such publications must state, among other things, the time frame for the filing of, and satisfaction of, the creditors' claims.

Appointment and Powers of a Receiver

Once a court declares a credit organisation insolvent:

- if the credit organisation did not hold a retail banking licence, the court appoints a CBR-accredited receiver; or
- if the credit organisation held a retail banking licence, the Deposits Insurance Agency acts as a receiver.

Upon his appointment, the receiver assumes all the management and liquidation powers of the credit organisation's operations. The receiver's appointment is initially for one year, but may be extended for a further six-month period. The receiver's authority includes:

- analysis of the credit organisation's financial standing;
- valuation of its assets;
- identification of its creditors and providing them with a notice of the credit organisation's insolvency;
- identification of debtors and demanding performance of their obligations to the estate of the insolvent credit organisation; and
- other powers, as set forth under the Bank Insolvency Law.

The receiver reports to a committee of creditors and to the CBR, subject to the court supervision.

Invalidation of Transactions and Refusal to Perform Obligations

Under the Bank Insolvency Law, upon the receiver's petition, the court may invalidate, among others, the following transactions of an insolvent credit organisation (subject to certain exceptions, including, transactions made in the ordinary course of business with a value not exceeding 1% of the total book assets of the credit organisation and certain stock exchange transactions):

- transactions made within one year prior to the appointment of the interim administration, if the consideration received under such transaction is deemed "unequal", i.e., if the price and/or other terms of such transaction were significantly less favourable to the credit organisation than those of a similar transaction made under comparable circumstances;
- transactions made within three years prior to the appointment of the interim administration, if the credit organisation made the transaction with the intent of prejudicing the property interests of creditors, provided that the transaction caused damage and the counterparty was aware of such intent of the credit organisation; or
- transactions which lead, or may lead, to the preferential satisfaction of one creditor's claims over other creditor's claims and was (i) made within one month prior to the appointment of the interim administration, or after the appointment of the interim administration, or (ii) made within six months prior to the appointment of the interim administration, where the counterparty was aware (or should have been aware) that the credit organisation could be insolvent when the transaction was made, or if such transaction aimed at creating preferences for a particular creditor, or impaired, or could impair, the existing priority of claims.

In addition, under the Bank Insolvency Law, the receiver may generally refuse to perform any transaction that results in losses to the credit organisation, where a similar transaction entered into under comparable circumstances would not ordinarily result in such losses.

Priority of Claims

Under the Bank Insolvency Law and the Bankruptcy Law, the claims of creditors of a credit organisation that participates in the Deposit Insurance System, generally rank in the following order of priority:

- current claims which have emerged during the insolvency proceedings, including insolvency administration and related salary costs, salaries, utilities bills, legal expenses, ongoing taxes and other payments;
- first priority claims, including:
  - claims in tort for damages to an individual, as a result of physical or moral harm;
  - claims of retail depositors and individuals holding current accounts (except for individual entrepreneurs, attorneys, notary public and other persons who opened accounts for professional purposes);
  - claims of the Deposits Insurance Agency in respect of deposits and current accounts assigned to it pursuant to the Deposit Insurance Law;
  - claims of the CBR relating to payments made by the CBR to retail depositors of insolvent credit organisations not participating in the Deposit Insurance System;
- second priority claims include claims under employment contracts and other social benefits, and authorship copyright claims;
- third priority claims include claims secured by a pledge of the credit organisation's assets (any residual claims of secured creditors that remain unsatisfied after the sale of such collateral rank *pari passu* with claims of unsecured creditors (e.g. forth priority claims), as well as certain claims of retail depositors that do not constitute first priority claims);
- fourth priority claims are claims of all other creditors (including tax authorities), except for claims of subordinated creditors; and
- fifth priority claims are claims of subordinated creditors.

Claims of each category of creditors must be satisfied in full before proceeding to claims of the successive category. However, current claims must be satisfied from the estate without regard to the above priorities, during any point of the bankruptcy proceedings.

Completion of Insolvency Proceedings

Upon the collection of debts and satisfaction of claims, to the extent possible, the receiver submits a report to the court. The court will then decide whether to continue or close the insolvency proceedings.

Capital Requirements

The Banking Law sets a minimum charter capital and regulatory capital requirement for banking institutions, which is currently RUB 300 million (with certain exceptions). If a bank's regulatory capital falls below its charter capital, it is required to adjust its regulatory capital (or, if this is impossible, its charter capital, within applicable limits) in accordance with procedures set by the CBR. A minimum regulatory capital requirement of RUB 900 million has been introduced for obtaining a license for conducting banking operations in rubles and foreign currencies, and for taking deposits from individuals in rubles and foreign currencies.

Basel Implementation in Russia

Russian regulation of capital is generally based on the Basel Accords. It is, however, less sophisticated in certain respects. Over the recent years, the CBR in cooperation with Russian banks, has started preparing the implementation of international approaches to the capital adequacy of credit organisations under Basel II. Currently, the standardised approach for credit risks of Basel II as set forth in Pillar 1 "Minimum Capital Requirements", is being applied in Russia. The CBR has also started preparing the implementation of the internal ratings-based approach of Basel II Pillar 1.

As part of the introduction of the Pillar 2 "Supervisory Review Process", the CBR issued the Letter No. 96-T of 29 June 2011 "On Methodical Recommendations for Credit Organisation on Arranging Internal Procedures for Capital Adequacy Assessment" (the "**Methodical Recommendations**"). Under the Methodical Recommendations, credit organisations are recommended to expand and use the respective internal procedures for capital adequacy assessment, which comprise the process of

assessment by a credit organisation of the adequacy of its own capital, i.e. its internal capital to cover accepted and potential risks, in addition to constituting a part of such credit organisation's corporate culture. Under the Strategy for the Development of the Russian Banking Sector for the period up to 2015, developed by the Government together with the CBR and adopted on 5 April 2011 ("**Banking Sector Development Strategy**"), the implementation of Basel II Pillar 2 and the internal ratings-based approach of Basel II Pillar 1 in Russia, will commence approximately in 2014 and 2015, respectively.

The Banking Sector Development Strategy also contemplates the introduction in Russia of "International Regulatory Framework for Banks" ("**Basel III**") to be applied as follows: (i) capital requirements between 2013 and 2015; (ii) capital conservation buffer between 2016 and 2018; (iii) leverage ratio starting from 1 January 2018; (iv) liquidity coverage ratio starting from 1 January 2015; and (v) net stable funding ratio starting from 1 January 2018. Basel III will, among other things, increase minimum common equity and minimum Tier 1 capital as a percentage of risk-weighted assets and introduce additional capital conservation and countercyclical buffers. These risk-based capital requirements will be complemented by a leverage ratio of Tier 1 capital to total exposures (including on-balance sheet and off-balance sheet items). In September 2012, the CBR published draft regulations to introduce new capital adequacy requirements for Russian banks as part of the implementation of Basel III in Russia. According to the draft CBR regulations, the reporting of the Basel III capital adequacy ratios is to be required from 1 April 2013, with enforcement by the CBR from 1 October 2013.

Subordinated Debt

CBR regulations currently distinguish between core capital and supplemental capital (together, "**own funds**" or "**regulatory capital**") and require that the supplemental capital (Tier 2 capital) be no more than 100% of the core capital (Tier 1 capital) and that subordinated debt ("**Subordinated Debt**") (which can be included into the core or supplemental capital) not exceed 15%, 50% or 100% of the core capital (depending on the terms of such subordinated debt).

Supplemental (Tier 2) Capital

Subordinated Debt (in the form of loans, deposits or notes) is included in the supplemental capital if the following criteria are satisfied:

- its term is no less than five years;
- it includes a provision prohibiting, without the consent of the CBR, (a) the early redemption of the debt, or any part of, or interest in, the debt, and (b) the early termination and/or amendment of the agreement (Regulation No. 215 – P, allows for certain variations to redemption terms; however, in such case an actual redemption is subject to the CBR's consent);
- the terms of the debt, as at the date such loan agreement is entered into (or amended) or such notes are placed, do not materially differ from the prevailing market terms of similar debt;
- the agreement specifically provides for the lowest creditor priority ranking of the creditor in the event of the borrower's bankruptcy;
- the debt is unsecured; and
- individuals are not party to the agreement.

The qualification of subordinated debt as supplemental capital is subject to consent of the CBR. The borrower may initiate the approval procedure of the CBR before the funds are disbursed or the subordinated loan is signed, by submitting a loan agreement or its draft for the CBR's consideration. As a result of its review, the CBR territorial branch may respond with comments or may issue a preliminary conclusion confirming that the agreement complies with CBR regulations. The final conclusion shall confirm the CBR's consent to the inclusion of the Subordinated Debt into supplemental capital.

The Subordinated Debt is included into the supplemental capital from the date following the date of the CBR's consent, but in any event not before the bank actually receives the funds.

Regulation No. 215-P provides that, generally, subordinated debt may not exceed 50% of a credit organisation's core capital. However, if the term of the subordinated debt is ten or more years, such subordinated debt, together with any other Subordinated Debt outstanding, less the subordinated debt treated as core (Tier 1) capital, may comprise up to 100% of the credit organisation's core capital, provided that its underlying agreement allows the CBR to suspend the payment of the principal and/

or interest, if such payment would trigger the implementation of bankruptcy prevention measures in respect of such credit organisation.

According to Regulation No. 215-P, during the last five years of the term of a subordinated loan, it is counted towards the supplemental capital on an amortised basis, while prior to that the full principal amount of the subordinated loan counts.

Special amortisation rules apply to the Subordinated Debt providing for the borrower's right to prepay the loan (such right in any case may not be exercised earlier than five years from the date when the subordinated debt was included in the supplemental capital). If, in accordance with interest step-up provisions, interest increase does not exceed 150 bps (1/100%), subordinated debt must be amortised from the date of its scheduled maturity. In other cases, the subordinated debt must be amortised from the date of when the right to prepay the loan may potentially be exercised.

Core (Tier 1) Capital

Subordinated debt can be included in the core capital of a credit organisation, if, in addition to the above listed criteria of subordinated debt included into supplemental (Tier 2) capital debt, it satisfies the following terms (the "**Subordinated Debt with Additional Terms**"):

- its term is not less than 30 years;
- it provides for the cancellation and non-accrual of the interest upon the occurrence of the grounds for the implementation of the bankruptcy prevention measures in respect of the credit organisation as provided by the Insolvency Law;
- it provides that the losses involved in the implementation of bankruptcy prevention measures in respect of the credit organisation shall be offset by other sources of core capital and the losses not so offset shall be offset by a full or partial write-down of the principal amount of the loan;
- the credit organisation may prepay the loan not earlier than 10 years after the date the Subordinated Debt with Additional Terms was included in the core capital, provided that, if not prepaid, the increased interest rate shall be capped at 100bps or 50% of the initial interest rate; and
- the CBR has a right to suspend payments of principal and/or interest under the loan agreement, if making such payments would lead to the occurrence of the grounds for the implementation of bankruptcy prevention measures in respect of the credit organisation.

Regulation No. 215-P also allows for the Subordinated Debt with Additional Terms to provide for the reinstatement of the principal amount of the loan from the profits of the credit organisation prior to their distribution, once the grounds for implementation of bankruptcy prevention measures in respect of the credit organisation cease to exist, however, no specific mechanism for such reinstatement is provided for by the CBR regulations or other Russian laws. Any early prepayment of the subordinated loan, on the initiative of the credit organisation is subject to the prior consent of the CBR. The CBR will not grant its consent should the grounds for bankruptcy prevention measures exist at the time the application is being considered by the CBR, or may arise as a result of the prepayment of the Subordinated Debt with Additional Terms.

Subordinated Debt with Additional Terms is included into the core (Tier 1) capital from the date following the date of the CBR's consent, but in any event not before the bank actually receives the funds.

Subordinated Debt with Additional Terms must not comprise more than 15% of the credit organisation's core (Tier 1) capital.

Mandatory Economic Ratios

The CBR's mandatory economic ratios applicable to banks are established under CBR Regulation No. 139-I "On the Mandatory Economic Ratios of Banks" dated 3 December 2012, which took effect as of 1 January 2013. The system of mandatory economic ratios, which must be observed by banks on a daily basis and regularly reported to the CBR, is set forth below. All ratios described below are calculated on the basis of RAS.

Mandatory Economic Ratios	Description	CBR Mandatory Economic Ratio 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 own funds (regulatory capital) necessary to cover credit, operational and market risks. It is formulated as a ratio of a bank's own funds (regulatory capital) to its risk-weighted assets. The risk-weighted assets are calculated under a formula that aggregates different categories of the bank's assets multiplied by certain coefficients of risk, reserves created for possible losses of those assets, credit risk on credit-related commitments, credit risk on forward transactions and derivatives, operational risk and market risks. In each case there are separating systemic and idiosyncratic factors.	Minimum 10%
Instant liquidity ratio (N2)	This ratio is intended to limit a bank's liquidity risk within one operational day. It is formulated as the minimum ratio of a bank's highly liquid assets to its liabilities payable on demand, adjusted for a minimum aggregated fund balance of on-demand accounts of legal entities and individuals (except for credit organisations).	Minimum 15%
Current liquidity ratio (N3)	This ratio is intended to limit a bank's liquidity risk within 30 calendar days. It is formulated as the minimum ratio of a bank's liquid assets to its liabilities payable on demand and liabilities with maturity of up to 30 calendar days, adjusted for a minimum aggregated fund balance of on-demand accounts of legal entities and individuals (except for credit organisations) and liabilities maturing up to 30 calendar days.	Minimum 50%
Long-term liquidity ratio (N4)	This ratio is intended to limit a bank's liquidity risk arising from the investing of funds into long-term assets. It is formulated as the maximum ratio of the bank's credit claims maturing in more than one calendar year to the sum of its own funds (regulatory capital) and liabilities maturing in more than one calendar year, adjusted for a minimum aggregated fund balance on accounts maturing in up to one calendar year and on-demand accounts of legal entities and individuals (except for credit organisations).	Maximum 120%
Maximum exposure to a single borrower or a group of related borrowers (N6)	This ratio is intended to limit the credit exposure of a bank to one borrower or a group of related borrowers (defined as persons who, in particular, are in parent-subsidiary relations with respect to each other; are affiliates due to one person holding more than 20% of the voting share capital of the other; belong to the same banking group or banking holding; are close relatives; or can directly or indirectly significantly influence the decisions of the corporate borrower). It is set as the maximum ratio of the aggregate	Maximum 25%

Mandatory Economic Ratios	Description	CBR Mandatory Economic Ratio Requirements
	amount of the bank's credit claims to a single borrower or a group of related borrowers to the bank's own funds (regulatory capital). With the aim to implement the recommendations of the Basel Committee on Banking Supervision and IFRS, on September 10, 2004, the CBR issued Letter No. 106-T, which recommends that Russian banks set additional criteria of "related borrowers" in their lending policies and implement an exposure limit for "economically related" borrowers.	
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% of a bank's own funds (regulatory capital). It is set as the maximum ratio of the aggregate amount of major credit risks, to the bank's own funds (regulatory capital).	Maximum 800%
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 its participants (shareholders). It is set as the maximum ratio of the amount of loans, bank guarantees and sureties extended by the bank to its participants (shareholders), to the bank's own funds (regulatory capital).	Maximum 50%
Aggregate amount of exposure to the bank's insiders (N10.1)	This ratio is intended to limit the aggregate credit exposure of a bank to its insiders (defined as individuals capable of influencing credit decisions). It is set as the maximum ratio of the aggregate amount of the bank's credit claims to its insiders, to the bank's own funds (regulatory capital).	Maximum 3%
Ratio for the use of the bank's own funds (regulatory capital) to acquire shares (participation interests) 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 set as the maximum ratio of the bank's investments in shares (participation interests) of other legal entities, to the bank's own funds (regulatory capital).	Maximum 25%

CBR Regulation No. 112-I of 31 March 2004, as amended, outlines additional mandatory economic ratios for credit organisations that issue mortgage-backed bonds.

Regulation of Mandatory Reserves

In order to regulate the overall liquidity in the Russian banking sector, loan losses and market risks, the CBR requires banks to form mandatory reserve deposits and keep them at designated non-interest bearing accounts with the CBR. Particular reserve requirements are set by the Board of Directors of the CBR from time to time. According to CBR Directive No. 2601-U of 25 March 2011, banks are generally required to post mandatory reserves equal to 5.5% of funds due to non-resident legal entities in Roubles and foreign currency, and 4.0% of funds due otherwise. Banks with good reserves and credit history are offered a mechanism that allows calculation of mandatory reserves in accordance with certain averages.

Banks are obliged to calculate mandatory reserves in accordance with CBR Regulation No. 342-P of 7 August 2009, as amended, report those to the CBR or its regional units on a monthly basis and promptly place additional reserves with the CBR, if required. The CBR and its regional units have a right to conduct unscheduled audits of credit organisations to check their compliance with the

reserves requirements, to collect the non-reserved amounts from the banks' correspondent accounts with the CBR, as well as to impose fines for failure to comply with the reserve requirements.

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.

Regulation of Provisioning and Loss Allowances

Russian credit organisations are required to calculate and establish their provisions for impairment losses for loans (and certain other loan-type indebtedness) in accordance with CBR Regulation No. 254-P of 26 March 2004, as amended (the "**Regulation 254-P**"). Regulation 254-P requires credit organisations to rank their loans (except for groups of loans that possess similar credit risk characteristics which are assessed on a collective basis) under one of the following five categories: (i) quality I category (standard loans) – the absence of credit risk; (ii) quality II category (non-standard loans) – moderate credit risk; (iii) quality III category (doubtful loans) – considerable credit risk; (iv) quality IV category (problem loans) – high credit risk; and (v) quality V category (bad loans) – no probability that the loan will be repaid or if the credit organisation does not possess documents confirming its entrance into the loan arrangements with a borrower. The allocation of the loan into a particular category is based on the "professional judgement", which is a special procedure set out in Regulation 254-P. The following operations of a credit organisation are, among others, subject to the impairment losses provisioning: all loans; deposits made by a credit organisation, including interbank credits (deposits and loans); other deposited funds, including rights to reclaim debt securities, shares, promissory notes and precious metals provided under loan agreements; discounted promissory notes; sums paid by a credit organisation to beneficiaries under bank guarantees which were not collected from the principal; monetary claims of a credit organisation under factoring transactions; claims of a credit organisation under rights assigned to it under various transactions. Only loans classified as category I loans (standard loans) do not need to be provisioned. Category II through V loans involve the following provisions, respectively: (i) 1% to 20%; (ii) 21% to 50%; (iii) 51% to 100%; and (iv) 100%. Effective from 1 July 2007, provisions in relation to retail loans are subject to special rules, which, *inter alia*, establish lower provision rates for portfolios of retail loans.

Provisions for loan losses are calculated on a periodical basis in Roubles under RAS, and are only used to cover losses relating to the principal amount of the relevant debt and exclude the relevant interest and discount.

In addition to the foregoing, banks are also required to create provisions for potential losses other than loan losses, which may include losses from investments in securities, of funds held in correspondent accounts in other banks, credit-related commitments, interest revenues on loans provided, contingent liabilities and other transactions carrying risk. CBR Regulation No. 283-P of 20 March 2006, as amended, requires banks to classify such assets and operations into one of the five risk groups under the following criteria: (i) no real or potential threat of loss; (ii) moderate potential threat of loss; (iii) serious potential or moderate real threat of loss; (iv) simultaneous potential and moderate real threat of loss or significant real threat of partial loss; and (v) value of the particular type of asset or operation will be fully lost or if the credit organisation does not possess documents confirming its existence into a transaction with the counterparty. Banks are then required to provide provisions for each type of an asset or operation in the amounts corresponding to the amounts of possible losses, but within the following limits established by the CBR for each risk group specified above, respectively: (i) 0%; (ii) 1% to 20%; (iii) 21% to 50%; (iv) 51% to 100%; and (v) 100%. Banks must report the amounts of created non-loan provisions to the CBR on a monthly basis. The CBR and its regional units are responsible for monitoring compliance with these requirements. Pursuant to CBR Directive No. 1584-U of 22 June 2005, mandatory provisions for potential losses must also be created for various operations with residents of certain off-shore jurisdictions in the amounts between 0% and 50%, depending on the jurisdiction involved.

Regulation of Currency Exposure

CBR Regulation No. 124-I of 15 July 2005, as amended, establishes rules regarding the exposure of banks to foreign currency and precious metals (collectively, "currency exposure"). The currency exposure is calculated with respect to net amounts of RAS balance sheet positions, spot market positions, forward positions, option positions and positions under guarantees, suretyships and letters of credit. An open currency position is calculated as the sum of all such net amounts. The currency

exposure is calculated for each currency and each precious metal, and then recalculated into Roubles using the official exchange rates and the CBR's prices for precious metals. At the end of each operational day, the total amount of all open currency positions (long and short) must not exceed 20% of the bank's regulatory capital. At the same time, at the end of each operational day, any long or short open currency position, as well as the balance in Roubles (subject to certain adjustments), must not exceed 10% of the bank's regulatory capital. Furthermore, banks are periodically required to report to the CBR regarding their open currency positions.

Accounting and Reporting

Starting from 1 January 2008, credit organisations are required to perform accounting of all their operations in accordance with CBR Regulation No. 385-P of 16 July 2012, which aims to approximate RAS accounting to IFRS. Under CBR Directive No. 2332-U of 12 November 2009, as amended, routine reporting is performed by credit organisations on a daily, five-day, ten-day, monthly, quarterly, semi-annual and annual basis; certain reporting is performed on a non-periodic basis. Specific monthly reporting requirements apply to credit organisations in liquidation pursuant to CBR Directive No. 1594-U of 14 July 2005. Under the Banking Law, banking groups (i.e., groups of credit organisations, in which one credit organisation, directly or indirectly, exercises substantial influence on other credit organisations within the group) and banking holdings (i.e., groups of legal entities, in which one entity, which is not a credit organisation, exercises substantial influence on a credit organisation within the group) must regularly submit consolidated financial statements and calculations of mandatory ratios on a consolidated basis to the CBR. Under CBR Directive No. 2172-U of 20 January 2009, all credit organisations must publish their RAS financial statements in the mass media on an annual and quarterly basis. These financial statements include a balance sheet, an income statement, calculations of mandatory ratios, a report on the level of regulatory capital as well as other information.

Pursuant to CBR Directive No. 1363-U of 25 December 2003, starting from 1 January 2004, credit organisations are also required to prepare financial statements in accordance with IFRS for the period from 1 January 1 to 31 December of each year and submit them to the CBR prior to 1 July of the following year. Starting from the 2012 financial year, the requirement for credit organisations to prepare annual consolidated financial statements under IFRS, have them audited and reported to the CBR is set forth under Federal Law No. 208-FZ, dated 27 July 2010 "On Consolidated Financial Statements" (the "**Federal Law No. 208-FZ**"). Federal Law No. 208-FZ also provides that interim consolidated financial statements shall also be reported to the CBR.

The CBR issued recommendations as to how to prepare IFRS financial statements in its Letter No. 169-T of 24 November 2011, which contains pro-forma IFRS financial statements and examples of typical adjustments to RAS accounts for the purpose of their transformation into IFRS financial statements. Annual financial statements of credit organisations prepared under RAS and IFRS are subject to an audit by an auditor being a member of a self-regulatory organisation of auditors in Russia.

According to CBR Regulation No. 345-P of 27 October 2009, as amended, all banks participating in the Retail Deposit Insurance System are required to publicly disclose information on individuals and legal entities that can materially influence decisions of the bank's governing bodies. Such information must be published on the website of the CBR or on the bank's website. As at July 2012, banks are obliged to publish information on shareholders owning more than 1% of the bank's voting shares, as well as the total percentage of shareholders owning 1% or less of the voting shares of the bank and the total percentage of voting shares that are publicly traded.

THE ISSUER

Description of the Issuer

The Issuer is a special purpose vehicle established for the purpose of issuing loan participation notes and was incorporated in Ireland as a public limited company with limited liability, registered number 425241 under the name CBOM Finance P.L.C., under the Companies Acts 1963 to 2005 as amended (the "**Companies Acts**") on August 22, 2006. The registered office of the Issuer is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland and telephone number +353 1 680 6000.

The authorised share capital of the Issuer is EUR 40,000 divided into 40,000 ordinary shares of par value EUR 1 each (the "**Shares**"). The Issuer has issued 40,000 Shares, all of which are fully paid and are held on trust by Deutsche International Finance (Ireland) Limited (the "**Share Trustee**") under the terms of a declaration of trust (the "**Declaration of Trust**") dated 11 September 2006, 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.

Deutsche International Corporate Services (Ireland) Limited (the "**Corporate Services Provider**"), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on 12 October 2006 between the Issuer and the Corporate Services Provider (the "**Corporate Services Agreement**"), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 90 days written notice to the other party.

The Corporate Services Provider's principal office is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland.

Business of 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, among other things, to lend money and give credit, secured or unsecured, to issue debentures, enter into derivatives and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use an amount equal to the proceeds of each such issuance to advance loans to CBM.

Since its incorporation and prior to the issuance of the Notes, the Issuer has not engaged in any material activities other than the issue of US$100,000,000 9.5% Loan Participation Notes due 2009 for the sole purpose of funding a loan to CBM (which notes have been redeemed) and the issue of US$200,000,000 8.25% Loan Participation Notes due 2014 for the sole purpose of funding a loan to CBM. The Issuer has no employees.

Directors and Company Secretary

The Issuer's Articles of Association provide that the Board of Directors of the Issuer consist of at least two Directors.

The Directors of the Issuer and their business addresses are as follows:

Louise Delaney	5 Harbourmaster Place, IFSC, Dublin 1, Ireland
Rhys Owens	5 Harbourmaster Place, IFSC, Dublin 1, Ireland

The Company Secretary is Deutsche International Corporate Services (Ireland) Limited.

The directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares.

The directorship of the directors is provided as part of the Corporate Service Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement.

The directors of the Issuer may engage in other activities and have other interests, which may conflict with the interests of the Issuer.

Financial Statements

The financial year of the Issuer ends on 31 December in each year. Since its date of incorporation, the Issuer has published its financial statements in respect of the periods ending on 31 December 2007, 2008, 2009, 2010 and 2011 in accordance with IFRS. The Issuer does not prepare interim financial statements.

Each year, a copy of the audited profit and loss account and balance sheet of the Issuer together with the report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection. The profit and loss account and balance sheet can be obtained free of charge from the registered office of the Issuer.

The auditors of the Issuer are KPMG, 1 Stokes Place, St. Stephen's Green, Dublin 2, Ireland who are Registered Auditors regulated by the Institute of Chartered Accountants in Ireland.

FORM OF THE LOAN AGREEMENT

The following is the text of the Loan Agreement entered into between CBM and the Issuer:

This Loan Agreement is made on 29 January 2013

Between:

(1) **CREDIT BANK OF MOSCOW (open joint-stock company)**, a commercial bank organised as an open joint-stock company established under the laws of the Russian Federation whose registered office is at 2 (Building 1) Lukov Pereulok, Moscow 10745, Russian Federation, as borrower (the "**Borrower**"); and

(2) **CBOM Finance p.l.c.**, a public limited company incorporated under the laws of Ireland whose registered office is at 5 Harbourmaster Place, IFSC, Dublin 1, Ireland and registered under number 425241, as lender (the "**Lender**" which expression, where the context so admits, includes any successor Lender pursuant to the terms of this Agreement and the Trust Deed).

Whereas, the Lender has, at the request of the Borrower, agreed to make available to the Borrower a loan facility in the amount of U.S.$500,000,000 on the terms and subject to the conditions of this Agreement.

Now it is hereby agreed as follows:

1. Definitions and Interpretation

1.1 Definitions

In this Agreement (including the recitals), the following expressions have the following meanings:

"**Account**" means the account with account number 8201878400 of the Lender with the Principal Paying Agent;

"**Advance**" means the advance made or to be made by the Lender under Clause 3 (*Drawdown*) of the sum equal to the amount of the Facility, as from time to time reduced by prepayment;

"**Affiliate**" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect control with such specified Person or (ii) any other Person who is a director or officer (a) of such specified Person, (b) of any Subsidiary of such specified Person or (c) of any Person described in (i) or (ii) above. For the purposes of this definition, "**control**" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing;

"**Agency**" means any agency, authority, central bank, department, government, legislature, minister, official or public statutory Person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Agency Agreement**" means the agency agreement (as amended, varied or supplemented from time to time) to be dated 1 February 2013, with the agents named therein (the "**Agents**", which expression shall include any successor Agent(s) appointed from time to time in connection with the Notes), the Borrower and the Trustee;

"**Agreed Form**" means that the form of the document in question has been agreed between the proposed parties thereto, subject to any amendments that the parties may agree prior to the Closing Date;

"**Agreement**" means this Agreement as originally executed or as it may be amended or supplemented from time to time;

"**Auditors**" means the auditors of the Borrower's IFRS consolidated financial statements for the time being or, if they are unable or unwilling to carry out any action requested of them under this Agreement, such other internationally recognised firm of accountants as may be approved in writing by the Lender for this purpose, such approval not to be unreasonably withheld;

"**Authorised Signatory**" means, in relation to the Borrower, any Person who is duly authorised (in such manner as may be reasonably acceptable to the Lender) and in respect of whom the Lender has received a certificate signed by a director of the Borrower setting out the name and signature of such Person and confirming such Person's authority to act;

"**BIS Guidelines**" means the guidelines on capital adequacy standards (including the constituents of capital included in the capital base, the risk weights by category for on-balance-sheet assets, the credit conversion factors for off-balance-sheet items, and the target standard ratio) for international banks

contained in the July 1988 text of the Basle Capital Accord, published by the Basle Committee on Banking Supervision (as amended, updated or supplemented from time to time), without any amendment or other modification by any other Agency;

"**Business Day**" means (save in relation to Clause 4 (*Interest*)) a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets generally are open for business in Moscow, New York, London, Dublin and in the city where the Specified Office (as defined in the Agency Agreement) 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 or such other governmental or other authority as shall from time to time carry out functions in relation to the supervision of banks in the Russian Federation as are, on the date hereof, carried out by the CBR;

"**Change of Control**" means Mr Roman Avdeev (a) ceasing to own or control (directly or indirectly) 50 per cent. plus one share of the issued and outstanding voting stock of the Borrower; or (b) no longer having the right to appoint or remove a majority of the Borrower's supervisory board;

"**Closing Date**" means, subject to Clause 10.2 (*Postponed Closing*) of the Subscription Agreement, 1 February 2013;

"**Conditions**" means the terms and conditions of the Notes, as set out in Part 2 of Schedule 1 to the Trust Deed and all references to a numbered "**Condition**" are to the corresponding provision thereof;

"**Development Organisation**" means any of Black Sea Trade and Development Bank, European Bank for Reconstruction and Development and International Finance Corporation, or any other development finance institution established or controlled by one or more sovereign states and any other person which is or is controlled by a Russian governmental body acting on behalf of, or funded in relation to, the relevant Indebtedness by one or more of the foregoing development finance institutions;

"**Event of Default**" has the meaning assigned to such term in Clause 11 (*Events of Default*) hereof;

"**Facility**" means the U.S.$500,000,000 facility granted by the Lender to the Borrower, as specified in Clause 2 (*Facility*);

"**Facility Fee**" has the meaning assigned to such term in Clause 2.3 (*Facility Fee and Other Costs*) hereof;

"**Fair Market Value**" means the price that would be paid in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the board of directors of the Borrower, whose determination shall be conclusive if evidenced by a resolution of such board of directors;

"**Fee Side Letters**" means the Upfront Fee Side Letter and the Ongoing Fee Side Letter;

"**Finance Documents**" means this Agreement and any other agreements and deeds relating to the Loan and/or issuance of the Notes, including any relevant subscription agreement related to such Notes to which the Lender is a party;

"**Fiscal Period**" means any fiscal period for which the Borrower or the Group (if consolidated accounts are then prepared) has produced financial statements in accordance with IFRS which have either been audited or reviewed by the Auditors;

"**Fitch**" means Fitch Ratings Ltd. (or its successors);

"**Group**" means the Borrower and its consolidated Subsidiaries from time to time taken as a whole, and a "**member of the Group**" means any of the Borrower or any of its Subsidiaries from time to time;

"**Guarantee**" means any financial 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 the purpose 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 the International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time);

"**incur**" means, with respect to any Indebtedness or other obligation of any Person, to create, issue, assume, Guarantee, incur (including by conversion, exchange or otherwise) or otherwise become liable in respect of such Indebtedness or other obligation on the balance sheet of such person (and "**incurrence**", "**incurred**" and "**incurring**" shall have meanings correlative to the preceding) *provided, however*, that any Indebtedness or Capital Stock of any acquired Person or any of its Subsidiaries existing at the time such acquired Person becomes a Subsidiary (or is merged into or consolidated with the Borrower or any Subsidiary), whether or not such Indebtedness was incurred in connection with, as result of, or in contemplation of, such acquired Person becoming a Subsidiary (or being merged into or consolidated with the Borrower or any Subsidiary), shall be deemed incurred at the time any such acquired Person becomes a Subsidiary or merges into or consolidates with the Borrower or any Subsidiary;

"**Indebtedness**" means any indebtedness, in respect of any Person for, or in respect of, moneys borrowed or raised including, without limitation:

(a) any amount raised by acceptance under any acceptance credit facility;

(b) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(c) any amount owed pursuant to any issue of shares which are expressed to be redeemable either on a compulsory basis or at the option of the shareholder;

(d) any amount raised under any other transaction (including, but without limitation to, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing;

(e) the amount of any liability in respect of any Guarantee or indemnity for any of the items referred in (a) to (d) above;

(f) all Indebtedness of other Persons secured by a Lien granted by such Person on any asset (the value of which, for these purposes, shall be determined by reference to the balance sheet value of such asset in respect of the latest half year period of the Person providing the Lien) of such Person, whether or not such Indebtedness is assumed by such Person;

(g) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto); and

(h) to the extent not otherwise included in this definition, net obligations under any currency or interest rate hedging agreements.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above, the maximum liability upon the occurrence of the contingency giving rise to the obligation;

"**Independent Appraiser**" means any third party expert of such investment banking, accountancy or appraisal firm of international standing whose business is to value and appraise companies or other relevant assets appointed by the Borrower pursuant to Clause 10.4 (*Transactions with Affiliates*) and approved by the Lender and the Trustee, *provided, however*, that such Independent Appraiser is not an Affiliate of any member of the Group;

"**Interest Payment Date**" means 1 February and 1 August of each year, commencing on 1 August 2013 and ending on 1 February 2018;

"**Interest Period**" means each period beginning on (and including) the Closing Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date (or in the case of the first Interest Period, the first Interest Payment Date);

"**Irish Stock Exchange**" means the Irish Stock Exchange Limited;

"**Lien**" means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease having a similar effect, any sale with recourse against the seller or any Affiliate of the seller, or any agreement to give any security interest) securing any obligation of any Person;

"**Loan**" means, at any time, an amount equal to the aggregate principal amount of the Facility granted by the Lender pursuant to this Agreement and outstanding at such time;

"**Material Adverse Effect**" means a material adverse effect on the:

(a) business, results of operations, property, condition (financial or otherwise) or immediate prospects of the Borrower or the Group taken as a whole;

(b) Borrower's ability to perform or comply with its obligations under this Agreement, the Agency Agreement and the Subscription Agreement; or

(c) validity or enforceability of this Agreement, the Agency Agreement and the Subscription Agreement or the rights or remedies of the Lender thereunder;

"**Material Subsidiary**" means any Subsidiary of the Borrower:

(a) which has gross income representing 10 per cent. or more of the consolidated gross income of the Group for the most recent Fiscal Period; or

(b) which has total assets representing 10 per cent. or more of the consolidated total assets of the Group; or

(c) to which are transferred substantially all of the assets and undertakings of a Subsidiary of the Borrower which immediately prior to such transfer was a Material Subsidiary (with effect from the date of such transaction),

in each case calculated on a consolidated basis in accordance with IFRS, as consistently applied;

"**Moody's**" means Moody's Investors Service, Inc.;

"**Noteholder**" means, in relation to a Note, the Person in whose name such Note is, for the time being, registered in the register of Noteholders (or, in the case of joint holders, the first named holder thereof) and "**Noteholders**" shall be construed accordingly;

"**Notes**" means the U.S.$500,000,000 7.70 per cent. loan participation notes due 2018 proposed to be issued by the Lender (in its capacity as issuer of such Notes) and constituted by the Trust Deed;

"**Officers' Certificate**" means a certificate signed on behalf of the Borrower by two authorised officers of the Borrower, at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower;

"**Ongoing Fee Side Letter**" means a side letter dated the date hereof between, *inter alios*, the Trustee, the Lender and the Borrower;

"**Opinion of Counsel**" means a written opinion from international legal counsel who is acceptable to the Lender and the Trustee and as reasonably selected by the Borrower and approved in writing by the Trustee (and, following the execution of any other agreements entered into in connection with the Notes, to the party designated by such agreement);

"**Original Financial Statements**" means the most recent audited consolidated financial statements of the Borrower;

"**Permitted Liens**" means:

(a) any Lien over or affecting any property, income or any assets of any Person existing at the time such Person is acquired, merged or consolidated with or into the Group after the date hereof and subject to which such property, income or asset is acquired, if:

    (i) such Lien was not created in contemplation of the acquisition of such property, income or asset by a member of the Group;

(ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such property, income or asset by a member of the Group;

(iii) such Lien is removed or discharged within four calendar months of the date of acquisition of such property, income or asset; and

(iv) such Lien does not extend to any other property, income or assets of such Person or to any other property or assets of the Subsidiaries of such Person or the Group;

(b) any Lien over or affecting property, income or any asset of any company which becomes a member of the Group after the date hereof, where such Lien is created prior to the date on which such company becomes a member of the Group, if:

(i) such Lien was not created in contemplation of the acquisition of such company;

(ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company;

(iii) such Lien is removed or discharged within four calendar months of such company becoming a member of the Group; and

(iv) such Lien does not extend to any other property, income or assets of such Person or to any other property or assets of the Group;

(c) any Lien comprising a netting or right of set-off arrangement, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances;

(d) any Lien upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation of receivables, asset-backed financing or similar financing structure and whereby all payment obligations secured by such Lien or having the benefit of such Lien, are to be discharged solely from such assets or revenues, *provided* that the aggregate value of assets or revenues subject to such Lien when added to the aggregate value of assets or revenues which are the subject of any securitisation of receivables, asset-backed financing or similar financing structure permitted pursuant to Clause 10.3 (*Disposals*), does not, at any such time, exceed 30 per cent. of the loans and advances to customers, as determined at any time by reference to the most recent quarterly balance sheet of the Borrower prepared in accordance with IFRS;

(e) any title transfer or retention of title arrangement entered into by any member of the Group in the normal course of its trading activities on the counterparty's standard or usual terms;

(f) any Lien arising by operation of law and in the normal course of business;

(g) any Lien incurred, or pledges or 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;

(h) any Lien 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 Borrower has set aside in its accounts reserves to the extent required by IFRS;

(i) any Lien granted by any Subsidiary of the Borrower in favour of the Borrower;

(j) Liens upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo transaction;

(k) Liens arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market relating to the establishment of margin deposits and similar arrangements in connection with interest rate and foreign currency hedging operations in respect of obligations under hedging agreements so long as the related indebtedness is permitted to be incurred under the terms of this Agreement and any such hedging agreement is not speculative;

(l) Liens upon or with respect to immovable property acquired by the Group after the date of this Agreement where the aggregate value of such immovable property subject to such Liens does not at any one time exceed U.S.$15,000,000;

(m) any liens existing on the date of this Agreement;

(n) any other Lien where the aggregate value of the assets or revenues subject to such Lien does not exceed 10 per cent. of the total value of the Borrower's assets as calculated according to the latest consolidated financial statements of the Borrower;

(o) Liens created in connection with the Borrower's banking business;

(p) easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, minor defects or irregularities in title and other similar charges or encumbrances, and Liens arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Borrower;

(i) bankers' Liens in respect of deposit accounts,

(ii) statutory landlords' Liens,

(iii) deposits 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 and other obligations of like nature,

(so long as, in each case with respect to items described in (i), (ii) and (iii) above of this paragraph (p), such Liens (X) do not secure obligations constituting Indebtedness for borrowed money and (Y) are incurred in the ordinary course of business), and (Z) Liens arising from any judgment, decree or other order which does not constitute an Event of Default;

(q) Liens arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market in connection with (i) contracts entered into for sales and purchases of precious metals or securities and/or for financing of such sales and purchases, (ii) financing of customers primarily engaged in mining, production, processing or trading of precious metals and/or minerals, (iii) the establishment of margin deposits and similar instruments relating to interest rate and foreign currency hedging operations and/or securities trading or (iv) the Borrower's foreign exchange dealings or foreign exchange proprietary trading activities;

(r) Liens over debt securities issued by a sovereign, state or government which are created to secure indebtedness owed to a national central bank under credit advanced by such national central bank to the Borrower in the ordinary course of the Borrower's banking business; and

(s) Liens granted by the Borrower or any Subsidiary of the Borrower in favour of a Development Organisation to secure Indebtedness owed by the Borrower or such Subsidiary to such Development Organisation pursuant to any loan agreement or other credit facility entered into between the Borrower or such Subsidiary and such Development Organisation, provided that the amount of Indebtedness so secured pursuant to this paragraph (s) shall not exceed in aggregate an amount in any currency or currencies equivalent to 10 per cent. of the Borrower's total assets calculated by reference to the most recent financial statements of the Bank prepared in accordance with IFRS;

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any Agency or political subdivision thereof or any other entity, whether or not having a separate legal personality;

"**Potential Event of Default**" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition or after making any determination under this Agreement (or any combination of the foregoing) would constitute an Event of Default;

"**Principal Paying Agent**" means The Bank of New York Mellon, London Branch;

"**Prospectus**" means the final prospectus dated 29 January 2013 prepared in connection with the offering and issue of the Notes (which expression includes, where the context permits, any amendment or supplement to the Prospectus published by or with the consent of the Lender);

"**Put Event**" means a Change of Control, which results in a Rating Decline;

"**Put Event Payment Date**" means, in respect of a Put Event, the date specified by or on behalf of the Lender in the Put Event Redemption Notice on which any part of the Advance to be prepaid: in accordance with Clause 5.4 (*Prepayment upon a Put Event*), which date shall not be less than 30 days

after the Borrower has notified the Lender that a Put Event has or is deemed to have occurred in accordance with Clause 5.4 (*Prepayment upon a Put Event*);

"**Put Event Redemption Notice**" means, in respect of a Put Event, a notice given by or on behalf of the Lender to the Borrower specifying, *inter alia*, (i) the principal amount of the Advance to be prepaid; and (ii) the Put Event Payment Date;

"**Qualifying Jurisdiction**" means any jurisdiction which has a double taxation treaty with Russia under which the payment of interest by Russian borrowers to lenders in the jurisdiction in which the Lender is incorporated is generally able to be made without deduction or withholding of Russian income tax upon completion of any necessary formalities required in relation thereto;

"**Rate of Interest**" has the meaning assigned to such term in Clause 4.1 (*Rate of Interest*);

"**Rating Agency**" means Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc., Moody's Investors Service Limited, or Fitch Ratings Limited, or any of their affiliates or successors or any other rating agency substituted for any of them or added by the Borrower with the prior written approval of the Lender. (together, the "Rating Agencies");

"**Rating Categories**" means (i) with respect to S&P, any of the following categories (any of which may or may not include a "+" or "-"): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (ii) with respect to Fitch, any of the following categories (any of which may or may not include a Rating Modifier): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (iii) with respect to Moody's, any of the following categories (any of which may or may not include a Rating Modifier): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (iv) the equivalent of any such categories of S&P, Moody's or Fitch used by another rating agency, if applicable;

"**Rating Decline**" means any time within 90 days (which period shall be extended so long as the corporate credit rating of the Borrower or the credit rating in respect of the Notes is under publicly announced consideration for possible downgrade by any Rating Agency) after the later of the announcement or the occurrence of a Change of Control that the corporate credit rating of the Borrower or the credit rating of the Notes is decreased or downgraded by either:

(a) one or more Rating Categories by one or more Rating Agencies; or

(b) one or more Rating Modifiers within a Rating Category by each of the Rating Agencies then rating the Borrower or the Notes, as the case may be,

in each case as compared to the corporate credit rating of the Borrower or the credit rating of the Notes immediately prior to the earlier of the announcement or occurrence of a Change of Control and in each case as a result of such Change of Control, as specified by the relevant Rating Agency;

"**Rating Modifier**" means (i) with respect to S&P, any of the following modifiers: plus ("+"), flat (no symbol) and minus ("-") (or equivalent successor modifiers); (ii) with respect to Fitch, any of the following modifiers: plus ("+"), flat (no symbol) and minus ("-") (or equivalent successor modifiers); (iii) with respect to Moody's, any of the following modifiers: "1", "2" and "3" (or equivalent successor modifiers); and (iv) the equivalent of any such modifiers of S&P, Moody's or Fitch used by another rating agency, if applicable.

"**Related Party**" means, with respect to any Person, (a) an Affiliate of such Person or (b) any of its Affiliates or (c) a group of its Affiliates;

"**Repayment Date**" means 1 February 2018;

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities lending or rental agreement or any agreement relating to securities which is 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;

"**Same-Day Funds**" means U.S. dollars funds settled through the cash settlement centre of the CBR or such other funds for payment in U.S. dollars as the Lender may at any time determine to be customary for the settlement of international transactions in Moscow of the type contemplated hereby;

"**Security**" means the security granted by the Lender to the Trustee under the Trust Deed over rights of the Lender under this Agreement, including an assignment of such rights in favour of the Trustee;

"**S&P**" means Standard & Poor's Rating Services;

"**Subscription Agreement**" means the subscription agreement dated 29 January 2013 between, *inter alia*, the Lender, the Borrower and the Lead Manager, providing for the issuance and subscription of the Notes;

"**Subsidiary**" of any specified Person means any corporation, partnership, joint venture, association or other business or entity, whether now existing or hereafter organised or acquired:

(a) in the case of a corporation, of which more than 50 per cent. of the total voting power of the Voting Stock 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 or entity, with respect to which such first-named Person or any of its Subsidiaries has the power, by contract or otherwise, to direct or cause the direction of the management, policies and affairs of such entity if (in each case) in accordance with IFRS, as consistently applied, such entity would be consolidated with the first-named Person for financial statement purposes; or

(c) any limited partnership of which such Person or any Affiliate of such Person is a general partner;

"**Taxes**" means any present or future tax (including interest, penalties and other liabilities related thereto) imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Ireland or any tax authority thereof or therein or any other jurisdiction through which the Borrower is directed by the Lender to effect payments, *provided, however*, that for the purposes of this definition references to Ireland shall, upon the occurrence of a Relevant Event (as defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is resident for tax purposes; and the term "**Taxation**" shall be construed accordingly;

"**Tier 1 Capital**" means the Tier 1 capital of the Borrower, as such term is defined in the BIS Guidelines;

"**Trust Deed**" means the trust deed dated 1 February 2013 between the Lender and the Trustee to constitute the Notes for the equal and rateable benefit of the Noteholders (as may be amended or supplemented from time to time);

"**Trustee**" means BNY Mellon Corporate Trustee Services Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder;

"**Upfront Fee Side Letter**" means a side letter dated the date hereof between, *inter alios*, the Lender and the Borrower;

"**U.S. dollars**" and "**U.S.$**" mean the lawful currency of the United States of America; and

"**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.

1.2 Other Definitions

Unless the context otherwise requires;

(a) terms used in this Agreement which are not defined in this Agreement but which are defined in the Trust Deed, the Notes, the Agency Agreement or the Subscription Agreement shall have the meanings assigned to such terms therein;

(b) all references to "**taxes**" include all present or future taxes, levies, imposts, charges, withholdings and duties of any nature and the terms "**tax**" and "**taxation**" shall be construed accordingly;

(c) a "**month**" is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month save that, where any such period would otherwise end on a day which is not a Business Day, it shall end on the next succeeding Business Day, unless that day falls in the next calendar month, in which case it shall end on the immediately preceding Business Day, *provided that*, if a period starts on the last Business Day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that later month (and references to "**months**" shall be construed accordingly;

(d) the "**equivalent**" on any given date in one currency (the "**first currency**") of an amount denominated in another currency (the "**second currency**") is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page; and

(e) the term "**repay**" (or any derivative form thereof) shall, subject to any contrary indication, be construed to mean "**prepay**" (or, as the case may be, the corresponding derivative form thereof).

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**" or "**sub-Clause**" or "**paragraph**" are references to a Clause or sub-Clause or paragraph 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) the "**Lender**" or the "**Borrower**" shall be construed so as to include it and any of its subsequent successors, assignees and chargees in accordance with their respective interests;

(d) the table of contents and the headings are for convenience only and shall not affect the construction hereof;

(e) "**or**" is not exclusive;

(f) any reference in this Agreement to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted;

(g) provisions apply to successive events and transactions; and

(h) an accounting term not otherwise defined has the meaning assigned to it in accordance with IFRS.

1.4 Amended Documents

Except where the contrary is indicated, any reference in this Agreement to "**this Agreement**" or any other agreement or shall be construed as a reference to this Agreement or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated, supplemented or replaced.

2. Facility

2.1 Facility

On the terms and subject to the conditions of this Agreement and subject to the terms and conditions in the Subscription Agreement, the Lender hereby agrees to make available to the Borrower, and the Borrower hereby agrees to borrow from the Lender, a loan facility in the amount of U.S.$500,000,000.

2.2 Purpose

The proceeds of the Advance will be used by the Borrower for general banking purposes, but the Lender shall not be concerned with the application thereof.

2.3 Facility Fee and Other Costs

In consideration of the Lender agreeing to advance the facility to the Borrower, the Borrower shall pay (a) a fee of U.S.$3,500,000 to the Lender in connection with the provision of the Facility (the "**Facility Fee**") and (b) certain costs and expenses which may arise and which are referred to under the Upfront Fee Side Letter between the Lender, the Borrower and the parties thereto (the "**Other Costs**").

3. Drawdown

3.1 Drawdown

On the terms and subject to the conditions of this Agreement, the Lender shall make the Advance to the Borrower on the Closing Date and the Borrower shall make a single drawdown in the full

amount of the Facility (less any amount to be deducted (if any) in accordance with Clause 3.2 (*Payment of Facility Fee and Other Costs*)).

3.2 Payment of Facility Fee and Other Costs

In consideration of the Lender's undertaking to make a Loan available to the Borrower, the Borrower hereby agrees that it shall pay:

(a) the Facility Fee to the Lender in Same-Day Funds by 12.00 noon (New York time) one Business Day prior to the Closing Date; and

(b) the Other Costs set out in, and in the manner described in, the Upfront Fee Side Letter.

In the event that the Lender has not received from the Borrower by 12.00 noon (New York time) one Business Day prior to the Closing Date an amount in U.S. dollars in payment of the Facility Fee and Other Costs, then the Facility Fee and Other Costs shall be deducted from the amount of the Advance.

3.3 Disbursement

Subject to the conditions set forth in this Agreement, the Lender shall transfer the amount of the Advance (less any amount to be deducted (if any) in accordance with Clause 3.2 (*Payment of Facility Fee and Other Costs*)) on the Closing Date to the Borrower's account designated:

Bank: Citibank N.A.
SWIFT: CITIUS33
Account Name: Credit Bank of Moscow
Account Number: 36940272

3.4 Ongoing Fees and Expenses

In consideration of the Lender (i) agreeing to make the Loan to the Borrower, and (ii) making available and supporting such a continuing Facility, the Borrower shall pay on demand to the Lender from time to time an amount equating to all ongoing fees, commissions, taxes and reasonable costs properly incurred by the Lender (including, without limitation, listing fees and expenses, audit fees and expenses, taxes, legal fees, corporate service provider fees and the anticipated winding up expenses of the Lender) as set forth in the Ongoing Fee Side Letter. For the avoidance of doubt, this Clause 3.4 shall survive the termination of this Agreement.

4. Interest

4.1 Rate of Interest

The Borrower will pay interest in U.S. dollars to the Lender on the outstanding principal amount of the Loan from time to time hereunder at the rate of 7.70 per cent. per annum (the "**Rate of Interest**").

4.2 Payment

Interest at the Rate of Interest shall accrue from day to day, starting from (and including) the Closing Date to (but excluding) the Repayment Date and shall be paid by the Borrower to the Lender in arrear not later than 12.00 noon (New York time) one Business Day prior to each Interest Payment Date.

4.3 Accrual of Interest

Interest on the Loan will cease to accrue from the Repayment Date (or any date upon which the Loan is prepaid in full pursuant to Clause 5.2 (*Prepayment*) or repaid pursuant to Clause 11 (*Events of Default*)) *provided* that, in each case, if payment of principal is withheld or refused by the Borrower in breach of its obligations under this Agreement, interest will continue to accrue (before or after any judgment) at the relevant Rate of Interest to but excluding the date on which payment in full of the whole or the relevant proportion (as applicable) of the principal amount of the Loan is made.

4.4 Calculations

The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the applicable Rate of Interest to the outstanding principal amount of the Loan, dividing

the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any period other than a full Interest Period, it will be calculated on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

5. Repayment and Prepayment

5.1 Repayment

Except as otherwise *provided herein*, the Borrower shall repay the Loan, including accrued but unpaid interest and any additional amounts thereon not later than 12.00 noon (New York time) one Business Day prior to the Repayment Date.

5.2 Prepayment in the Event of Taxes or Increased Costs

If,

(a) as a result of the application of, or any amendments to or change in, the double tax treaty between the Russian Federation and Ireland or the laws or regulations of the Russian Federation or Ireland or of any constituent part or political sub-division thereof or any authority having power to tax therein (including as a result of a judgment of a court of competent jurisdiction) or a change in, or clarification of, the application or official interpretation of such laws or regulations which change or amendment becomes effective on or after the date of this Agreement, the Borrower would thereby be required to make or increase any payment due hereunder;

(b) as a result of the enforcement of the Security, the Borrower would thereby be required to make or increase any payment due hereunder as provided in Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.4 (*Withholding on the Notes*) (unless the increase in payment is in respect of any amounts due or paid pursuant to Clause 3 (*Drawdown*)); or

(c) if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 8 (*Change in Law or Banking Practices; Increase in Cost*), and

in any such case, such obligation cannot or could not be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not less than 20 days' written notice to the Lender (copied to the Trustee) (which notice shall be irrevocable) specifying the date for prepayment of the Loan and attaching an Officer's Certificate confirming that the Borrower would be required to increase the amount payable or to pay additional amounts and that the obligation to make such payment cannot or could not be avoided by the Borrower taking reasonable measures available to it, supported by an opinion of an independent tax adviser of recognised standing in the relevant tax jurisdiction (which notice shall be irrevocable), prepay the Loan in whole (but not in part).

5.3 Prepayment in the Event of Illegality

If, at any time after the date of the Loan, by reason of the introduction of, or any change in, any applicable law, regulation, regulatory requirement or directive of an Agency (having applicable jurisdiction) after the date of this Agreement the Lender reasonably determines (such determination being accompanied and verified, if so requested by the Borrower, by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender, as the case may be, to allow all or part of the Loan to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement or the Security and/or to charge or receive or to be paid interest at the rate then applicable to such Loan (an "**Event of Illegality**"), as the case may be, then upon notice by the Lender to the Borrower (with a copy to the Trustee) in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), the Borrower 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 the Lender so notified the Borrower (with a copy to the Trustee). If such a basis has not been determined within such 30 days (or on such earlier date as the Lender shall certify to be necessary to comply with such regulation, regulatory requirement or directive), then upon written notice by the Lender to the Borrower (with a copy to the Trustee), the Borrower shall prepay such Loan (without penalty or premium) in whole (but not in part) in an amount equal to the

outstanding principal amount of the Loan together with interest accrued to the date of prepayment and all other amounts payable by the Borrower pursuant to this Agreement, on the next Interest Payment Date, or, on such date as the Lender shall certify to be necessary to comply with such regulation, regulatory requirement or directive.

5.4 Prepayment upon a Put Event

(a) Promptly, and in any event within 10 calendar days after a Put Event, the Borrower shall deliver to the Lender, the Principal Paying Agent and the Trustee a written notice substantially in the form of Schedule 1 (*Form of Put Event Notice*) (the "**Put Event Notice**") hereto signed on behalf of the Borrower by two officers of the Borrower at least one of whom shall be the principal executive offer, principal accounting officer or principal financial officer of the Borrower, which notice shall be irrevocable, stating:

(i) that a Put Event has occurred;

(ii) the circumstances and relevant facts giving rise to such Put Event; and

(iii) the date upon which such Put Event occurred.

(b) The Borrower shall, having been given a Put Event Redemption Notice by or on behalf of the Lender (following receipt by the Lender of written confirmation from the Principal Paying Agent of the outstanding principal amount of the Advance to be prepaid following the Put Event (the "**Put Redemption Amount**")), prepay the amount equal to the Put Redemption Amount specified in the Put Event Redemption Notice, together with accrued but unpaid interest (if any) on such principal amount, up to (but excluding) the Put Event Payment Date, and all other amounts owing to the Lender hereunder, not later than 12.00 noon (New York time) two Business Days prior to the Put Event Payment Date.

5.5 Reduction of Loan Upon Cancellation of Corresponding Notes

The Borrower or any Subsidiary of the Borrower or any Person on behalf of the Borrower may from time to time, in accordance with the Conditions and to the extent permitted by applicable law, purchase Notes in the open market or by tender or by a private agreement at any price. In the event that an amount of Notes has been surrendered to the Lender for cancellation by the Borrower or any of the Borrower's Subsidiaries and cancelled, the Loan shall be deemed to have been prepaid by the Borrower in an amount equal to the aggregate principal amount of the Notes delivered to the Lender (as issuer of such Notes) for surrender and cancellation, together with accrued interest and other amounts (if any) thereon and no further payment shall be made or required to be made by the Borrower in respect of such amounts.

5.6 Payment of Other Amounts

If the Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clause 5.2 (*Prepayment in the Event of Taxes or Increased Costs*), Clause 5.3 (*Prepayment in the Event of Illegality*) or Clause 5.4 (*Prepayment upon a Put Event*), the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by the Borrower pursuant to this Agreement with respect to the prepaid amount. For the avoidance of doubt, if the principal amount of the Loan is reduced pursuant to the provisions of Clause 5.5 (*Reduction of Loan upon Cancellation of Corresponding Notes*), 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 the Loan is so reduced and the Borrower or the relevant Subsidiary of the Borrower, as the case may be, shall not be entitled to any interest in respect of the cancelled Notes.

The Borrower shall indemnify the Lender on demand against any costs and expenses incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 5 (*Repayment and Prepayment*).

5.7 Provisions Exclusive

The Borrower shall not voluntarily prepay or repay all or any part of the amount of the Loan except at the times and in the manner expressly provided for in the terms of this Agreement. The Borrower shall not be permitted to re-borrow any amounts prepaid or repaid to the Lender under this Agreement.

5.8 Interest Refund

If, pursuant to Clauses 5.2 (*Prepayment in the Event of Taxes or Increased Costs*), 5.3 (*Prepayment in the Event of Illegality*), 5.6 (*Payment of Other Amounts*) or 11.3 (*Default Remedies*), the Loan is declared due and payable and the sum paid by the Borrower in repayment of such Loan is greater than the amount required by the Lender to discharge in full its obligations under the Notes, the Lender shall return to the Borrower, or to its order, an amount, by way of a refund of interest payable on such Loan, equal to such excess sum.

6. Payments

6.1 Making of Payments

All payments of principal and interest to be made by the Borrower under this Agreement, and any payments made in connection with Clause 5 (*Repayment and Prepayment*) (except for Clause 5.4 (*Prepayment upon a Put Event*)), shall be made unconditionally by credit transfer to the Lender's Account not later than 12.00 noon (New York time) one Business Day prior to each Interest Payment Date or the Repayment Date or the relevant prepayment date (as the case may be) in Same-Day Funds.

The Borrower shall, in the case of any payments of principal and interest being made by the Borrower under this Agreement and any payments made in connection with Clause 5 (*Repayment and Prepayment*), one Business Day prior to the relevant due date, procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent by authenticated SWIFT the irrevocable payment instructions relating to such payment. The Lender agrees with the Borrower that the Lender will not deposit any other monies into the Account and that no withdrawals shall be made from such account other than for payments to be made in accordance with the Conditions and this Agreement.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments made by the Borrower under this Agreement shall be made in full (except to the extent required by law) without set-off or counterclaim and free and clear of and without deduction or withholding for or on account of, any present or future Taxes imposed, collected, withheld, assessed or levied on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein having the power to tax (each a "**Taxing Authority**") within Russia or Ireland. If the Lender or the Borrower becomes subject at any time to any taxing jurisdiction other than or in addition to Russia or Ireland, as the case may be, references to jurisdiction in this Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) shall be construed as references to Russia and/or Ireland and/or such other jurisdiction and in addition, upon enforcement of the fixed charge in the Finance Documents over certain rights, benefits and/or obligations under this Agreement, references in this Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) to "**Ireland**" shall be construed to include the jurisdiction which the Trustee is a resident of and acting through for tax purposes.

If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any such Taxes, it shall, on the date such payment is made, pay such additional amounts as may be necessary to ensure that the Lender receives and retains (free from any liability in respect of such withholding, deduction or increased payment) a net amount in U.S. dollars equal to the full amount which it would have received and retained had payment not been made subject to such Taxes, shall promptly account to the relevant Taxing Authority (within the time specified by legislation or assessment) for the relevant amount of such Taxes so withheld or deducted, together with a sum (if any), calculated up to the date of such payment, sufficient to ensure that the Lender is able to discharge in full its obligations under this Agreement due on such date, ignoring any limitation of the liability of the Lender to pay only sums actually received and retained (net of tax) but treating all sums potentially payable by the Lender as due, within the time allowed for such payment under the applicable law 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 is or will be subject to any liability or required to make any payment for or on account of Taxes in relation to a sum received or receivable (or any sum deemed for the purposes of Taxes to be received or receivable) under or in respect of the Notes, the Borrower shall on demand pay to the Lender an amount equal to the loss, liability or cost which the Lender, or as the case may be, Trustee has or will have (directly or indirectly) suffered for or on account of Tax.

6.3 Alternative Payment Arrangements

If, at any time, it shall become impracticable, by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event, for the Borrower to make any payments under this Agreement in the manner specified in Clause 6.1 (*Making of Payments*), then the Borrower may agree with the Lender alternative arrangements for such payments to be made; *provided* that, in the absence of any such agreement, the Borrower shall be obliged to make all payments due to the Lender in the manner specified herein.

6.4 Withholding on the Notes

Without prejudice to Clause 6.4 (*Withholding on the Notes*), if the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) that it is obliged (or would be but for the limited recourse nature of the Notes) to make any withholding or deduction for or on account of any Taxes from any payment that is due or would otherwise be due but for the imposition of such withholding or deduction for or on account of such taxes, or in circumstances where the Lender is required to pay additional amounts pursuant to Condition 8 (*Taxation*), the Borrower agrees to pay to the Lender, not later than 12.00 noon (New York time) one Business Day prior to the date on which payment is due to the Noteholders in Same-Day Funds to the Lender, an additional amount equal to such additional amounts which the Lender must pay pursuant to Condition 8 (*Taxation*) or pursuant to this Provision; *provided, however*, that the Lender shall immediately upon receipt from any Paying Agent of any sums paid in respect of the Lender's obligations under Condition 8 (*Taxation*) and to the extent that the Noteholders or such other party, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of the Notes, repay such additional amounts to the Borrower as are recovered (it being understood that none of the Lender, the Trustee, the Principal Paying Agent and Transfer Agent nor any other Paying Agent (each as defined in the Agency Agreement) shall have any obligation to determine whether any Noteholder is entitled to any such additional amount).

6.5 Tax Indemnity

Without prejudice to, and without duplication of the provisions of Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.4 (*Withholding on the Notes*), if at any time the Lender makes or is required to make any payment to a Person (other than to or for the account of any Noteholder) on account of any Tax (other than any Tax on income or capital gains payable by the Lender) in respect of the Loan or the Notes imposed by any taxing authority of Ireland, or any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) made by the Lender, indemnify the Lender against any such payment or liability, or any claim, demand, action, damages or loss in respect thereof, together with any interest, penalties, costs and expenses (including without limitation, legal fees and any applicable value added tax) payable or incurred in connection therewith.

Any payments required to be made by the Borrower under this Clause 6.5 (*Tax Indemnity*) are collectively referred to as "**Tax Indemnity Amounts**". For the avoidance of doubt, the provisions of this Clause 6.5 (*Tax Indemnity*) shall not apply to any withholding or deductions of Taxes with respect to the Loan or Notes in respect of which any additional amount is payable under Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) and 6.4 (*Withholding on the Notes*).

If the Lender intends to make a claim for any Tax Indemnity Amounts, it shall promptly notify the Borrower thereof.

6.6 Reimbursement

If an additional amount is paid under Clause 6.1 (*Making of Payments*) or a Tax Indemnity Amount is paid under Clause 6.5 (*Tax Indemnity*) by the Borrower and the Lender, in its absolute discretion, determines that it has received and retained (net of tax) or been granted a credit against, a relief from, remission for, or a repayment of any Taxes or other reimbursements relating to a deduction or withholding, then if and to the extent that the Lender determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such increased payment, or, as the case may be, in respect of an additional payment with reference to the loss, liability or cost giving rise to the additional payment, the Lender shall, to the extent that it

determines in its absolute discretion that it can do so without prejudice to its right to the amount of such credit, relief, remission or repayment, and without worsening the position it would have been in had such additional amount or Tax Indemnity Amount not been required to be repaid, repay to the Borrower an amount equal to such amount as is attributable to such deduction or withholding or, as the case may be, such loss, liability or cost; *provided, however,* that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to the Borrower, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender. Subject to Clauses 6.7 (*Mitigation*) and 6.8 (*Tax Treaty Relief*) the Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to it, and nothing shall interfere with the right of the Lender to arrange its tax affairs in whatever manner it thinks fit nor oblige the Lender to disclose any confidential information or any information relating to its tax affairs, any computations in respect thereof, or its business or any part of its business, *provided* that the Lender shall notify the Borrower of any tax credit or allowance or other reimbursement it receives in respect of any Tax Indemnity Amount with respect to which the Borrower has made a payment pursuant to Clause 6.5 (*Tax Indemnity*).

If the Borrower makes a withholding or deduction for or on account of Taxes from a payment under or in respect of this Agreement, and if an additional amount is paid under Clause 6.1 (*Making of Payments*) or a Tax Indemnity Amount is paid under Clause 6.5 (*Tax Indemnity*) by the Borrower, the Borrower may apply on behalf of the Lender to the relevant Russian Taxing Authority for a payment to be made by such authorities to the Lender with respect to such Tax. If, whether following a claim made on its behalf by the Borrower or otherwise, the Lender receives such a payment ("**Russian Tax Payment**") from the Russian Taxing Authority with respect to such Taxes, it will as soon as reasonably possible notify the Borrower that it has received that payment (and the amount of such payment); whereupon, *provided* that the Borrower has notified the Lender in writing of the details of a bank account of the Borrower specified for that purpose by the Borrower to which a payment or transfer should be made, and that the Lender is able to make a payment or transfer under applicable laws and regulations and without worsening the position it would have been in had such additional amount or Tax Indemnity Amount not been required to be paid, the Lender will pay or transfer an amount equal to the Russian Tax Payment to the bank account of the Borrower specified for that purpose by the Borrower.

6.7 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clauses 5.3 (*Prepayment in the Event of Illegality*), 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-up*) or 6.4 (*Withholding on the Notes*), then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower's obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that the parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstances, including in the case of the Lender (without limitation) by transfer of its rights or obligations under this Agreement (but only in accordance with the terms and conditions of the other Finance Documents). The Borrower agrees to reimburse the Lender for all properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause 6.7 (*Mitigation*).

6.8 Tax Treaty Relief

The Lender, at the cost of the Borrower, shall make reasonable and timely efforts to assist the Borrower to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between Russia and Ireland, including its obligations under Clause 6.9 (*Delivery of Forms*).

6.9 Delivery of Forms

The Lender shall, at the expense of the Borrower, no later than 10 Business Days before the first Interest Payment Date (and thereafter as soon as possible at the beginning of each calendar year but not later than 10 Business Days prior to the first Interest Payment Date in that year), use its best endeavours to deliver to the Borrower a certificate issued by the Revenue Commissioners in Ireland

(or by the competent Agency in such Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) confirming the status of the Lender as a resident of Ireland for tax purposes for the appropriate year (or such Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and (to the extent it is able to do so under applicable law including Russian laws) from time to time, deliver to the Borrower such duly completed application form and, if required, any other documents, and such other information as may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian tax after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian tax has not been obtained. The application form and, if required, other documents issued by the Lender referred to in this Clause 6.9 (*Delivery of Forms*) shall be duly signed by the Lender and stamped or otherwise approved by the Revenue Commissioners in Ireland and the power of attorney shall be duly signed and apostilled or otherwise legalised.

If a relief from deduction or withholding of Russian tax or a tax refund under this Clause 6.9 (*Delivery of Forms*) has not been obtained and further to an application of the Borrower to the relevant Russian tax authorities the latter requests the Lender's U.S. dollars bank account details, the Lender shall at the request of the Borrower (a) use reasonable efforts to procure that such U.S. dollars bank account of the Lender is duly opened and maintained, and (b) thereafter furnish the Borrower with the details of such U.S. dollars bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such U.S. dollars bank account and shall use its reasonable efforts to assist the Lender with all required information in order to obtain the certificate mentioned above.

The Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the Revenue Commissioners in Ireland (or by the competent Agency in such Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), but shall promptly notify the Borrower about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate.

6.10 Lender Notification

The Lender agrees promptly, upon becoming aware thereof, to notify the Borrower if it ceases to be resident in Ireland or a Qualifying Jurisdiction.

7. Conditions Precedent

7.1 Documents to be Delivered

The obligation of the Lender to make the Advance shall be subject to the receipt by the Lender on or prior to the Closing Date of a signed copy of each of the following documents in the Agreed Form:

(a) the Fee Side Letters;

(b) evidence that the persons mentioned in Clause 13.5 (*Service of Process (Borrower)*) have agreed to receive process in the manner specified herein; and

(c) evidence that the persons mentioned in Clause 13.6 (*Service of Process (Lender*)) have agreed to receive process in the manner specified herein.

7.2 Further Conditions

The obligation of the Lender to make the Advance (less any deduction (if any) in accordance with Clause 3.2 (*Payment of Facility Fee and Other Costs*) shall be subject to the further conditions precedent that, as of the Closing Date:

(a) the representations and warranties made and given by the Borrower in Clause 9.1 (*Borrower's Representation and Warranties*) are true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing;

(b) no event shall have occurred and be continuing that constitutes a Potential Event of Default or an Event of Default;

(c) the Borrower shall not be in breach of any of the terms, conditions and provisions of this Agreement;

(d) the Subscription Agreement, the Trust Deed and the Agency Agreement shall have been executed and delivered; and

(e) the Lender shall have received in full the proceeds of the issue of the Notes pursuant to the Subscription Agreement and the fees and expenses pursuant to Clauses 2.3 (*Facility Fee and Other Costs*) and 3.4 (*Ongoing Fees and Expenses*).

8. Change in Law or Banking Practices; Increase in Cost

8.1 Compensation

In the event that after the date of this Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any Person charged with the administration thereof and/or any compliance by the Lender in respect of the Loan or the Facility 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:

(a) subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any Taxes payable by the Lender on its overall net income, capital gains or any Taxes referred to in Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.4 (*Withholding on the Notes*)); or

(b) increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income, capital gains or as a result of any Taxes referred to in Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.4 (*Withholding on the Notes*)); or

(c) imposes, modifies, or deems applicable any capital adequacy, reserve or deposit requirements attributable to this Agreement or to a class of business or transaction which, in the reasonable opinion of the Lender, includes this Agreement, against assets held by, or deposits in or for the amount of, or credit extended by an office of the Lender; *provided, however*, that the foregoing shall not include any increase in the rate of tax payable on the overall net income of the Lender as a result of any change in the manner in which the Lender is required to allocate resources to this Agreement; or

(d) imposes or will impose on the Lender any other condition affecting this Agreement, the Facility or the Loan,

and if as a result of any of the foregoing:

(i) the cost to the Lender of making, funding or maintaining the Loan or the Facility is increased; or

(ii) the amount of principal, interest or other amount payable to or received by the Lender under this Agreement is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower under this Agreement or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan,

then subject to the following, and in each such case:

(A) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower, together with a certificate signed by two authorised officials of the Lender describing in reasonable detail the introduction, change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and all relevant supporting documents evidencing the matters set out in such certificate; and

(B) the Borrower, in the case of paragraphs (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of paragraph (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return; *provided, however*, that in the case of sub-Clause 8.1(c) above (relating to a class of business or transaction which, in the reasonable opinion of the Lender, includes this Agreement), the amount of such increased cost shall be deemed not to exceed an amount equal to the proportion thereof which is directly attributable to this Agreement and *provided* that the Lender shall not be entitled to such additional amount where such increased cost arises as a result of the negligence or wilful default of the Lender and further provides, however, that this Clause 8.1 (*Compensation*) will not apply to or in respect of any matter for which the Lender has already been compensated under Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.4 (*Withholding on the Notes*) or 6.5 (*Tax Indemnity*).

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 8.1 (*Compensation*), the Lender shall consult in good faith with the Borrower and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, the Borrower's obligations to pay any additional amount pursuant to such Clause, except that nothing in this Clause shall obligate the Lender to incur any costs or expenses in taking any action under this Agreement which, in the reasonable opinion of the Lender, is prejudicial to its interests and unless the Borrower agrees to reimburse the Lender such costs or expenses.

8.3 Lender Tax Event

If, as a result of a change in the law, practice or interpretation of the law, the Lender is unable to obtain relief in computing its Irish tax liability for some or all of the interest payable on any Notes (having duly and timely claimed such relief and notwithstanding receipt of confirmation from the relevant tax authorities that such relief is available), the Borrower agrees to pay such additional amount to the Lender that the Lender reasonably determines will leave it in the same after tax position as if it were able to obtain tax relief for all of the interest payable on such Notes. The Borrower's obligation to pay such additional amounts shall survive the termination of this Agreement.

9. Representations and Warranties

9.1 Borrower's Representations and Warranties

The Borrower makes the representations and warranties to the Lender set out in this Clause 9.1 (*The Borrower's Representations and Warranties*) with the intent that such shall form the basis of this Agreement and shall remain in full force and effect, at the date hereof and shall be deemed to be repeated by the Borrower on the Closing Date and acknowledges that the Lender has entered into this Agreement in reliance on the following representations and warranties:

(a) it and each of its Material Subsidiaries is duly organised and incorporated and validly existing under the laws of its respective jurisdiction of incorporation, is not in liquidation or receivership and has the corporate power and legal right to own its property, to conduct its business as currently conducted and, in the case of the Borrower only, to enter into and to perform its obligations under this Agreement and to borrow the Advance; that it has taken all necessary corporate, legal and other action required to authorise the borrowing of the Advance on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and all other documents to be executed and delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms;

(b) this Agreement has been or will be duly executed by it and constitutes legal, valid and binding obligations of the Borrower enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and as to enforceability, (i) to general principles of equity, (ii) with respect to the enforceability of a

judgment whether there is a treaty in force relating to the mutual recognition of foreign judgments, and (iii) to the fact that certain gross up and indemnity provisions may not be enforceable under Russian law;

(c) the execution, delivery and performance of this Agreement by the Borrower will not conflict with or result in any breach or violation of or default under:

(i) any law or regulation or any order of any governmental, judicial, arbitral or public body or authority in the Russian Federation;

(ii) the constitutive documents, rules and regulations of the Borrower or any of its Material Subsidiaries or the terms of the banking licence granted to the Borrower by the CBR; or

(iii) any agreement or other undertaking or instrument to which the Borrower or any of its Material Subsidiaries is a party or which is binding upon the Borrower or any of its Material Subsidiaries or any of their respective assets, nor result in the creation or imposition of any Liens on any of their respective assets pursuant to the provisions of any such agreement or other undertaking or instrument;

(d) all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation (including, without limitation, the CBR, where applicable), if any, required by the Borrower in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of this Agreement (subject to a Russian legal requirement to provide to a Russian court a duly certified translation thereof into Russian) have been obtained or effected and are and shall remain in full force and effect, other than in each case, any such consent, licence, notification, authorisation, approval or filing required in relation to exchange control regulations which may only be obtained after the date of this Agreement;

(e) no event has occurred and is continuing that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default or a default under any agreement or instrument evidencing any Indebtedness of the Borrower, and no such event will occur upon the making of the Advance;

(f) there are no judicial, arbitral or administrative actions, proceedings or claims (including, without limitation, with respect to Taxes) current or, to the knowledge of the Borrower, threatened or pending, against the Borrower or any of its Material Subsidiaries, the adverse determination of which could singly or in the aggregate:

(i) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations under this Agreement; or

(ii) have a Material Adverse Effect;

(g) except for Liens of the types referred to in the definition of Permitted Liens in Clause 1.1 (*Definitions*), each of the Borrower and each of its Material Subsidiaries has good title to its property necessary for the conduct of its business, duly registered, where applicable, in its name and free and clear from all Liens and adverse third party claims that are likely to have a Material Adverse Effect and the Borrower's obligations under this Agreement rank at least *pari passu* with all its other unsecured and unsubordinated Indebtedness;

(h) the consolidated financial statements of the Group as at and for the nine months ended 30 September 2012 and the audited consolidated financial statements of the Group for the years ended 31 December 2011, 2010 and 2009 in the IFRS audit report for the years ended 31 December 2011, 2010 and 2009 were prepared in accordance with IFRS and:

(i) unless not required by IFRS, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Group; and

(ii) present fairly, in all material respects, the assets and liabilities of the Group, the financial condition and the results of operations of the Group as at the dates and in respect of the periods for which they were prepared; and

(iii) since the date of the latest reviewed IFRS consolidated financial statements of the Group, there has been no significant change in the financial or trading position of the Group and no material adverse change in the condition (financial or otherwise), results of business, operations or immediate prospects of the Group or in the Borrower's ability to perform its obligations under this Agreement;

(i) under the laws of the Russian Federation in force at the date of this Agreement, the execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any constituent part or political subdivision or Taxing Authority thereof or therein (other than state duty paid on any claim, petition or other application filed with a Russian court);

(j) neither the Borrower nor any Material Subsidiary nor their respective 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 this Agreement;

(k) the Borrower and each Material Subsidiary are in compliance in all material respects with all applicable provisions of applicable law;

(l) there are no labour strikes, disturbances, lockouts, slowdowns, stoppages of employees or other employment disputes, of or against the Borrower or any of its Material Subsidiaries which exist, or to the Borrower's knowledge, threatened, imminent or pending, except for those which would not have a Material Adverse Effect;

(m) save as disclosed in the section "Enforcement of Foreign Judgments" on page vi and the risk factor "Foreign Judgments and arbitral awards may not be enforceable against CBM" on page 34 of the Prospectus, in any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced in the Russian Federation after compliance with the applicable procedures and rules and all other legal requirements in the Russian Federation;

(n) 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 Borrower under this Agreement;

(o) all licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable the Borrower or any of its Material Subsidiaries to own its assets and carry on its business are in full force and effect and the Borrower and its Material Subsidiaries are conducting such business in accordance with such licences, consents, examinations, clearances, filings, registrations and authorisations in all material respects;

(p) it is subject, without reservation, to civil and commercial law with respect to its obligations under this Agreement, and its execution of this 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;

(q) neither the Borrower nor any of its Material Subsidiaries is materially overdue in the filing of any tax returns, reports and other information required to be filed by it with any appropriate Taxing Authority, and each such tax return, report or other information was, when filed, accurate and complete in all material respects; and each of the Borrower and its Material Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it (other than those it is contesting in good faith) and to the best of the knowledge of the Borrower, no Tax deficiency is currently asserted against the Borrower or any of its Material Subsidiaries and no judicial, arbitral or administrative actions, proceedings or claims with respect to Taxes are current or, to the knowledge of the Borrower, threatened or pending against the Borrower or any of its Material Subsidiaries, the adverse determination of which would singly or in the aggregate:

    (i) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations under this Agreement; or

    (ii) have a Material Adverse Effect;

(r) neither the Borrower, nor any of its Material Subsidiaries, has taken any corporate action nor, to the best of the Borrower's knowledge, have any other steps been taken or legal proceedings been started or threatened in writing against the Borrower or any of its Material Subsidiaries for its bankruptcy, winding-up, dissolution, external administration or reorganisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of its or of any or all of its assets or revenues;

(s) under current laws and regulations of Russia and Ireland and any respective political subdivisions thereof, and based upon the representations of the Lender set forth in Clause 9.2 (*Lender's Representations and Warranties*) and compliance by the Lender with Clause 6.9 (*Delivery of Forms*), all payments of principal and/or interest, additional amounts, Tax Indemnity Amounts or any other amounts payable on or in respect of any Loan may be paid by the Borrower to the Lender in U.S. dollars and will not be subject to Taxes under laws and regulations of Russia, or any political subdivision or Taxing Authority thereof or therein, respectively, and will otherwise be free and clear of any other Tax, duty, withholding or deduction in Ireland, Russia, or any political subdivision or Taxing Authority thereof or therein (*provided, however*, that the Borrower makes no representation as to any income or similar tax of Ireland (or any Qualifying Jurisdiction) which may be assessed thereon) and without the necessity of obtaining any governmental authorisation in Russia or any political subdivision or Taxing Authority thereof or therein; and

(t) save as disclosed in the section "Capitalisation and Indebtedness of CBM" on page 43 and the section "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 51 to 99 of the Prospectus, there have not been any changes in share capital or any material increase in non-current liabilities or any material decreases in current assets or total assets or any decrease in shareholders' equity of the Group as compared with amounts shown in the consolidated balance sheet of the Borrower as at 30 September 2012 and since 30 September 2012, there have not been any material decreases in the Group's interest income, net interest income, non interest income or net income as compared with the period from 30 September 2011 to the date which is one year prior to the date this representation is given.

9.2 Lender's Representations and Warranties

The Lender makes the representations and warranties to the Borrower set out in this Clause 9.2 (*Lender's Representations and Warranties*) with the intent that such shall form the basis of this Agreement and acknowledges that the Borrower has entered into this Agreement in reliance on these representations and warranties:

(a) the Lender is duly incorporated under the laws of, and is a resident for Irish taxation purposes in, Ireland and has full power and capacity to execute this Agreement, to issue the Notes and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary corporate action to approve and authorise the same;

(b) the execution of this Agreement, and the documents or deeds evidencing or relating to the issue of the Notes and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Ireland or the constitutive documents, rules and regulations of the Lender 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) this Agreement and the Notes have been duly authorised, executed and delivered by the Lender and constitute or will constitute legal, valid and binding obligations of the Lender, enforceable against the Lender in accordance with their respective terms (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 Irish authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement, 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 (other than, in relation to the security created in the Trust Deed, the filing of a form C1 containing particulars of the Trust Deed together with the prescribed fee within 21 days of the granting of the Security);

(e) the Lender is resident in Ireland, is subject to taxation in Ireland 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 Ireland merely on income from sources in Ireland or connected with property located in Ireland and it will be able to receive certification to this effect from the Irish tax authorities;

(f) the Lender does not have a permanent establishment in the Russian Federation save for any which may be created solely as a result of the Lender entering into this Agreement or any previous loan agreements with the Borrower and the transactions contemplated therein; and

(g) the Lender does not have any current intentions to effect, during the term of the Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of Ireland and subject to taxation in Ireland.

10. Covenants by the Borrower

For so long as any amount remains outstanding under this Agreement:

10.1 Negative Pledge

The Borrower shall not, and shall not permit any of its Material Subsidiaries to, directly or indirectly, create, incur, assume or permit to exist any Liens, other than Permitted Liens, upon or on any of its or their undertaking property income assets or revenues, present or future, or any income or profits therefrom, to secure any Indebtedness, unless, at the same time or prior thereto, the Borrower's obligations under this Agreement are secured equally and rateably therewith or benefit from such other security or other arrangements, as the case may be.

10.2 Mergers

(a) The Borrower shall not enter into any merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation, or any other reorganisation under Russian law but excluding, for the avoidance of doubt, a change in the shareholdings in the Borrower alone (each a "**Reorganisation Event**"); and

(b) the Borrower shall ensure that, without the prior written consent of the Lender and the Trustee, no Material Subsidiary (A) enters into any Reorganisation Event, or (B) in the case of a Material Subsidiary incorporated in a jurisdiction other than the Russian Federation participates in any event analogous under the legislation of the relevant jurisdiction to a Reorganisation Event,

if (in the case of either (a) or (b) above) any such reorganisation or other type of corporate reconstruction would have a Material Adverse Effect. For the avoidance of doubt, a Reorganisation Event will not be considered to be capable of having a Material Adverse Effect for the purposes of this Clause 10.2 (*Mergers*) in the event that it does not lead to a downgrading of either the senior ratings given to the Borrower by any Rating Agency or, in the circumstances under (a) above where the Borrower is not the surviving entity following such Reorganisation Event, the ratings granted to such surviving entity immediately following such reorganisation by Moody's and Fitch are no less than the ratings granted to the Borrower by each of Moody's and Fitch immediately prior to the Reorganisation Event *provided that* such surviving entity assumes all the Borrower's obligations under this Agreement.

10.3 Disposals

The Borrower shall not and shall ensure that none of its Material Subsidiaries shall sell, lease, transfer or otherwise dispose of by one or more transactions or series of transactions (whether related or not), the whole or any part (the book value of which is 10 per cent. or more of the book value of the whole) of its revenues or its assets (except for sales or other disposals of current assets in the ordinary course of its trading and payments of cash) unless, without prejudice to Clause 10.12 (*Ranking of Claims*), the terms of such transaction(s) (a) are substantially no less favourable to the Borrower, or the relevant Material Subsidiary, as the case may be, than those which would be obtained in a comparable arm's length transaction and on commercially reasonable terms and (b) has/have been approved by a resolution of the appropriate decision making body of the Borrower resolving that the transaction complies with the requirements of this Clause 10.3 (*Disposals*) and such resolution has been adopted by a majority of the members of such appropriate decision making body disinterested with respect to such transaction or series of transactions or, if there are insufficient disinterested members, by an Independent Appraiser.

For the avoidance of doubt, this Clause 10.3 (*Disposals*) shall not apply to any revenues or assets (or any part thereof) the subject of any securitisation of receivables, asset-backed financing or similar financing structure originated by the Borrower whereby all payment obligations are to be discharged solely from such assets or revenues, *provided* that the aggregate value of assets or revenues which are

the subject of all such securitisations of receivables, asset-backed financing, or similar financing structures, when added to the aggregate value of assets or revenues subject to any Lien described under (d) in the definition of "**Permitted Liens**" and permitted under the terms of this Agreement, does not at any time exceed 30 per cent. of loans and advances to customers, as determined at any such time by reference to the most recent quarterly balance sheet of the Borrower prepared in accordance with IFRS (or its equivalent in other currencies).

10.4 Transactions with Affiliates

The Borrower shall not, and shall ensure that none of its Material Subsidiaries shall, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**") including, without limitation, intercompany loans unless:

(a) the terms of such Affiliate Transaction are no less favourable to the Borrower or such Material Subsidiary, as the case may be, than those that could be obtained in a comparable arm's length transaction with a Person that is not an Affiliate of the Borrower or such Material Subsidiary; or

(b) such Affiliate Transaction is made pursuant to a contract existing on the Closing Date (excluding any amendments or modifications thereof).

With respect to an Affiliate Transaction which is not an Exempted Transaction involving aggregate payments or value in excess of 2% of Tier 1 Capital, the Borrower shall deliver to the Lender and the Trustee, a written opinion from a member of the management board of the Borrower who has no interest in that Affiliate Transaction to the effect that such Affiliate Transaction is fair, from a financial point of view, to the Borrower or the relevant Material Subsidiary, as the case may be.

For the purposes of this Clause 10.4 (*Transactions with Affiliates*), an "**Exempted Transaction**" means:

(a) any transaction solely for the provision of credit scoring and/or information technology services; or

(b) any transaction solely for the provision of hedging services.

This Clause 10.4 (*Transactions with Affiliates*) does not apply to (a) compensation or employee benefit arrangements with any officer or director of the Borrower or a Material Subsidiary, as the case may be, arising as a result of their employment contract, or (b) any Affiliate Transaction between the Borrower and any of its Material Subsidiaries or between any Material Subsidiaries of the Borrower.

10.5 Maintenance of Authorisations

The Borrower shall, and shall procure that each of its Material Subsidiaries will:

(a) take all necessary action to obtain, and do or cause to be done all things necessary, in the opinion of the Borrower or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business;

(b) take all necessary action to obtain, and do or cause to be done all things necessary to maintain in full force and effect all consents, licences, approvals and authorisations; and

(c) make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of this Agreement or for the legality, validity, enforceability or admissibility in evidence in Russia thereof, *provided* that, in any case where the Borrower and/or the relevant Material Subsidiary, as the case may be, can remedy any failure to comply with this Clause 10.5 (*Maintenance of Authorisations*) within 60 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

10.6 Maintenance of Property

The Borrower shall, and shall ensure that its Material Subsidiaries will, cause all property that is used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgement of the Borrower or such Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times.

10.7 Payment of Taxes and Other Claims

The Borrower shall, and shall ensure that its Material Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all Taxes levied or imposed upon the income, profits or property of the Borrower and its Material Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of the Borrower or any of its Material Subsidiaries; *provided, however*, that none of the Borrower nor any Material Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (x) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS, as consistently applied or other appropriate provision has been made or (y) whose amount, together with all such other unpaid or undischarged Taxes, assessments, charges and claims, does not in the aggregate exceed U.S.$10,000,000 (or its equivalent in other currencies).

10.8 Maintenance of Insurance

So long as any amount remains outstanding under this Agreement, the Borrower shall and shall ensure that each of its Material Subsidiaries will, keep those of their material properties which are of an insurable nature insured with insurers of good standing against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated and owning like properties in the same jurisdictions.

10.9 Financial Information

(a) the Borrower hereby undertakes that so long as the Advance or any other sum owing under this Agreement remains outstanding and as soon as the same become available, but in any event within 150 days after the end of each of its financial years, deliver to the Lender and the Trustee copies of the Group's consolidated financial statements for such financial year, in each case audited by the Auditors and prepared in accordance with IFRS, consistently applied with the corresponding financial statements for the preceding period;

(b) the Borrower hereby undertakes that so long as the Advance or any other sum owing under this Agreement remains outstanding and as soon as the same become available, but in any event within 90 days after the end of each half of each of its financial years, deliver to the Lender and the Trustee the Group's consolidated financial statements for such period, in each case reviewed by the Auditors and prepared in accordance with IFRS, consistently applied with the corresponding financial statements for the preceding period;

(c) the Borrower hereby undertakes that, so long as the Advance or any other sum owing under this Agreement remains outstanding it shall deliver to the Lender and the Trustee, within a reasonable timeframe, such additional information regarding the financial position or the business of the Borrower or the Group and its Material Subsidiaries, takes as a whole, as the Lender may reasonably request, including providing certificates to the Trustee pursuant to the Trust Deed;

(d) the Borrower shall ensure that each set of consolidated financial statements delivered by it pursuant to this Clause 10.9 (*Financial Information*) is:

    (i) prepared on the same basis as was used in the preparation of its Original Financial Statements and in accordance with IFRS and consistently applied;

    (ii) in the case of the statements provided pursuant to sub-Clause 10.9(a) above, accompanied by an audit report thereon of the Auditors, and in the case of the statements provided pursuant to sub-Clause 10.9(b) above, accompanied by a review report thereon of the Auditors, in each case including opinions of such Auditors with accompanying notes and annexes and in a form satisfactory to the Lender; and

    (iii) in the case of the statements provided pursuant to sub-Clause 10.9(a) above and sub-Clause 10.9(b) (above), certified by an Authorised Signatory of the Borrower as giving a true and fair view of the Group's consolidated financial condition as at the end of the period to which those consolidated financial statements relate and of the results of the Group's operations during such period; and

(e) the Borrower shall from time to time, on the request of the Lender, furnish the Lender with such information about the business and consolidated financial condition of the Borrower or the Group as the Lender or the Trustee may reasonably require.

10.10 Financial Covenants

(a) The Borrower shall ensure full compliance with prudential supervision ratios and other requirements of the CBR; and

(b) The Borrower shall ensure that each Material Subsidiary which carries on a banking business shall not permit its total capital ratio to fall below the minimum total capital ratio required by each relevant banking authority responsible for setting and/or supervising capital adequacy requirements for financial institutions in the jurisdictions in which it carries on its banking business, such calculation to be made by reference to, the latest annual non-consolidated audited financial statements of such Material Subsidiary or, if such Material Subsidiary does not prepare audited financial statements, the latest annual non-consolidated unaudited financial statements of such Material Subsidiary, *provided, however*, that, should any Material Subsidiary carry on a banking business in more than one jurisdiction, it shall not permit its total capital ratio to fall below the minimum ratio required by the relevant banking authorities responsible for setting and/or supervising capital adequacy requirements for financial institutions in each such jurisdiction.

10.11 Change of Business

The Borrower shall procure that no material change is made to the general nature of the business of itself or any of its Material Subsidiaries from that carried on at the date of this Agreement.

10.12 Ranking of Claims

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all the Borrower's other unsecured creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

10.13 Restricted Payments

(a) Subject to sub-Clause 10.13(b), the Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly: (i) declare or pay dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital, other than dividends or distributions payable to the Borrower or any of its Subsidiaries; (ii) voluntarily purchase, redeem or otherwise retire for value any Capital Stock of the Borrower or, prior to scheduled maturity or scheduled repayment, subordinated debt of the Borrower or any Subsidiary of the Borrower (except for the repayment of inter-company debt owed by any member of the Group to any other member of the Group from time to time) any such action being referred to herein as a "**Restricted Payment**".

(b) The Borrower and any of its Subsidiaries may make a Restricted Payment if at the time of such payment no Event of Default has occurred and is continuing or would result therefrom and the aggregate amount of all Restricted Payments made during the fiscal year of such payment does not exceed 50 per cent. of the Group's consolidated net profit (calculated in accordance with IFRS) for the immediately preceding fiscal year.

10.14 Officers' Certificates

On each Interest Payment Date (other than the final Interest Payment Date that falls on the Repayment Date), the Borrower shall deliver to the Lender and the Trustee written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred, what action the Borrower is taking or proposes to take with respect thereto.

On each Interest Payment Date (other than the final Interest Payment Date that falls on the Repayment Date) or promptly upon request by the Lender (and in any event within 15 Business Days after such request), the Borrower shall deliver to the Lender copied to the Trustee, written notice in the form of an Officers' Certificate listing its Material Subsidiaries.

10.15 Notes Held by the Borrower or any of its Material Subsidiaries

At any time after the Borrower or any of its Material Subsidiaries shall have purchased any Notes and retained such Notes for its own account, the Borrower shall notify the Trustee and the Lender to that effect and thereafter deliver to the Lender (copied to the Trustee) as soon as practicable after

being so requested in writing by the Lender an Officers' Certificate of the Borrower setting out the total principal amount of Notes which, at the date of such certificate, are held by the Borrower (or any Material Subsidiary of the Borrower) and have not been cancelled and are retained by it for its own account or for the account of any other company.

10.16 Maintenance of Legal Validity

The Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of the Russian Federation to enable it lawfully to enter into and perform its obligations under this Agreement and to ensure the legality, validity, enforceability or admissibility in evidence in the Russian Federation of this Agreement. The Borrower shall promptly pay all amounts payable in respect of fees, expenses and payments under indemnities as required by this Agreement ("**Relevant Payments**") *provided* that, in the event that the Borrower is prevented, hindered or limited from paying such amounts by virtue of any laws and regulations of the Russian Federation or any requirement of the CBR or any other relevant authority, the Borrower undertakes to use its best endeavours to promptly take all actions necessary to comply with such laws and regulations or requirements of the CBR in order to enable it to make the Relevant Payments and shall, as soon as such compliance is achieved, make all Relevant Payments under this Agreement.

10.17 FATCA Compliance

The Borrower hereby covenants with the Lender that it will provide the Lender with sufficient information, provide all reasonable assistance necessary, and pay any costs associated with, compliance by the Lender with Section 1471(b) of the US Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Section 1471 through 1474 of the Code and any regulations or agreements thereunder or official interpretations thereof.

11. Events of Default

11.1 Events of Default

Each of Clause 11.1(a) (*Failure to pay*) to Clause 11.1(q) (*Analogous events*) describes the circumstances which constitute an Event of Default for the purposes of this Agreement. If one or more Event of Default shall occur and is continuing, the Lender shall be entitled to the remedies set forth in Clause 11.3 (*Default Remedies*):

(a) *Failure to pay*

The Borrower fails to pay any amount of principal or interest payable hereunder as and when such amount becomes payable in the currency and in the manner specified herein provided such failure to pay continues for more than five Business Days;

(b) *Breach of obligations*

The Borrower fails to perform or observe or is otherwise in breach of any obligation, covenant or agreement contained herein to be performed or observed by it, provided such failure continues for more than 30 Business Days;

(c) *Misrepresentation*

Any representation or warranty by the Borrower or any statement deemed to be made by the Borrower in this Agreement or any other document, certificate or notice delivered by the Borrower in connection with this Agreement, the Subscription Agreement, the Trust Deed or the Agency Agreement or the issue of Notes proves to have been inaccurate, incomplete or misleading in any material respect in the opinion of the Lender and the Trustee at the time it was made or repeated or deemed to have been made or repeated;

(d) *Cross-default:*

(i) Any Indebtedness of the Borrower or any of its Subsidiaries is not paid when due (after the expiry of any applicable grace period); or

(ii) any such Indebtedness becomes, following a default of the Borrower, due and payable prior to its stated maturity, otherwise than at the option of the Borrower or (as the case may be) the relevant Subsidiary or *provided that* no event of default or potential event of default, howsoever described, (has occurred) any Person entitled to such Indebtedness,

provided that the amount of the relevant Indebtedness referred to in sub-paragraph (a) and/or sub-paragraph (b) above, individually or in the aggregate, exceeds U.S.$25,000,000 (or its equivalent in any other currency or currencies);

(e) *Insolvency*

The occurrence of any of the following events:

(i) the Borrower or any of its Material Subsidiaries fails or is unable to pay its debts generally as they become due;

(ii) the Borrower, or any of its Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commissioner (*likvidatsionnaya komissiya*) or a similar officer of the Borrower or any of its Material Subsidiaries, as the case may be, or any analogous procedure or event in any other relevant jurisdiction;

(iii) the presentation or filing of a petition in respect of any of the Borrower 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 Borrower or its Material Subsidiaries, unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous;

(iv) institution of the supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovlenie*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) over the Borrower or any of its Material Subsidiaries;

(v) any analogous procedure or event to those mentioned herein prescribed by the Federal Law of the Russian Federation No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 (as amended or replaced from time to time), including, but not limited to, supervision (*nablyudeniye*), external management (*vneshneye upravleniye*) or the entry by the Borrower or any of its Material Subsidiaries into an amicable settlement (*mirovoe soglashenie*), in respect of the Borrower or any Material Subsidiary recognized as a corporate entity in accordance with applicable Russian legislation, or any analogous procedure or event in any other relevant jurisdiction;

(vi) the institution of the financial rehabilitation (*finansovoye ozdorovlenie*), temporary administration (*vremennoye upravleniye*), reorganisation (*reorganizatsiya*) or bankruptcy management (*konkursnoye proizvodstvo*) with respect to the Borrower or, if applicable, any of its Material Subsidiaries, as such terms with Russian transliteration 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), or any analogous procedure or event in any other relevant jurisdiction;

(vii) any judicial liquidation dissolution, administration or winding-up of the Borrower or any of its Material Subsidiaries; and/or

(viii) revocation, suspension or other loss of the general banking licence of the Borrower or, if applicable, of any of its Material Subsidiaries, or any prohibition on the conduct by the Borrower or, if applicable, any of its Material Subsidiaries, of any banking operation envisaged in its general banking licence;

(f) *Bankruptcy*

The Borrower or any of its Material Subsidiaries fails or is unable, or admits inability to, pay its debts as they fall due, generally suspends making payments on 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 Borrower or its Material Subsidiaries is less than its liabilities; makes a general assignment for the benefit of or a composition with its creditors generally and/or a moratorium is declared in respect of any Indebtedness of any of the Borrower or its Material Subsidiaries.

(g) *Expropriation of property*

Any expropriation, attachment, sequestration, execution, compulsory acquisition, nationalisation or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part (in the opinion of the Lender and the Trustee) in each case without appropriate compensation, by or under State authority of all or substantially all of the property, undertaking, revenues or assets of the Borrower or any of its Material Subsidiaries;

(h) *Authorisations*

Any governmental authorisation necessary for the performance of any obligation of the Borrower under this Agreement fails to be in full force and effect and prevents the Borrower from performing any material obligation under this Agreement;

(i) *Governmental or court action*

Any government, Agency or court takes any action that, in the opinion of the Lender and the Trustee, has a Material Adverse Effect on the Borrower or any of its Material Subsidiaries, including, without prejudice to the foregoing:

(i) the management of any member of the Group is wholly or partially displaced or the authority of any member of the Group in the conduct of its business is wholly or partially curtailed; or

(ii) all or a majority of the issued shares of any member of the Group or the whole or any part (the book value of which is 20 per cent. or more of the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or

(iii) the revocation, suspension or other loss of the general banking licence of the Borrower or, if applicable, of any of its Material Subsidiaries, or any prohibition on the conduct by the Borrower or, if applicable, any of its Material Subsidiaries, of any banking operation envisaged in its general banking licence;

(j) *Liquidation*

The shareholders of the Borrower or any Material Subsidiary shall have approved any plan of liquidation, administration or dissolution of the Borrower or any Material Subsidiary other than by way of a reorganisation permitted pursuant to Clause 10.2 (*Mergers*);

(k) *Unsatisfied judgements*

The aggregate amount of unsatisfied final judgments, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money (including, without limitation, payments in respect of Taxes) against the Borrower or any Subsidiary in the aggregate exceeds U.S.$25,000,000, or the equivalent thereof in any other currency or currencies and there is a period of 60 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 30 days after the notice specified in Clause 11.2 (*Notice of Default*);

(l) *Illegality*

At any time it is or becomes unlawful for the Borrower to perform or comply with any or all of its obligations under this Agreement or any of such obligations (subject, in the case of enforceability, as provided in sub-Clause 9.1(b)) are not, or cease to be, legal, valid, binding and enforceable;

(m) *Change of business*

The Borrower or any of its Material Subsidiaries ceases to carry on the principal business which it carried on at the date hereof, being the conduct of banking business as described in the Prospectus;

(n) *Repudiation*

The Borrower repudiates this Agreement, the Subscription Agreement or the Agency Agreement or evidences an intention to repudiate this Agreement, the Subscription Agreement or the Agency Agreement;

(o) *Amendments to charter*

The charter of the Borrower is amended in a way which would contravene or result in the contravention of any material provision of this Agreement;

(p) *Possession*

A secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Borrower or any of its Material Subsidiaries having a Fair Market Value in excess of U.S.$50,000,000 (or its equivalent in any other currency or currencies); and/or

(q) *Analogous events*

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 sub-Clauses.

11.2 Notice of Default

The Borrower shall deliver to the Lender and the Trustee, immediately upon becoming aware of the same, written notice in the form of an Officers' Certificate of any event which is a Potential Event of Default or an Event of Default, its status and what action the Borrower or the relevant Material Subsidiary, as the case may be, is taking or proposes to take with respect thereto.

11.3 Default Remedies

(a) *Acceleration*

If any Event of Default shall occur and be continuing, the Lender and/or the Trustee as applicable in accordance with the Trust Deed may, by notice in writing to the Borrower (with a copy to the Trustee):

(i) declare the Facility and the obligations of the Lender hereunder to be immediately terminated, whereupon the Facility and such obligations shall terminate; and

(ii) declare all amounts payable by the Borrower hereunder 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 Borrower; *provided, however*, that if any event of any kind referred to in sub-Clauses 11.1(e) (*Insolvency*) and 11.1(f) (*Bankruptcy*) occurs, the Facility and obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by the Borrower 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 Borrower.

(b) *Amounts due on demand*

If, pursuant to sub-Clause 11.3(a) (*Acceleration*), the Lender and/or the Trustee declares the outstanding principal amount of the Facility to be due and payable on demand of the Lender and/or the Trustee, then, and at any time thereafter, the Lender and/or the Trustee, may, by written notice to the Borrower, require repayment of the outstanding principal amount of the Facility on such date as it may specify in such notice (whereupon the same shall become due and payable on such date together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or withdraw its declaration with effect from such date as it may specify in such notice.

11.4 Rights Not Exclusive

The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12. Indemnity and Default Interest

12.1 Indemnification

The Borrower undertakes to the Lender, that if the Lender or any of its Affiliates, each director, officer, employee or agent of the Lender and each Person controlling the Lender within the meaning of the United States securities laws (each an "**indemnified party**") incurs any properly incurred out of pocket loss, liability, cost, claim, charge, expense (including without limitation, Taxes, any value added tax, legal fees, costs and expenses and any applicable stamp duties, capital duties and other similar duties payable, including any interest and penalties thereon or in connection therewith), demand, action or damages (a "**Loss**") as a result of or in connection with the Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Loan and/or corresponding Notes outstanding, the Borrower shall pay to the Lender on demand an amount equal to such Loss and all properly incurred out of pocket costs, charges and expenses which 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 as a result of or arising out of or in relation to any failure to pay by the Borrower or delay by the Borrower in paying the same, unless such Loss was caused either by such indemnified party's negligence or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained in the Agreement or 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 12.1 (*Indemnification*).

12.2 Independent Obligation

Clause 12.1 (*Indemnification*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement, the Subscription Agreement or any other obligations of the Borrower 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 (*Indemnification*) and specifying in full detail the basis therefor and calculations thereof shall, in the absence of manifest error, be *prima facie* evidence of the amount of such loss, cost, charges, expenses and liabilities.

12.4 Currency Indemnity

Each reference in this Agreement to U.S. dollars is of the essence. To the fullest extent permitted by law, the obligation of the Borrower in respect of any amount due in U.S. dollars under this Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in U.S. dollars that the party entitled to receive such payment may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in U.S. dollars that may be so purchased for any reason falls short of the amount originally due (the "**Due Amount**"), the Borrower hereby agrees to indemnify and hold harmless the Lender against any such deficiency in U.S. dollars. Any obligation of the Borrower not discharged by payment in U.S. dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as *provided herein*, shall continue in full force and effect. If the amount in U.S. dollars that may be purchased exceeds that Due Amount the Lender shall promptly pay the amount of the excess to the Borrower.

12.5 Survival

The obligations of the Borrower pursuant to Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), 6.4 (*Withholding on the Notes*), 6.5 (*Tax Indemnity*), 6.6 (*Reimbursement*), 12.1 (*Indemnification*) and 12.4 (*Currency Indemnity*) shall survive the execution and delivery of this Agreement and the drawdown and repayment of the Loan by the Borrower.

12.6 Default Interest Periods

If any sum due and payable by the Borrower under this Agreement is not paid on the due date therefore in accordance with the provisions of Clause 6 (*Payments*) or if any sum due and payable by the Borrower under any judgment of any court in connection herewith is not paid on the date of such judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of the Borrower to pay such sum (the balance thereof for the time being unpaid being herein referred to as an "**unpaid sum**") is discharged shall be divided into successive periods, each of which (other than the first, which shall commence on and shall include the day on which such unpaid sum is initially due and payable and unpaid) shall start on the last day of the preceding such period and the duration of each of which shall (except as otherwise provided in this Clause 12 (*Indemnity and Default Interest*) be selected by the Lender (but shall in any event not be longer than one month).

12.7 Default Interest

During each such period relating thereto as is mentioned in Clause 12 (*Indemnity and Default Interest*) an unpaid sum shall accrue interest for each day it remains unpaid at a rate per annum equal to the Rate of Interest.

12.8 Payment of Default Interest

Any interest which shall have accrued under Clause 12.7 (*Default Interest*) in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by written notice to the Borrower.

13. Governing Law and Arbitration

13.1 Governing Law

This Agreement, including any non-contractual obligations arising out of or in connection with this Agreement, shall be governed by, and construed in accordance with, the laws of England.

13.2 Arbitration

The parties irrevocably agree that any claim, dispute or difference of whatever nature arising under, out of or in connection with this Agreement (including a claim, dispute or difference regarding its existence, termination or validity, and further including any dispute relating to any non-contractual obligations arising out of or in connection with this Agreement) (a "**Dispute**"), shall be referred to and finally settled by arbitration in accordance with the Rules of the LCIA (the "**Rules**") as at present in force and as modified by this clause, which Rules shall be deemed incorporated into this clause. The number of arbitrators shall be three, one of whom shall be nominated by each of the parties and the third of whom, who shall act as chairman, shall be nominated by the two party nominated arbitrators. If the two party-nominated arbitrators cannot agree on a third arbitrator to act as chairman, the LCIA court will appoint a chairman. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

13.3 No Claim of Immunity

To the extent that the Borrower may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before the making of a judgment or award or otherwise) or other legal process including in relation to the enforcement of an arbitration award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Borrower or its assets or revenues, the Borrower agrees not to claim and irrevocably waive such immunity to the full extent permitted by the laws of such jurisdiction.

13.4 Proceedings

The Borrower consents generally in respect of any proceedings (including arbitral proceedings pursuant to Clause 13.2 (*Arbitration*)) to the giving of any relief (interim or otherwise) or the issue of any process in connection with any such proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgement which is made or given in such proceedings.

13.5 Service of Process (Borrower)

The Borrower agrees that the service of process relating to any proceedings in England and Wales may be made by delivery to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX. If such person is not or ceases to be effectively appointed to accept service of process, the Borrower shall (i), immediately notify the Lender and (ii) promptly appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days of the notification referred to in (i) above, the Lender shall be entitled to appoint such a person by written notice to the Borrower. Nothing in this Clause 13.5 (*Service of Process (Borrower)*) shall affect the right of the Lender to serve process in any other manner permitted by law.

13.6 Service of Process (Lender)

The Lender agrees that the service of process relating to any proceedings in England and Wales may be made by delivery to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX. If such person is not or ceases to be effectively appointed to accept service of process, the Lender shall (i), immediately notify the Borrower and (ii) promptly appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days of the notification referred to in (i) above, the Borrower shall be entitled to appoint such a person by written notice to the Lender. Nothing in this Clause 13.6 (*Service of Process (Lender)*) shall affect the right of the Borrower to serve process in any other manner permitted by law.

14. Notices

14.1 Addresses for Notices

All notices, requests, demands or other communications to or upon the respective parties to this Agreement shall be given or made in the English language by letter or fax or email (subject to the subsequent dispatch of the original by post), by hand or by courier 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:

Lender: if to the Lender, to it at:

CBOM Finance p.l.c.
5 Harbourmaster Place
IFSC
Dublin 1
Ireland

Fax: +353 1 680 6050

Attention: The Directors

Borrower: if to the Borrower, to it at:

CREDIT BANK OF MOSCOW (open joint-stock company)
2 (Building 1) Lukov Pereulok
Moscow 10745
Russian Federation

Fax: +7 495 980 5437

Attention: Mr Pavel Voronov, Vice-President, Director of International Business Division

or to such other address or fax number as any party may hereafter specify in writing to the other.

14.2 Effectiveness

Every notice or other communication sent in accordance with this Clause 14 (*Notices*) shall be effective upon receipt by the addressee on a Business Day in the city of the recipient, *provided however*, that any such notice or other communication which would otherwise take effect after 4.00 p.m. on any particular day shall not take effect until 10.00 a.m. on the immediately succeeding Business Day in the city of the addressee.

15. Assignment

15.1 Binding Effect

This Agreement shall inure to the benefit of and be binding upon the parties hereto, their respective successors and any permitted assignee or transferee of some or all of such party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the assignment pursuant to the grant of the Security referred to in Clause 15.3 (*Succession*) 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 Borrower or any agreements of the Lender or the Borrower pursuant to Clause 6.6 (*Reimbursement*) or Clause 8 (*Change in Law or Banking Practices; Increase in Cost*).

15.2 No Entitlement

The Borrower shall not be entitled to assign, dispose of, novate or transfer all or any part of its rights or obligations hereunder to any other party.

15.3 Succession

Subject to Clause 15 (*Substitution*) of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights (other than Reserved Rights (as defined in the Trust Deed)) and benefits or obligations under this Agreement except to the Trustee by granting the Security. In the event a successor Lender is appointed to act as lender, the Lender shall deliver to the successor Lender sufficient information to allow the successor Lender to perform its obligations under this Agreement and the successor Lender shall accede to this Agreement and at such time give the same representations, warranties and undertakings as set out herein.

16. General

16.1 Evidence of Debt

The entries made in the Account shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of the Borrower's obligations recorded therein.

16.2 Stamp Duties

(a) the Borrower shall pay all stamp, registration and documentary taxes, duties or similar charges (if any) imposed on the Borrower by any Person in the United Kingdom, the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and all related documents and shall indemnify the Lender against any and all costs, penalties and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such taxes or similar charges upon presentation by the Lender to the Borrower of properly documented evidence of such costs and expenses.

(b) the Borrower agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes, duties or similar charges (if any) imposed by any Person in the United Kingdom, the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and all related documents, the Borrower shall reimburse the Lender on demand an amount equal to such stamp or other documentary taxes, duties or similar charges and shall indemnify the Lender against any and all costs and expenses properly documented which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to procure the payment of such taxes, duties or similar charges.

16.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power or privilege hereunder and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by applicable law.

16.4 Prescription

Subject to the Lender having previously received from the Borrower the principal amount thereof or interest thereon, the Lender shall forthwith repay to the Borrower the principal amount or the interest amount thereon, respectively, of any Notes upon such Notes becoming void pursuant to Condition 11 (*Prescription*) of the Notes (as confirmed to the Lender by the Trustee).

16.5 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

16.6 Counterparts

This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or email (PDF) shall be effective as delivery of a manually executed counterpart of this Agreement. In relation to each counterpart, upon confirmation by or on behalf of the signatory that the signatory authorises the attachment of such counterpart signature page to the final text of this Agreement such counterpart signature page shall take effect together with such final text as a complete authoritative counterpart.

16.7 Language

The language which governs the interpretation of this Agreement is the English language.

16.8 Amendments

Except as otherwise provided by its terms, this Agreement may not be varied except by an agreement in writing signed by the parties.

16.9 Partial Invalidity

In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

17. Limited Recourse and Non Petition

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, actually received and retained (net of tax) from the Borrower by or for the account of the Lender pursuant to this Agreement (the "**Lender Assets**"), subject always (A) to the Security Interests (as defined in the Trust Deed) and (B) to the fact that any claims of the Lead Manager (as defined in the Subscription Agreement) under the Subscription Agreement shall rank in priority to any claims of the Borrower, and that any such claim by the Lead Manager or the Borrower shall be reduced *pro rata* so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the Lender Assets, neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, neither the Borrower (nor any person acting on its behalf) shall be entitled at any time to institute against the Lender or join in any institution against the Lender of any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender relating to the Notes or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

The Borrower shall have no recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

The provisions of this Clause 17 (*Limited Recourse and Non Petition*) shall survive the termination of this Agreement.

Schedule 1

Form of Put Event Notice

[*On the letterhead of CREDIT BANK OF MOSCOW (open joint-stock company)*]

[Date]

To:

CBOM Finance p.l.c.

BNY Mellon Corporate Trustee Services Limited

The Bank of New York Mellon, London Branch

Dear Sirs:

Re: U.S.$500,000,000 Loan Agreement dated 29 January 2013 (the "Loan Agreement"), between CBOM Finance p.l.c. (the "Lender") and CREDIT BANK OF MOSCOW (open joint-stock company) (the "Borrower")

1. We refer to Clause 5.4 (*Prepayment upon a Put Event*) of the Loan Agreement.
2. Capitalised terms used, but not defined herein, have the meanings ascribed to them in the Loan Agreement.
3. We hereby notify you that a Put Event has occurred. The date upon which the Put Event occurred is [date].
4. The circumstances and relevant facts giving rise to the Put Event are as follows:

[*provide details of Put Event*].

Yours faithfully,

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Definitive Note Certificate (if issued).

The U.S.$500,000,000 7.70 *per cent*. Loan Participation Notes due 2018 (the "**Notes**" which expression includes, unless the context requires otherwise, any further Notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series therewith) of CBOM Finance p.l.c. (the "**Issuer**" or the "**Lender**", as the case may be) which expressions shall include (unless the context requires otherwise) any entity substituted for the Issuer pursuant to Condition 10(C) (*Substitution*) are constituted by, are subject to, and have the benefit of, a trust deed to be dated 1 February 2013 (the "**Trust Deed**", which expression includes such trust deed as from time to time modified 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) and made between the Issuer and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**", which expression shall include any trustees or trustee for the time being under the Trust Deed) as trustee for the Noteholders (as defined below).

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan in an aggregate amount of U.S.$500,000,000 (the "**Loan**") to CREDIT BANK OF MOSCOW (open joint-stock company) (the "**Bank**"). The terms of the Loan are recorded in a loan agreement dated 29 January 2013 between the Issuer (in its capacity as lender thereunder) and the Bank (as amended and supplemented from time to time, the "**Loan Agreement**").

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 and retained (net of tax) by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined in the Trust Deed). Noteholders must therefore rely solely and exclusively on the Bank's covenant to pay under the Loan Agreement, the benefit of the Security Interests (as defined below) and the credit and financial standing of the Bank. Noteholders shall have no recourse (direct or indirect) to any other asset of the Issuer.

The Issuer (as lender) under the Trust Deed has charged by way of first fixed charge in favour of the Trustee for itself and on behalf of the Noteholders certain of its rights and interests as lender under the Loan Agreement as security for its payment obligations in respect of the Notes and under the Trust Deed (the "**Charge**") and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the "**Assigned Rights**" and, together with the Charge, the "**Security Interests**") in each case excluding the Reserved Rights (as defined in the Trust Deed).

In certain circumstances, the Trustee may (subject to it being indemnified and/or secured (including by way of prefunding) 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).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Bank) pursuant to a paying agency agreement (the "**Agency Agreement**") to be dated 1 February 2013 and made between the Bank, the Issuer, The Bank of New York Mellon (Luxembourg) S.A., as the registrar (the "**Registrar**", which expressions shall include any successors), The Bank of New York Mellon, London Branch, as the principal paying agent (the "**Principal Paying Agent**", which expressions shall include any successors), and the transfer agents and paying agents named therein (the "**Transfer Agents**" and "**Paying Agents**" respectively together, the "**Agents**", which expressions shall include any successors) and the Trustee.

Copies of the Trust Deed, the Loan Agreement and the Agency Agreement are available for inspection by Noteholders during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Issuer (being, at the date hereof, 5 Harbourmaster Place, IFSC, Dublin 1, Ireland) the principal office of the Trustee being, at the date hereof, One Canada Square, London E14 5AL and at the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent, the initial Specified Office of which is set out below.

Certain provisions of these terms and conditions (the "**Conditions**") are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions applicable to them.

1. STATUS AND LIMITED RECOURSE

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 secured, limited recourse obligation of the Issuer to apply an amount equal to the net proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received and retained (net of tax and any other deductions whatsoever) by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights (as defined in the Trust Deed). The right of the Issuer to receive such sums is being charged by way of security to the Trustee by virtue of the Security Interests as security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes.

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 amount in respect of the Reserved Rights and subject to Condition 8 *(Taxation),* will be made *pro rata* among all Noteholders, on the payment dates on which such payments are due in respect of the Notes, 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, the Issuer shall be under no 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 are deemed to have notice of, and to have accepted, these Conditions and the contents of the Trust Deed, the Agency Agreement and the Loan Agreement. It is hereby expressly *provided that*, 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 (if any) 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 condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Bank;

(c) neither the Issuer nor the Trustee shall at any time be liable for any representation, misrepresentation, breach of warranty or warranty or any act, default or omission of the Bank under or in respect of the Loan Agreement;

(d) the Trustee shall not 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, any Transfer Agent or any other Agents of their respective obligations under the Agency Agreement;

(e) the financial servicing and performance of the terms of the Notes depends solely and exclusively upon performance by the Bank of its obligations 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.

(f) the Issuer and (following the creation of the Security Interests) the Trustee shall be entitled to rely on certificates of the Bank (and, where applicable, certification by third parties) as a means of monitoring whether the Bank is complying with its 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 lender or a security holder (as applicable) in relation to the property which is the subject of the Trust Deed

and held by way 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 property which is subject to the Security Interests 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 and the Trustee has no responsibility for the value of such security; and

(g) the Issuer shall at no time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until it has received from the Bank the funds that are necessary to cover the costs and expenses in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds.

Under the Trust Deed, the Notes constitute direct, general, limited recourse and secured obligations of the Issuer. The Notes will at all times rank *pari passu*, rateably without any preference among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer, save for obligations as may be preferred by provisions of law that are both mandatory and of general application.

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, except to the extent that there is a subsequent failure to make payment to the Noteholders.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's right 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 its rights against the Issuer through action by the Trustee pursuant to the Charge and the assignment of the Assigned Rights granted to the Trustee in the Trust Deed.

The Trustee may (subject to the non-petition covenant contained in this Condition 1) at any time after the Notes become due and payable, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights or any payments under the Trust Deed and these Conditions in respect of the Notes, or, following the enforcement of the Security Interests created in the Trust Deed, the Loan Agreement but it shall not be bound to do so unless it has been indemnified and/or secured (including by way of prefunding) by the Noteholders to its satisfaction.

Notwithstanding any other provision hereof, the obligations of the Issuer under the Notes shall be solely to make payments of amounts in aggregate equal to each sum actually received and retained (net of tax) by or for the account of the Issuer from the Bank in respect of principal, interest or, as the case may be, other amounts relating to the Loan (less any amounts in respect of the Reserved Rights), the right to receive which will, *inter alia*, be assigned to the Trustee as security for the Issuer's payment obligations in respect of the Notes. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the extent of such sums received or recovered and retained (net of tax) by or on behalf of the Issuer or the Trustee (following a Relevant Event or (if applicable) an Event of Default). Noteholders shall look solely to such sums for payments to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets in respect thereof. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received or recovered, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

None of the Noteholders or other creditors (not any other person acting on behalf of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgement as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes.

2. FORM AND DENOMINATION

The Notes are issued in registered form in the denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each a "**Specified Denomination**").

Notes sold to qualified institutional buyers (within the meaning of Rule 144A under the U.S. Securities Act of 1933, as amended (the "**Securities Act**")) ("**QIBs**") who are also qualified purchasers (within the meaning of Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended) ("**QPs**") in the United States in reliance on Rule 144A (the "**Restricted Notes**") will be represented by a restricted global registered note certificate (the "**Restricted Global Note**"). Notes sold to investors outside the United States in reliance on Regulation S under the Securities Act (the "**Unrestricted Notes**") will be represented by an unrestricted global note certificate (the "**Unrestricted Global Note**" and together with the Restricted Global Note, the "**Global Notes**"). The Unrestricted Global Note will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). The Restricted Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee for DTC.

Ownership of beneficial interests in the Restricted Global Note will be limited to Persons (as defined below) that have accounts with DTC or Persons that may hold interests through such participants. Ownership of beneficial interests in the Unrestricted Global Note will be limited to Persons that have accounts with Euroclear or Clearstream, Luxembourg or Persons that may hold interests through such participants. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected through, records maintained in book-entry form by DTC and its participants or by Euroclear, Clearstream, Luxembourg and their participants, as applicable. Global Notes will be exchangeable for Notes in definitive form only in certain limited circumstances specified in the Global Notes.

3. REGISTER, TITLE AND TRANSFERS

(A) Register

The Issuer will cause a register (the "**Register**") to be kept at the Specified Office of the Registrar in which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the "**holder**" or "**Noteholder**" 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). A Definitive Note Certificate will be issued to each Noteholder in respect of its registered holding. Each Definitive Note Certificate will be serially numbered with an identifying number which will be recorded in the Register.

In these Conditions, "**Definitive Note Certificate**" means Notes, substantially in the form set out in Part A (*Form of Definitive Note Certificate*) of Schedule 1 (*Forms of Definitive Notes*) to the Trust Deed and includes any replacement definitive note certificate issued pursuant to Condition 13 (*Replacement of Definitive Note Certificates*) and any other definitive note certificates representing Further Notes or any of them.

(B) Title

The holder of any Note as recorded in the Register, will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing on the Definitive Note Certificate by any Person (as defined below) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous loss or theft of such Definitive Note Certificate) and no Person shall be liable for so treating such holder. No person shall have any rights to enforce any term or condition of the Notes or Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

In these Conditions, "**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without

limitation, any state or agency of a state or other entity, whether or not having separate legal personality,

Notwithstanding anything to the contrary in this Condition 3(B), the Notes will be numbered serially with an identifying number which will be recorded in the Register and a copy of which in an all times up-to-date version is held at the registered office of the Issuer.

(C) Transfers

Subject to paragraphs (F) and (G) below, a Note may be transferred, subject to the transfer being duly recorded in the Register and upon surrender of the relevant Definitive Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or 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 *provided,* however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred each amounts to a Specified Denomination or a multiple thereof. Where not all the Notes represented by the surrendered Definitive Note Certificate are the subject of the transfer, a new Definitive Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(D) Registration and Delivery of Definitive Note Certificates

Within five business days of the surrender of a Definitive Note Certificate in accordance with paragraph (C) above, the Registrar will register the transfer and deliver a new Definitive Note Certificate of a like principal amount to the Notes transferred 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 or the Transfer Agent has its Specified Office.

(E) No Charge

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(F) Closed Periods

The Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(G) Regulations Concerning Transfers and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. RESTRICTIVE COVENANT

As provided in the Trust Deed, so long as any Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (each as defined in the Trust Deed), agree to any amendments to or any modification of, or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement or the Trust Deed and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 *(Notices)*.

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 other indebtedness for borrowed moneys, other than the issue of Notes on a limited recourse basis for the sole purpose of making any loan to the Bank, engage in any other business (other than acquiring and holding the Security Interests in respect of the Notes, making the Loan to the Bank pursuant to the Loan Agreement or any future loans to the Bank or any other issue of notes as aforesaid (including derivative transactions on a limited recourse basis) and performing any act incidental to or necessary in connection with the foregoing including purchasing Notes in accordance with Condition 6 (E)), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these Conditions, the Trust Deed and the Loan Agreement), issue any shares, give any guarantee or assume any other liability, or, subject to the laws of Ireland, petition for any winding-up or bankruptcy.

5. INTEREST

On 1 February and 1 August of each year, commencing on 1 August 2013 and ending on 1 February 2018 (each an "**Interest Payment Date**"), or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement (with respect to the corresponding interest payment thereunder) which interest under the Loan Agreement is equal to 7.70 per cent. per annum.

If interest is required to be calculated for any period other than a full Interest Period, it will be calculated on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

6. REDEMPTION AND PURCHASE

(A) Scheduled Redemption

Unless previously prepaid or repaid pursuant to Clauses 5.2 (*Prepayment in the Event of Taxes or Increased Costs*), 5.3 (*Prepayment in the Event of Illegality*), Clause 5.4 (*Prepayment upon a Put Event*), Clause 5.5 (*Reduction of Loan Upon Cancellation of Corresponding Notes*) or Clause 11 (*Events of Default*) of the Loan Agreement, the Bank will be required to repay the Loan (in full and not in part) on the day which is one Business Day (as defined in the Loan Agreement) prior to the Repayment Date (the "**Loan Repayment Date**") and, subject to such repayment, as set forth in the Loan Agreement, all Notes then outstanding will, on the Repayment Date or as soon thereafter as such repayment of the Loan is actually received, be redeemed or repaid by the Issuer at 100 per cent. of the principal amount thereof.

(B) Early Redemption

If the Loan should become repayable (and be repaid) pursuant to the terms and conditions of the Loan Agreement prior to the Loan Repayment Date, as set forth in the Loan Agreement, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at par together with interest accrued to the date of redemption, and the Issuer will endeavour to give not less than 20 days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14 *(Notices)* (which notice shall be irrevocable).

Under the Loan Agreement:

(i) the Bank may prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.2 *(Prepayment in the Event of Taxes or Increased Costs)* and Clause 5.5 *(Reduction of Loan Upon Cancellation of Corresponding Notes)* of the Loan Agreement; and

(ii) the Issuer may require the Bank to prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.3 *(Prepayment in the Event of Illegality)* and Clause 5.4 *(Prepayment upon a Put Event)* of the Loan Agreement.

To the extent that the Issuer receives amounts of principal, interest or other amounts (other than amounts in respect of the Reserved Rights (as defined in the Trust Deed)) from the Bank following acceleration of the Loan, the Issuer shall pay an amount equal to such amounts on the business day (as defined in Condition 7 *(Payments))* following receipt of such amounts, subject as provided in Condition 7 *(Payments)*.

Prior to the publication of any notice of redemption referred to in this Condition 6(B), the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption in accordance with this Condition 6(B). A copy of the Bank's notice of prepayment or details of the circumstances contemplated by Clause 5.2 *(Prepayment in the Event of Taxes or Increased Costs)* or Clause 5.3 *(Prepayment in the Event of Illegality)* of the Loan Agreement (as the case may be) and the date fixed for redemption shall be set out in the notice.

The Trustee shall be entitled to accept any notice or certificate delivered by the Issuer in accordance with this Condition 6(B) as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice given by the Issuer to the Trustee on behalf of the Noteholders as is referred to in this Condition 6(B), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(B), subject to Condition 7 *(Payments)*.

(C) Redemption at the option of the Noteholders

If a Put Event (as defined below) occurs while any Note is outstanding, each Noteholder shall have the option (unless, prior to giving the Put Option Exercise Notice referred to below, the Issuer gives notice to the Noteholders under Condition 6(B)(i) above or the Loan becomes due and payable pursuant to Clause 11 *(Events of Default)* of the Loan Agreement) to require the Issuer to redeem each Note held by the relevant Noteholder on the Put Settlement Date (as defined below) at its principal amount together with accrued interest (if any) to (but excluding) the Put Settlement Date to the extent that such payment is received by the Issuer under the Loan Agreement. Such option shall operate as set out below.

Upon the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice (a "**Put Event Notice**") to the Noteholders in accordance with Condition 14 *(Notices)* specifying the nature of the Put Event and the procedure for exercising the option contained in this Condition 6(C) *(Redemption at the option of the Noteholders)*.

To exercise the right to require the redemption of a Note under this Condition 6(C) *(Redemption at the option of the Noteholders),* the Noteholder must deliver, on any Put Business Day falling within the period (the "**Put Period**") of 30 days after the Put Event Notice is given, to the Specified Office of any Paying Agent, the Note together with a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the Specified Office of any Paying Agent (a "**Put Option Exercise Notice**").

The Paying Agent to which such Note and Put Option Exercise Notice is delivered will issue to the Noteholder concerned a non-transferable receipt. *Provided that* any Note that is the subject of such Put Option Exercise Notice has been delivered to the Principal Paying Agent or other Paying Agent prior to the expiry of the Put Period, the Issuer shall, subject to receipt of sufficient funds to do so from the Bank under the Loan Agreement and subject to Condition 7 *(Payments),* redeem each Note represented by such Note on a date which is the fifteenth Put Business Day immediately following the last day of the Put Period (the "**Put Settlement Date**"). A Put Option Exercise Notice, once given, shall be irrevocable.

In this Condition 6(C) (*Redemption at the option of the Noteholders*):

"**Change of Control**" shall be deemed to have occurred at each time (whether or not approved by the management board of the Borrower) that Mr Roman Avdeev: (a) ceases to own or control (directly or indirectly) 50 *per cent*, plus one share of the issued and outstanding voting stock of the Borrower; or (b) no longer having the right to appoint or remove a majority of the Borrower's supervisory board;

"**Put Business Day**" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York, London, Dublin and Moscow and in the place of presentation;

"**Put Event**" means a Change of Control, which results in a Rating Decline;

"**Rating Agency**" means Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc., Moody's Investors Service Limited, or Fitch Ratings Limited, or any of their affiliates or successors or any other rating agency substituted for any of them or added by the Borrower with the prior written approval of the Lender. (together, the "**Rating Agencies**");

"**Rating Categories**" means (i) with respect to S&P, any of the following categories (any of which may or may not include a "+" or "-"): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or

equivalent successor categories); (ii) with respect to Fitch, any of the following categories (any of which may or may not include a Rating Modifier): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (iii) with respect to Moody's, any of the following categories (any of which may or may not include a Rating Modifier): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (iv) the equivalent of any such categories of S&P, Moody's or Fitch used by another rating agency, if applicable;

"**Rating Decline**" means any time within 90 days (which period shall be extended so long as the corporate credit rating of the Borrower or the credit rating in respect of the Notes is under publicly announced consideration for possible downgrade by any Rating Agency) after the later of the announcement or the occurrence of a Change of Control that the corporate credit rating of the Borrower or the credit rating of the Notes is decreased or downgraded by either:

(a) one or more Rating Categories by one or more Rating Agencies; or

(b) one or more Rating Modifiers within a Rating Category by each of the Rating Agencies then rating the Borrower or the Notes, as the case may be,

in each case as compared to the corporate credit rating of the Borrower or the credit rating of the Notes immediately prior to the earlier of the announcement or occurrence of a Change of Control and in each case as a result of such Change of Control, as specified by the relevant Rating Agency; and

"**Rating Modifier**" means (i) with respect to S&P, any of the following modifiers: plus ("+"), flat (no symbol) and minus ("-") (or equivalent successor modifiers); (ii) with respect to Fitch, any of the following modifiers: plus ("+"), flat (no symbol) and minus ("-") (or equivalent successor modifiers); (iii) with respect to Moody's, any of the following modifiers: "1", "2" and "3" (or equivalent successor modifiers); and (iv) the equivalent of any such modifiers of S&P, Moody's or Fitch used by another rating agency, if applicable.

(D) Compulsory Sale

The Issuer may compel any beneficial owner of an interest in the Restricted Notes to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is not both a QIB and a QP.

(E) Purchase of Notes

The Issuer or the Bank or any of the Bank's subsidiaries may at any time purchase or procure others to purchase for its or their account Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (*provided that* such resale is in compliance with all applicable laws) or surrendered to the Registrar for cancellation at the option of the Issuer, the Bank or the relevant subsidiary or otherwise, as the case may be in compliance with Condition 6(F) (*Cancellation*) below. The Notes so purchased, while held by or on behalf of the Issuer, the Bank or any such subsidiary, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 10(A) (*Meetings of Noteholders*).

(F) Cancellation of Notes

All Notes which are surrendered to the Registrar for cancellation pursuant to Condition 6(E) (*Purchase of Notes*) will be cancelled and may not be reissued or resold.

7. PAYMENTS

(A) Principal

Payments of principal shall be made by U.S. dollar cheque drawn on, or upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificates at the Specified Office of the Registrar or of any Paying Agent.

(B) Interest

Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before

the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificates at the Specified Office of the Registrar or of any Paying Agent.

(C) Payments Subject to Fiscal Laws

All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in any jurisdiction, and (ii) any withholding or deduction required pursuant to an agreement described in FATCA or any law implementing an intergovernmental approach thereto, but in each case without prejudice to the provisions of Condition 8 *(Taxation)*. In the event of any such withholding or deduction being required, the Issuer or the relevant Paying Agent (as the case may be) shall make such payment after such withholding tax or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. None of the Issuer, the relevant Paying Agent, or any other person will be obliged to make any additional payments to the Noteholders in respect of any amounts so withheld or deducted. No commissions or expenses shall be charged to the Noteholders in respect of such payments. In these Conditions, "**FATCA**" means sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, as of the date of the Trust Deed and any current or future regulations or agreements thereunder or official interpretations thereof.

(D) Payments on Business Days

If the due date for payments of any amount in respect of any Notes is not a business day, the holder of a Note will 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 Condition, "**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 Dublin, London, Moscow, New York and in the city where the Specified Office of the Principal Paying Agent is located.

(E) Record Date

Each payment of principal and/or interest due in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's Specified Office) on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 7(A) *(Principal),* if later, on the business day on which the relevant Definitive Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 7(A) *(Principal)* (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder). Each payment in respect of the Notes pursuant to Conditions 7(A) *(Principal)* and 7(B) *(Interest)* will be mailed to the holder of the relevant Note at his address appearing in the Register.

(F) Accrued Interest

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, in respect of the first Interest Payment Date only, from the date of issuance of the Notes, shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

(G) Payments by the Bank

Save as directed by the Trustee at any time after the security created in the Trust Deed becomes enforceable, the Issuer will 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 to an account in the name of the Issuer. Pursuant to the Charge, the Issuer will charge by way of first fixed charge all its rights, title and interest in and to all sums of money then or in the future deposited in such account in favour of the Trustee for the benefit of the Noteholders.

(H) Currency Other Than U.S. dollars

In respect of the Issuer's obligations under Conditions 5 *(Interest),* 6 *(Redemption)* and 8 *(Taxation),* and subject to the following sentence, if the Issuer receives any amount under the Loan

Agreement in a currency other than U.S. dollars, the Issuer's obligation under the relevant Condition shall be fully satisfied by paying such sum (after deducting any costs of exchange) as the Issuer receives upon conversion of such sum into U.S. dollars in accordance with customary banking practice in the spot market on the business day immediately following the day on which such sum is received by the Issuer. If the Issuer receives any payment from the Bank pursuant to Clause 12.4 *(Currency Indemnity)* of the Loan Agreement with respect to amounts due under the Notes, the Issuer shall pay such sum to the Noteholders in accordance with this Condition 7 *(Payments)*.

8. TAXATION

All payments of principal or interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Ireland, the Russian Federation or any political subdivision or any authority thereof or therein having power to tax, unless such deduction or withholding is required by law.

In such event, the Issuer shall, subject as provided below, pay such additional payments as will 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. However, the Issuer shall only make such additional payments to the extent and at such time as it shall receive and retain (net of tax and any other deductions whatsoever) equivalent sums from the Bank under the Loan Agreement. To the extent that the Issuer does not receive and retain any such equivalent sum, the Issuer shall account to the relevant Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received and retained (net of tax and any other deductions whatsoever) by, or for the account of, 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:

(i) to a Noteholder who (i) 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 (ii) is liable for such taxes, duties, assessments or governmental charges by reason of his having some connection with Ireland other than the mere holding of such Notes or the receipt of payments in respect thereof;

(ii) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering such Definitive Note Certificate for payment on the last day of such period of 30 days;

(iii) 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 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

(iv) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by surrendering the relevant Definitive Note Certificate to another Paying Agent and Transfer Agent in a Member State of the European Union; or

(v) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment in Ireland.

As used herein, "**Relevant Date**" means (i) 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 in New York by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, means the date on which, the full amount plus any accrued interest 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 *(Notices)*.

Any reference in these Conditions or in the Trust Deed to payments of principal and/or interest 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 Loan Agreement or the Trust Deed.

If the Issuer or the Bank becomes subject at any time to any taxing jurisdiction other than Ireland or Russia, as the case may be, references in these Conditions to Ireland or Russia shall be construed as references to Ireland or Russia and/or such other jurisdiction.

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 *provided that* any judgment or amount obtained as a result of such action or exercise of rights must be entered or held or, as the case may be, registered in the name of the Trustee and shall be held or dealt with by or on behalf of the Trustee in accordance with the Trust Deed.

At any time after the occurrence of an Event of Default (as defined in the Loan Agreement), or a Relevant Event (as defined in the Trust Deed), the Trustee (subject to the Non-Petition Covenant in Condition 1) may, at its discretion, and shall, if requested to do so in writing by Noteholders whose Notes constitute at least 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 (including by way of prefunding) to its satisfaction against all liabilities, proceedings, actions, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith, take the action permitted to be taken by the Issuer as lender under the Loan Agreement (in the case of an Event of Default), or exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon the repayment of the Loan or the receipt in full of all principal and interest accrued under the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

The Trustee may, in making any determination under these Conditions, act on the opinion or advice of, or information obtained from, any expert and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting.

The Trustee may rely without liability to Noteholders on any certificate or report prepared by any of the above mentioned experts, including specifically the Auditors (as defined in the Trust Deed), or any auditor, pursuant to the Conditions or the Trust Deed, whether or not the expert or auditor's liability in respect thereof is limited by a monetary cap or otherwise.

10. MEETINGS OF NOTEHOLDERS; MODIFICATION; WAIVER; SUBSTITUTION OF THE LENDER

(A) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of the Loan Agreement, these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution (as defined in the Trust Deed) or a Written Resolution (as defined in the Trust Deed). Such a meeting may be convened on not less than 21 days' prior written notice by the Issuer or the Trustee and shall be convened by the Trustee, subject to its being indemnified and/or secured (including by way of prefunding) to its satisfaction, upon the request in writing of Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be at least two persons present holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, at least two persons present being or representing Noteholders whatever the outstanding principal amount of the Notes held or represented; *provided, however,* that Reserved Matters (as defined in the Trust Deed) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which at least two persons present holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

Neither the Issuer nor any subsidiary of the Issuer nor any holding company of the Issuer nor any subsidiary of any such holding company who is or are also Noteholders shall be allowed to vote at a meeting or be included in a quorum.

An "**Extraordinary Resolution**" means a resolution passed at a Meeting duly convened and held in accordance with Schedule 4 to the Trust Deed by a majority of no less than three quarters of the votes cast.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed (a "**Written Resolution**") will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(B) Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, these Conditions and the Trust Deed or, following the creation of the Security Interests, 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 (other than, in each case, in respect of the Reserved Matters) is not materially prejudicial to the interests of the Noteholders. 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, or the Trust Deed or, following the creation of the Security Interests, by the Bank 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 sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (other than, in each case, in respect of the Reserved Matters) and *provided* always that the Trustee may not exercise such power of waiver in contravention of a request given by the holders of one quarter in aggregate principal amount of the Notes then outstanding or of any express direction by an Extraordinary Resolution or written Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14 *(Notices)*.

(C) Substitution

The Trust Deed and the Loan Agreement contain provisions to the effect that the Issuer may, having obtained the consent of the Bank and the Trustee (which latter consent may be given without the consent of the Noteholders) and subject to having complied with certain requirements as set out therein including the substitute obligor'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 and its rights as Lender under the Loan Agreement, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 *(Notices)* or the Issuer shall use its best endeavours to ensure that the substitute obligor does so.

(D) 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.

11. PRESCRIPTION

Notes will become void unless presented for payment within ten years (in the case of principal) or five years (in the case of interest) from the Relevant Date in respect thereof.

12. TRUSTEE AND AGENTS

The Trust Deed provides for the Trustee to take action on behalf of the Noteholders in certain circumstances, for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless

indemnified and/or secured (including by way of prefunding) to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and the Bank and any entity relating to the Issuer and the Bank without accounting for any profit and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its subsidiaries.

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.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar and additional or successor paying agents and transfer agents; *provided, however,* that the Issuer shall at all times maintain (a) a Principal Paying Agent and a Registrar, (b) a Paying Agent and Transfer Agent having Specified Offices in at least two major European cities approved by the Trustee (including Dublin, if so required by the rules of the Irish Stock Exchange), and (c), a Paying Agent in a Specified Office in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive.

As provided in the Trust Deed, any Trustee for the time being may retire at any time upon giving not less than three months' notice in writing to the Issuer and the Bank without assigning any reason therefor and without being responsible for any costs occasioned by such retirement. The retirement of any Trustee shall not become effective unless there remains a trustee (being a Trust Corporation (as defined in the Trust Deed)) in office after such retirement. In the event of a Trustee giving such notice, the Issuer shall use its reasonable endeavours to procure a new trustee to be appointed. If the Issuer has not appointed a new trustee within 60 days of giving such notice, the Trustee may procure a new trustee to be so appointed. The Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees for the time being hereof. The removal of any trustee shall not become effective unless the Bank has given its prior written consent thereto and there remains a trustee hereof (being a Trust Corporation) in office after such removal. Notice of any change in the Trustee or any of the Agents shall promptly be given by the Issuer to the Noteholders in accordance with Condition 14 *(Notices)*.

13. REPLACEMENT OF DEFINITIVE NOTE CERTIFICATES

If a Definitive Note Certificate is mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Irish Stock Exchange (as defined in the Trust Deed), be replaced at the Specified Office of the Registrar or the Transfer Agent upon 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 Definitive Note Certificates must be surrendered before replacements will be issued.

14. NOTICES

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register and, for so long as the Notes are listed on the Irish Stock Exchange, filed with the Companies Announcements Office of the Irish Stock Exchange. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as any of the Notes are represented by the Unrestricted Global Note, notices required to be published in accordance with this Condition 14 may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders, provided that such notice is also delivered to the Irish Stock Exchange and given in accordance with the rules of the Irish Stock Exchange. So long as any of the Notes are represented by the Restricted Global Note, notices required to be published in accordance with this Condition 14 may be given by delivery of

the relevant notice to DTC for communication to the relevant accountholders, provided that such notice is also delivered to the Irish Stock Exchange and given in accordance with the rules of the Irish Stock Exchange.

15. PROVISION OF INFORMATION

The Issuer shall, during any period in which it is not subject to or in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, duly provide to any holder of a Note which is a "**restricted security**" within the meaning of Rule 144(a)(3) under the Securities Act or to any prospective purchaser of such securities designated by such Noteholder, upon the written request of such Noteholder or (as the case may be) prospective Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Registrar, the information specified in Rule 144A(d)(4) under the Securities Act.

16. FURTHER ISSUES

The Issuer may from time to time, with the consent of the Bank but 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 on the further Notes) so as to form to be consolidated and form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed. In relation to any further issue which is to form a single series with the Notes (i) the Issuer will enter into a further loan agreement with the Bank or an amendment or supplement to the Loan Agreement on the same terms as the Loan Agreement (except with regard to the principal amount and the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee would not materially prejudice the interests of the Noteholders and (ii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such further Notes also and/or new security will be granted over any further loan agreement or the Loan Agreement as so amended or supplemented to secure amounts due on the Notes and such further Notes and the Trustee is entitled to assume without enquiry that this arrangement as regards security for the Notes will not be materially prejudicial to the interests of the Noteholders. Such further Notes shall be issued under a deed supplemental to the Trust Deed.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18. GOVERNING LAW AND JURISDICTION

The Notes, the Trust Deed, the Agency Agreement and the Loan Agreement and any non-contractual obligations arising out of or in connection with them, are governed by and shall be construed in accordance with, English law.

The Issuer has (i) submitted in the Trust Deed to the non-exclusive jurisdiction of the courts of England for the purposes of hearing any determination and suit, action or proceedings or settling any disputes arising out of or in connection with the Trust Deed and the Notes; (ii) waived any objection which it might have to such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; (iii) designated a person in England to accept service of any process on its behalf; and (iv) consented to the enforcement of any judgment.

TRANSFER RESTRICTIONS

Prospective purchasers of the Notes are advised to consult legal counsel prior to making any offer, resale or other transfer offered hereby because of the following restrictions.

Restricted Notes

Each purchaser of a beneficial ownership interest in a Restricted Note, by accepting delivery of this Prospectus and the Restricted Notes, will be deemed to have represented, agreed and acknowledged that:

1. If it is a U.S. person within the meaning of Regulation S it is (a) a QIB that is also a QP, (b) not a broker-dealer which owns and invests on a discretionary basis less than US$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acquiring such Notes for its own account, or the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Notes or the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the seller of such Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

2. It will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Restricted Notes in a principal amount that is not less than US$200,000 and (b) provide notice of the transfer restrictions set forth herein to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in the Issuer's securities from one or more book entry depositories.

3. It understands that the Restricted Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB and that is also a QP purchasing for its own account or for the account of one or more QIBs, each of which is also a QP and purchasing not less than US$200,000 principal amount of Notes or (b) to a non-US person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States.

4. It understands that the Issuer has the power to compel any beneficial owner of Restricted Notes that is a U.S. person and is not a QIB and a QP to sell its interest in the Restricted Notes, or may sell such interest on behalf of such owner at a price equal to the lesser of (x) the purchase price therefor paid by the beneficial owner, (y) 100% of the principal amount thereof or (z) the fair market value thereof.

5. It understands that the Issuer has the right to refuse to honour the transfer of an interest in the Restricted Notes to a U.S. person who is not a QIB and a QP.

6. It understands and acknowledges that its purchase and holding of such Restricted Notes or any interest therein constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Restricted Notes or any interest therein (a) it is not and is not using the assets of and will not be: (i) an "employee benefit plan" as described in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") that is subject to the provisions of Title I of ERISA, (ii) a "plan" described in Section 4975(e)(1) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") to which Section 4975 of the Code applies, or (iii) any entity whose underlying assets include "plan assets" by reason of an investment in the entity by a person described in (a)(i) or (a)(ii) above; (b) if it is an employee benefit plan subject to any U.S. federal, state, local or non-U.S. statute, regulation, administrative decision, policy or other legal authority that is substantially similar to Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**"), the purchase and holding of the Restricted Notes or any interest therein does not and will not violate any such Similar Law; and (c) it will not sell or otherwise transfer any such Restricted Note or any interest therein to any person unless the same foregoing representations and warranties apply to that person. Any purchase by or transfer to a person described in clause (a)(i), (a)(ii) or (a)(iii) above will be null and void *ab initio*.

7. It understands that the Restricted Global Notes and any Restricted Notes Certificates issued in exchange thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN OR WILL NOT BE REGISTERED UNDER, AND EACH WAS ORIGINALLY ISSUED OR MADE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES, FOR THE BENEFIT OF THE ISSUER, THAT (A) THIS NOTE (AND ANY INTEREST HEREIN) MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (A "QIB", AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) THAT IS ALSO A QUALIFIED PURCHASER (A "QP", AS DEFINED IN THE SECTION 2(a)(51) OF THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED) (THE "INVESTMENT COMPANY ACT") IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE (OR INTEREST HEREIN) FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE. THE ISSUER, HAS THE RIGHT UNDER THE TRUST DEED TO COMPEL ANY BENEFICIAL OWNER THAT IS A U.S. PERSON AND IS NOT A QIB AND ALSO A QP TO SELL ITS INTEREST IN THIS NOTE, OR MAY SELL SUCH INTEREST ON BEHALF OF SUCH BENEFICIAL OWNER. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND ALSO A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THE NOTES REPRESENTED HEREBY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QIB THAT IS ALSO A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THE NOTES REPRESENTED HEREBY; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS NOTES, WILL HOLD AND TRANSFER AT LEAST US$200,000 IN PRINCIPAL AMOUNT OF NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITARIES AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES. THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THE NOTES REPRESENTED HEREBY IT IS A PERSON WHO IS NOT A QIB THAT IS ALSO A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THE NOTES REPRESENTED HEREBY TO A PERSON THAT IS (I) A U.S. PERSON THAT IS A QIB AND A QP THAT IS OTHERWISE QUALIFIED TO PURCHASE THE NOTES REPRESENTED HEREBY IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THE NOTES REPRESENTED HEREBY TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THE NOTES

REPRESENTED HEREBY TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LEAST OF (X) THE PURCHASE PRICE THEREFORE PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT. OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOR A TRANSFER OF AN INTEREST IN THE NOTES REPRESENTED HEREBY TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF OR OF ANY INTEREST HEREIN WILL BE DEEMED TO REPRESENT AND WARRANT THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE (A) AN "EMPLOYEE BENEFIT PLAN" AS DESCRIBED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A "PLAN" AS DEFINED IN AND TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), APPLIES OR (C) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE, OR ARE DEEMED FOR PURPOSES OF ERISA OR THE CODE TO INCLUDE, "PLAN ASSETS" BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (1)(A) OR (1)(B) ABOVE OR OTHERWISE; (2) IF IT IS AN EMPLOYEE BENEFIT PLAN SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-U.S. STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR OTHER LEGAL AUTHORITY THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), THE PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT VIOLATE ANY SUCH SIMILAR LAW; AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS NOTE OR ANY INTEREST HEREIN TO ANY PERSON UNLESS THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS APPLY TO THAT PERSON. ANY PURCHASE BY OR TRANSFER TO A PERSON

DESCRIBED IN (1)(A), (1)(B), AND (1)(C) ABOVE WILL BE NULL AND VOID AB INITIO.

THIS NOTE AND ALL RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

8. It acknowledges that the Issuer, CBM, the Registrar, the Joint Lead Managers and their respective affiliates, and others, will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Restricted Notes is no longer accurate, it shall promptly notify the Issuer, CBM and the applicable Joint Lead Manager(s). If it is acquiring any Note as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

9. It understands that Restricted Notes will be represented by interests in the Restricted Global Note. Before any interest in the Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Restricted Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Unrestricted Notes

Each purchaser of a beneficial interest in the Unrestricted Notes, by accepting delivery of this Prospectus and the Unrestricted Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is, or at the time Unrestricted Notes are purchased it will be, the beneficial owner of such Unrestricted Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, CBM or a person acting on behalf of the Issuer, CBM or such an affiliate.
2. It understands that the Unrestricted Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the applicable distribution compliance period for such Notes, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP each of which is purchasing not less than US$200,000 principal amount of Notes purchasing for its account or for the account of a QIB that is also a QP or (b) in an offshore transaction to a person that is not a U.S. person in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
3. It understands that the Unrestricted Notes will be evidenced by the Unrestricted Global Note. Before any interest in the Unrestricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Restricted Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
4. It understands and acknowledges that its purchase and holding of such Unrestricted Notes or any interest therein constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Unrestricted Notes or any interest therein (a) it is not and is not using the assets of and will not be: (i) an "employee benefit plan" as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a "plan" described in Section 4975(e)(1) of the Code to which Section 4975 of the Code applies, or (iii) any entity whose underlying assets include "plan assets" by reason of an investment in the entity by a person described in (a)(i) or (a)(ii) above; (b) if it is an employee benefit plan subject to any Similar Law, the purchase and holding of the Unrestricted Notes or any interest therein does not and will not violate any such Similar Law; and (c) it will not sell or otherwise transfer any such Unrestricted Note or any interest therein to any person unless the same foregoing representations and warranties apply to that person. Any purchase by or transfer to a person described in clause (a)(i), (a)(ii) or (a)(iii) above will be null and void *ab initio*.
5. It acknowledges that the Issuer, CBM, the Registrar, the Joint Lead Manager(s) and their respective affiliates, and others, will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Unrestricted Notes is no longer accurate, it shall promptly notify the Issuer, CBM and the applicable Joint Lead Manager(s). If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.
6. It acknowledges that for the period until and including the 40th day after the commencement of the Offering, it will not make and offer or sale of the Unrestricted Notes to, or for the account or benefit of, a U.S. person within the meaning of Regulation S.
7. It understands that the Unrestricted Global Note and any Unrestricted Note Certificates issued in exchange thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

   THE NOTES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND MAY NOT BE OFFERED AND SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (I) AS PART OF THEIR DISTRIBUTION AT ANY TIME OR (II) OTHERWISE UNTIL 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING AND THE CLOSING DATE,

EXCEPT IN EITHER CASE IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S.

EACH BENEFICIAL OWNER HEREOF OR OF ANY INTEREST HEREIN WILL BE DEEMED TO REPRESENT AND WARRANT THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE (A) AN "EMPLOYEE BENEFIT PLAN" AS DESCRIBED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A "PLAN" AS DEFINED IN AND TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), APPLIES OR (C) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (1)(A) OR (1)(B) ABOVE; (2) IF IT IS AN EMPLOYEE BENEFIT PLAN SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-U.S. STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR OTHER LEGAL AUTHORITY THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), THE PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT AND WILL NOT VIOLATE ANY SUCH SIMILAR LAW; AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS NOTE OR ANY INTEREST HEREIN TO ANY PERSON UNLESS THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS APPLY TO THAT PERSON. ANY PURCHASE BY OR TRANSFER TO A PERSON DESCRIBED IN (1)(A), (1)(B), AND (1)(C) ABOVE WILL BE NULL AND VOID AB INITIO.

Global Notes

The Notes will be evidenced on issue: (i) in the case of the Unrestricted Notes, a Unrestricted Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg; and (ii) in the case of the Restricted Notes, a Restricted Global Note deposited with a custodian for, and registered in the name of a nominee of, DTC.

Beneficial interests in the Unrestricted Notes, as represented by the Unrestricted Global Note, may be held only through Euroclear or Clearstream at any time. See "– *Book-Entry Procedures for the Global Notes*". On acquisition of a beneficial interest in the Unrestricted Notes, as represented by the Unrestricted Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, that it is located outside the United States and that, if it determines to transfer such beneficial interest prior to the expiration of the distribution compliance period (as such terms is defined in Rule 902 of Regulation S), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-US person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See "*Transfer Restrictions*".

Beneficial interests in the Restricted Notes, as represented by the Restricted Global Note, may only be held through DTC at any time. See "– *Book-Entry Procedures for the Global Notes*". By acquisition of a beneficial interest in the Restricted Note, as represented by the Restricted Global Note, the purchaser thereof will be deemed to represent, among other things, that if it is a U.S. person (within the meaning of Regulation S), it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See "*Transfer Restrictions*".

Beneficial interests in either the Unrestricted Notes or the Restricted Notes, as evidenced by the relevant Global Note, will be subject to certain restrictions on transfer set forth thereon and in the Agency Agreement, and with respect to Restricted Notes, as set forth in Rule 144A, and the Restricted Global Note will bear the legends set forth thereon regarding such restrictions set forth under "*Transfer Restrictions*". A beneficial interest in the Unrestricted Notes, as evidenced by the Unrestricted Global Note, may be transferred to a person who takes delivery in the form of an interest in the Restricted Global Note in denominations greater than or equal to the minimum denominations applicable to interests in the Restricted Notes, as evidenced by the Restricted Global Note and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Restricted Notes, as evidenced by the Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made to a non-US person and in accordance with Regulation S.

Any beneficial interest in the Unrestricted Notes, as evidenced by the relevant Global Note that is transferred to a person who takes delivery in the form of an interest in the Restricted Notes, as evidenced by the Restricted Global Note will, upon transfer, cease to be an interest in the Unrestricted Notes, as evidenced by the relevant Global Note and become an interest in the Restricted Notes, as evidenced by the Restricted Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Restricted Notes, as evidenced by the Restricted Global Note for as long as it remains such an interest. Any beneficial interest in the Restricted Notes, as evidenced by the Restricted Global Note that is transferred to a person who takes delivery in the form of an interest in the Unrestricted Notes, as evidenced by the Unrestricted Global Note will, upon transfer, cease to be an interest in the Restricted Notes, as evidenced by the Restricted Global Note and become an interest in the Unrestricted Notes, as evidenced by the Unrestricted Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Unrestricted Notes, as evidenced by the Unrestricted Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in either the Unrestricted Global Note or the Restricted Global Note will not be

entitled to receive physical delivery of individual Note certificates (the "**Definitive Note Certificates**"). The Notes are not issuable in bearer form.

Exchange

Each Global Note will be exchangeable, in whole but not in part, for Note Certificates if: (i) interests in the relevant Global Note are held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a "clearing agency" registered under the U.S. Securities Exchange Act of 1934 (the "**Exchange Act**") or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent; or (ii) the Issuer has failed to pay an amount in respect of the Notes within five days of the date on which such amount became due and payable in accordance with the Conditions; or (iii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 (*Taxation*) which would not be suffered were the Notes evidenced by Definitive Note Certificates. The Issuer shall notify the holder of the occurrence of any of the events specified in (i), (ii) and (iii) above as soon as practicable thereafter.

Whenever a Global Note is to be exchanged for relevant Definitive Note Certificates in or substantially in the form set out in the relevant schedule to the Trust Deed, such Definitive Note Certificates shall be issued in an aggregate principal amount equal to the principal amount of that Global Note within five business days of the delivery, by or on behalf of (i) the holder, Euroclear and/or Clearstream, Luxembourg (in the case of Definitive Note Certificates representing the Unrestricted Notes); or (ii) the holder and/or DTC (in the case of Definitive Note Certificates representing the Restricted Notes), to the Registrar of (a) such information as is required to complete and deliver such Definitive Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Definitive Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of that Global Note at the specified office (as defined in the Conditions) of the Registrar and (b) in the case of a Restricted Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Such exchange shall be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder or the Trustee, 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 exchange. In this paragraph, "business day" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city in which the Registrar has its specified office.

Legends

The holder of a Definitive Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Definitive Note Certificate bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on such a Definitive Note Certificate, the Issuer will deliver only Definitive Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Notes

For the Unrestricted Global Note and the Restricted Global Note, custodial and depository links have been established between DTC, Euroclear and Clearstream to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading.

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in the Unrestricted Notes directly through Euroclear or Clearstream if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**", and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

References in the Global Note and this summary to Euroclear and/or Clearstream shall be deemed to include references to any other clearing system approved by the Trustee. The address of Euroclear is 1 Boulevard du Roi Albert 11, B 1210 Brussels, Belgium. The address of Clearstream, Luxembourg is L 2967 Luxembourg.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates.

Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Restricted Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Restricted Note as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "– *Exchange*", DTC will surrender the Restricted Global Note for exchange for Definitive Note Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A). The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Amendments to Conditions

In addition, the Global Notes will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Notes. The following is a summary of certain of those provisions:

Notices

Notwithstanding Condition 14 (*Notices*), so long as a Global Note is held on behalf of Euroclear, Clearstream, Luxembourg or DTC or any other clearing system provided such other clearing system is regarded as a recognised clearing system by the Irish Revenue Commissioners (an "**Alternative Clearing System**"), notices to Holders of Notes represented by such Global Note may be given by delivery of the relevant notice to Euroclear, Clearstream or DTC (as the case may be) or such Alternative Clearing System for communication to the relative Accountholders rather than by publication as required by Condition 14 (*Notices*), *provided that,* for so long as the Notes are listed on the Irish Stock Exchange and the guidelines of the Irish Stock Exchange so require, notice will

also be given by filing in the Companies Announcements Office of the Irish Stock Exchange. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream or DTC (as the case may be) or such Alternative Clearing System as aforesaid.

Payment

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to the person who appears on the register of the Noteholders as holder of the Notes represented by a Global Note on the Clearing System Business Day immediately prior to the date of the relevant payment against presentation and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying and Transfer Agent or such other Paying and Transfer Agent as shall have been notified to the relevant Noteholders for such purpose.

Upon any payment of principal or interest on a Global Note the amount so paid shall be endorsed by or on behalf of the Principal Paying Agent on behalf of the Issuer in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes. As used in this paragraph, "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

Meetings

The holder of the Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders.

Trustee Powers

In considering the interests of Noteholders while a Global Note is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its Accountholders with entitlements to such Global Note and may consider such interests as if such Accountholders were the holders of such Global Note.

Prescription

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by a Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 11 (*Prescription*)).

TAXATION

The following is a general description of certain tax laws relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, either in those countries referred to or elsewhere. Prospective purchasers of the Notes are advised to consult their own tax advisors as to the consequences of the purchase, ownership and disposition of the 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 the Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Russian Taxation

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of Notes as well as taxation of interest payments on any corresponding Loan. The summary is based on the laws of Russia in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date (possibly with retroactive effect). The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving Notes. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Nor does the summary seek to address the availability of double tax treaties and the eligibility of double tax treaty relief in respect of any Series of Notes, and it should be noted that there may be practical difficulties, including satisfying certain documentation requirements, involved in claiming and obtaining such double tax treaty relief. Prospective investors should consult their own tax advisers regarding the tax consequences of investing in Notes in their own particular circumstances. No representation with respect to the Russian tax consequences of investing, owning or disposing of the Notes to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty and lack interpretive guidance. Further, the substantive provisions of Russian tax law applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change (possibly with retroactive effect) and inconsistency than in jurisdictions with more developed capital markets or more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

In practice, interpretation by different tax inspectorates may be inconsistent or contradictory and may result in the imposition of conditions, requirements or restrictions not provided for by the existing legislation. Similarly, court rulings on tax or related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a "**Non-Resident Noteholder**" means:

- an individual Noteholder actually present in Russia for an aggregate period of less than 183 calendar days (including days of arrival to Russia and including days of departure from Russia) in any period comprising 12 consecutive months. Presence in Russia for tax residency purposes is not considered interrupted for an individual's short term departure (less than 6 months) from Russia for medical treatment or education. The interpretation of this definition by the Ministry of Finance of the Russian Federation states that for withholding tax purposes an individual's tax residence status should be determined on the date of income payment (based on the number of Russian days in the 12-month period preceding the date of payment). The individual's final tax liability in the Russian Federation for the reporting calendar year should be determined based on the number of days spent in Russia in such calendar year; or
- a legal entity or organisation, in each case not organised under Russian law, which purchases, holds and/or disposes of the Notes otherwise than through a permanent establishment in Russia (as defined by Russian tax law).

A "**Resident Noteholder**" means any Noteholder (including any individual and any legal entity or organisation) who is not a Non-Resident Noteholder.

Russian tax residency rules may be affected by an applicable double tax treaty. Based on published comment of the Russian authorities, it is anticipated that the Russian tax residency rules applicable to legal entities may change in the future.

The Russian tax treatment of interest payments made by CBM to the Issuer (or to the Trustee, as the case may be) under any Loan Agreement may affect the Noteholders. See "– *Taxation of Interest on the Loan*" below.

Taxation of the Notes

Non-Resident Noteholders

Non-Resident Noteholders generally should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Notes received from the Issuer. Subject to what is stated in "*Taxation of interest on the Loan*".

Non-Resident Noteholders also generally should not be subject to any Russian taxes in respect of any gains or other income realised on the Notes (including gains upon redemption, sale or other disposal of the Notes), provided that this income is not considered as being received from a source within Russia.

Taxation of Non-Resident Noteholders – Individuals

Acquisition of the Notes

Since Noteholders who are individuals and considered to be non-residents in Russia are taxable on Russian source income only, generally the acquisition of the Notes by a Non-Resident Noteholder who is an individual should not be considered as taxable income. However, if the transfer of legal title to the Notes takes place in Russia and the acquisition price is below fair market value (calculated under a specific procedure), this may constitute a taxable event pursuant to the provisions of the Russian Tax Code relating to material benefit (deemed income) received by individuals as a result of acquiring securities. In such a case deemed income may be subject to Russian personal income tax. The income to be taxed (subject to any available double tax treaty relief) will be calculated as the difference between the fair market price and the purchase price of the Notes.

Sale or other disposal of the Notes

In general, Non-Resident Noteholders who are individuals are subject to Russian tax on their income from a sale of Notes which takes place in Russia. The income of an individual Non-Resident Noteholder realised from a sale, exchange or disposal of Notes and received from a Russian source will generally be subject to personal income tax at the rate of 30% payable on the gain from such disposal (the gain generally being calculated as the gross proceeds from such disposal less any available cost deduction, including the original purchase price and deemed income taxed on acquisition and tax paid from such deemed income, if any) subject to any available double tax treaty relief.

Since the Russian Tax Code contains no definition of a sale taking place in Russia, there is an inherent risk that, given that a transaction is executed in Russia, and/or a party to the transaction is a Russian resident, the income from the sale of the Notes would be treated as received from a Russian source. In this case the tax payable from the sale of Notes and the payment procedures established for Resident Noteholders will apply. See *"– Resident Noteholders"* above.

If the disposal proceeds are paid by a tax agent (a Russian legal entity or a foreign legal entity carrying out activities in Russia through a permanent establishment which is a licenced broker, asset manager, management company or any other person that carries out operations under an agency agreement, a commission agreement or a brokerage contract), the applicable personal income tax should be withheld at source. If the tax is not withheld, a Non-Resident Noteholder, who is an individual, should file a tax return and pay tax in Russia on his/her own.

The personal income tax rate (including tax withheld at source) may be reduced pursuant to a double taxation treaty between Russia and the tax jurisdiction of the Non-Resident Noteholder. See "– *Tax Treaty Relief"* below.

Taxation of Non-Resident Noteholders – Legal Entities

Acquisition of the Notes

Acquisition of the Notes by Non-Resident Noteholders that are legal entities and organisations should not constitute a taxable event under Russian law. Consequently, the acquisition of the Notes

should not trigger any Russian tax implications for Non-Resident Noteholders that are legal entities and organisations.

Interest on the Notes

Pursuant to the Russian Tax Code, as amended by Law No. 97-FZ, interest income received on the Notes by Non-Resident Noteholders should not be subject to Russian tax with respect to the Notes issued prior to 1 January 2014.

Sale or other disposal of the Notes

Income received by Non-Resident Noteholders that are legal entities from the sale or redemption of Notes should not be subject to Russian tax. However, if a Non-Resident Noteholder sells the Notes after 1 January 2014 and receives sales or other disposal proceeds from a source within Russia, there could be no assurance that the portion of the sales or other disposal proceeds, if any, attributable to interest accrued after 1 January 2014 would not be subject to Russian withholding tax, even if the sale or other disposal results in a loss. In this case, while some Non-Resident Noteholders that are legal entities might be eligible for an exemption from or a reduction in Russian withholding tax based on provisions of the applicable double tax treaties relating to interest income (subject to compliance with the treaty clearance formalities by these Noteholders), there is also no assurance that such exemption or reduction will be available to them in practice, whilst obtaining a refund of Russian income tax withheld at source can be extremely difficult, if not impossible. That said, it cannot be predicted with absolute certainty whether or not the Russian entities remitting sales or disposal proceeds to Non-Resident Noteholders that are legal entities will be willing to follow this approach in practice.

Redemption of the Notes

Non-Resident Noteholders that are legal entities generally should not be subject to any Russian taxes in respect of repayment of principal on the Notes received from the Issuer.

Double Tax Treaty Relief

Where proceeds from the disposal of the Notes are received from a Russian source, in order for the Non-Resident Noteholders, whether an individual, legal entity or organisation, provided it is the beneficial recipient, to receive the benefits of an applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed. Currently a Non-Resident Noteholder that is a legal entity will need to provide the payer of income which is regarded a tax agent with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income. However, the payer of income in practice may request additional documents confirming the entitlement and eligibility of such Non- Resident Noteholder to the benefits of the relevant double tax treaty in relation to income concerned. The certificate should confirm that the respective Non-Resident Noteholder is the tax resident of the relevant double tax treaty country (specifically for the purposes of the applicable double tax treaty). This certificate generally should be apostilled or legalised and needs to be renewed on an annual basis. A notarised Russian translation of the certificate will have to be provided to the person which is regarded a tax agent. Non-Resident Noteholders that are legal entities or organisations should consult their own tax advisers with respect to the possibilities to enjoy any double tax treaty relief and the relevant Russian procedures.

Under Russian domestic tax legislation in order to enjoy benefits of the respective double tax treaty a Non-Resident Noteholder who is an individual will have to provide the Russian tax authorities with (i) a tax residency certificate, issued by the competent authorities of his/her country of tax residence and (ii) a confirmation from the relevant foreign tax authorities on income received and the tax paid by that Non-Resident Noteholder outside Russia in relation to income with respect to which the respective double tax treaty benefits are claimed until 31 December of the year following the reporting year. Such requirements in practice may be imposed even if they directly contradict provisions of the applicable double tax treaty. In practice, these requirements may mean that a Non-Resident Noteholder who is an individual would not be able to rely on any double tax treaty until he or she pays the tax with respect to that income in the jurisdiction of his or her tax residency and may not be able to obtain the advance treaty relief in relation to income derived by them from Russian sources, as it is very unlikely that the supporting documentation required for the treaty relief purposes would be provided to the Russian tax authorities and, consequently, the approval from the latter could be obtained, before the receipt of income by a Non-Resident Noteholder occurs.

Non-Resident Noteholders should consult their own tax advisors with respect to possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of interest income on the Notes or any income received in connection with the acquisition, sale or other disposal of the Notes.

Refund of Tax Withheld

If Russian withholding tax applicable to income derived from Russian sources by a Non-Resident Noteholder that is a legal entity, for which double tax treaty relief is available, was withheld at source, a refund of the tax that was excessively withheld at source is possible by filing a claim with the Russian tax authorities within three years following the year in which the tax was withheld. If Russian personal income tax on income derived from Russian sources by a Non-Resident Noteholder who is an individual for whom double tax treaty relief is available was withheld at source a refund of tax which was excessively withheld is possible by filing a claim with the Russian tax authorities within one year following the year in which the tax was withheld.

Although the Russian Tax Code arguably contains an exhaustive list of documents and information which have to be provided by the Non-Resident Noteholder to the Russian tax authorities for the tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming the right of a Non-Resident Noteholder to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates. In practice a Non-Resident Noteholder when seeking a refund of Russian taxes excessively withheld at source may face similar difficulties as when trying to obtain advance tax relief under the applicable double tax treaties, as discussed above.

Obtaining a refund of Russian income taxes which were excessively withheld at source is likely therefore to be a time consuming process requiring many efforts and no assurance can be given that such refund will be granted to the Non-Resident Noteholders in practice. The Non-Resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain refund of Russian income taxes, which were excessively withheld at source.

Taxation of Interest on the Loan

Under the Russian Tax Code interest payments by a Russian legal entity to a non-resident legal entity made under loan agreements are generally subject to Russian withholding income tax at the rate of 20%, unless such withholding is reduced or eliminated pursuant to an applicable double tax treaty. Calculation and withholding of the tax is performed by an entity which is paying out the income to the recipient. We believe that for the payments due from CBM under the Loan Agreement including, *inter alia*, interest payments CBM should be considered as the tax agent.

However, under the provisions of the Tax Code introduced by the Law No. 97-FZ, interest income payable by Russian organisations on debt obligations that originate from issuance of tradable securities by foreign organisations (as defined be the Tax Code) shall not be subject to withholding of the tax by the tax agent, if the foreign organisation (such as the Issuer) that is the issuer of the securities is resident in a jurisdiction that has an effective double tax treaty with Russia.

Tradable securities mentioned above are defined in the law as securities and other debt obligations listed on a recognized stock exchange and (or) settled through recognized depository-clearing organisations. The list of such recognized institutions should be further approved by the Ministry of Finance. Upon agreement of the list any depository-clearing organisation should be considered as 'recognized'.

Debt obligations of Russian organisations shall be treated as originating from the issuance of tradable securities by the foreign issuer if a direct link to such issuance is contained in the loan agreement between the issuer and the Russian organisation or if such a link is contained in terms of issuance or in a related prospectus, or can be confirmed by actual cash flows at the time of the placement of the securities.

For the withholding tax exemption envisaged by the newly adopted law to apply, the Issuer will have to submit to CBM a confirmation of its tax residence ("**Certificate**") signed (or certified) by (or on behalf of) a competent body of Ireland prior to making an affected payment. This Certificate should be legalised through an apostil by a competent authority and be furnished with a notarised Russian translation. The Certificate should be submitted each calendar year, in each case prior to when the first applicable payment of such calendar year is made irrespective of the number and regularity of such payments.

In the absence of the proper Certificate having been submitted as outlined above, the applicable rate of withholding tax on any interest payments would be 20% under Russian tax legislation. Once the Certificate has subsequently been provided, the tax may be refunded to the Issuer from the tax authorities; however, obtaining such a refund can be extremely difficult, or impossible in practice. The mentioned exemption applies starting from 1 January 2007 to the tradable securities issued until 1 January 2014. Income under the tradable securities issued before 1 January 2014, but with a maturity exceeding that date should be subject to the exemption.

CBM believes that based on the above summarised provisions of the Tax Code the mentioned withholding tax exemption shall apply to the issuance of the Notes, which shall effectively exempt from withholding taxation in Russia interest income payable by CBM to the Issuer and ultimately to the Noteholders connected with the issuance of the Notes.

If interest under the Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the Russia-Ireland Tax Convention will cease and payments of interest may be subject to Russian withholding tax at a rate of 20% (or, potentially, at a rate of 30% in respect to Non-Resident Noteholders who are individuals) or such other rate as may be in force at the time of payment. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty under such circumstances. In such cases, Noteholders may seek a reduction or refund of withholding tax under double taxation treaties entered into between their countries of residence and Russia, where such treaties exist and to the extent they are applicable. There is no assurance that treaty relief will be available.

See *"Risk Factors – Risks Relating to the Issuer, the Loan, the Notes and the Trading Market – Payments on the Loan may be subject to Russian withholding tax"*.

If payments under the Loan are subject to Russian withholding tax (as a result of which the Issuer would reduce payments made under the Notes by the amount of tax withheld), CBM will be obliged (subject to certain conditions) to increase payments under the Loan Agreement as may be necessary so that the net payments received by the Issuer and the Noteholders will be equal to the amounts they would have received in the absence of such withholding. It is currently unclear whether the provisions obliging CBM to gross-up interest payments under the Loan will be enforceable under Russian law. There is a risk that gross-up for withholding tax will not take place and that the interest payments made by CBM under the Loan Agreement will be reduced by the amount of the Russian income tax withheld by CBM at the rate of 20%, or such other rate as may be in force at the time of payment.

If CBM is obliged to increase payments under the Loan Agreement, it may (without premium or penalty), subject to certain conditions, prepay such Loan in full. In such case, all outstanding Notes would each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of the redemption.

Value Added Tax

Russian VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore, no VAT will be payable in Russia in respect of interest and principal payments under each Loan.

Ireland Taxation

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts, etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Withholding Tax

In general, tax at the standard rate of income tax (currently 20%) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

(a) the Notes are Quoted Eurobonds, i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as the Irish, London or Luxembourg Stock Exchanges) and which carry a right to interest; and

(b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:

  (i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or

  (ii) the Noteholder is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and

(c) one of the following conditions is satisfied:

  (i) the Noteholder is resident for tax purposes in Ireland; or

  (ii) the Noteholder is a pension fund, government body or other person (other than a person described in paragraph (c)(iv) below), who is resident in a Relevant Territory (as defined below) and who, under the laws of that territory is exempted from tax that generally applies to profits, income or gains in that territory; or

  (iii) the Noteholder is subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or

  (iv) the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:

    i. from whom the Issuer has acquired assets;

    ii. to whom the Issuer has made loans or advances; or

    iii. with whom the Issuer has entered into a Swap Agreement,

    where the aggregate value of such assets, loans, advances or Swap Agreements represents not less than 75 per cent. of the assets of the Issuer, or

  (v) the Issuer is not aware at the time of the issue of any Notes that any Noteholder of those Notes is (i) a person of the type described in (c)(iv) above AND (ii) is not subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory,

  where for these purposes, the term

"**Relevant Territory**" means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty; and

"**Swap Agreement**" means any agreement, arrangement or understanding that -

(i) provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and

(ii) transfers to a person who is a party to the agreement, arrangement or undertaking, or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in the asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

Thus, so long as the Notes continue to be quoted on the Irish Stock Exchange are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised), and one of the conditions set out in paragraph (c) above is met, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment

is made through a Paying Agent outside Ireland, and one of the conditions set out in paragraph (c) above is met.

Encashment Tax

Irish tax will be required to be withheld at the standard rate of income tax (currently 20%) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA, the recipient is not resident in Ireland and is resident in a Relevant Territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its business are exempt from income tax provided the recipient is not resident in Ireland and is a company which is either resident in a Relevant Territory which imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which is not yet in force but which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a Relevant Territory. Finance Act 2012 extends the foregoing exemption to companies which are under the control, whether directly or indirectly, of person(s) who by virtue of the law of a Relevant Territory are resident for the purpose of tax in a Relevant Territory and are not under the control of person(s) who are not so resident, and to 75% subsidiary companies of a company or companies the principal class of shares in which is substantially and regularly traded on a recognised stock exchange. For these purposes, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless such holder is either resident or ordinarily resident in Ireland or carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 33% (assuming that the measures announced on 5 December 2012 by the Minister for Finance are enacted into law within the relevant statutory time frame) if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland)).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Irish Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

EU Savings Directive on Taxation of Savings Income

Ireland has implemented the EU Savings Directive into national law. Accordingly, any Irish paying agent making an interest payment on behalf of the Issuer to an individual or certain residual entities resident in another Member State of the European Union or certain associated and dependent territories of a Member State will have to provide details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address) to the Irish Revenue Commissioners who in turn are obliged to provide such information to the competent authorities of the state or territory of residence of the individual or residual entity concerned. The Issuer shall be entitled to require Noteholders to provide any information regarding their tax status, identity or residency in order to satisfy the disclosure requirements in the EU Savings Directive and Noteholders will be deemed by their subscription for Notes to have authorised the automatic disclosure of such information by the Issuer or any other person to the relevant tax authorities.

U.S. Taxation

U.S. Federal Income Taxation

The discussion of U.S. tax matters set forth in this Prospectus was written in connection with the promotion or marketing of this offering and was not intended or written to be used, and cannot be used, by any person for the purpose of avoiding tax-related penalties under U.S. federal, state or local tax law. Each taxpayer should seek advice based on its particular circumstances from an independent tax advisor.

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary deals only with purchasers of Notes that are U.S. Holders acquiring Notes in the offering and that will hold the Notes as capital assets (generally, property held for investment). The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local, non-U.S. or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar). This summary also does not address the Medicare levy.

As used herein, the term "**U.S. Holder**" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the

income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes. The U.S. federal income tax treatment of a partner in a partnership that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax adviser concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Notes by the partnership.

The summary is based on the tax laws of the United States including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

U.S. Federal Income Tax Characterisation of the Notes

No authority directly addresses the characterisation of securities like the Notes for U.S. federal income tax purposes and no ruling will be received from the IRS as to the characterisation of the Notes for such purposes. To the extent relevant for U.S. federal income tax purposes, the Issuer intends to treat the Notes as indebtedness for such purposes consistent with their form. It is possible, however, that the Notes could be treated as equity interests in the Issuer, as beneficial ownership interests in the underlying Loan or as other types of financial instruments. No assurance can be given that the IRS will not assert, or a court would not sustain, a position regarding the characterisation of the Notes that is contrary to this discussion. If the Notes were treated as equity interests in the Issuer, U.S. Holders would be treated as owning interests in a passive foreign investment company (or "**PFIC**"), which could have materially adverse tax consequences for a U.S. Holder. Prospective investors should seek advice from their own tax advisors as to the consequences to them of alternative characterisations of the Notes and the possibility that the Notes will be classified as equity interest in a PFIC and the consequences of owning an equity interest in a PFIC. The discussion below assumes that the Notes will be treated as debt for U.S. federal income tax purposes.

Payments of Interest

Interest on a Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. A U.S. Holder will also be required to include any withholding taxes paid, or deemed paid on its behalf as ordinary income. Interest and any additional amount paid by the Issuer on the Notes generally will constitute income from sources outside the United States.

Prospective purchasers should consult their tax advisors concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes or the Loan.

Sale and Retirement of Notes

A U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. A U.S. Holder's tax basis in a Note will generally be its cost. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Gain or loss recognised on the sale or retirement of a Note will generally be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the Notes exceeds one year. Long term capital gain is taxable to non-corporate U.S. Holders at preferential rates, subject to certain limitations. The ability of U.S. Holders to use capital losses is subject to limitations.

Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source income or loss. Consequently, if non-U.S. tax is imposed on such gain, the U.S. holder will not be able to use the corresponding foreign tax credit, unless the holder has other foreign-source income of the appropriate type in respect of which the credit may be used. The U.S. foreign tax

credit rules are very complex. U.S. Holders should consult their tax advisors with respect to the application of the foreign tax credit rules to their particular circumstances.

Substitution of the Issuer

Under certain circumstances described in the section "*Terms and Conditions of the Notes – 10 Meetings of Noteholders; Modification; Waiver; Substitution of the Lender – Substitution*," the Issuer's obligations under the Notes and the Trust Deed may be assumed by another person. An assumption by another person of the Issuer's obligations under the Notes and the Trust Deed might be deemed for U.S. federal income tax purposes to be an exchange by a holder of the Notes for new notes, resulting in recognition of gain or loss for such purposes and possibly other adverse tax consequences to the holder. U.S. Holders should consult their own tax advisors regarding the tax consequences of such an assumption.

Backup Withholding and Information Reporting

In general, payments of interest and the proceeds of the sale or retirement of, the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

Certain U.S. Holders may be required to report to the IRS information with respect to their investment in Notes not held through an account with a domestic financial institution. U.S. Holders should consult their own tax advisors regarding any reporting obligations they may have as a result of their acquisition, ownership or disposition of Notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

SUBSCRIPTION AND SALE

Subscription Agreement

Pursuant to the terms and conditions set forth in a subscription agreement dated 29 January 2013 (the "**Subscription Agreement**"), Barclays Bank PLC, Merrill Lynch International, Raiffeisen Bank International AG and The Royal Bank of Scotland plc have, severally and not jointly, agreed with the Issuer, subject to the satisfaction of certain conditions set forth therein, to subscribe and pay for the Notes at the issue price of 100%, of the principal amount of the Notes. Each of the Joint Lead Managers has agreed severally and not jointly, to purchase from the Issuer, the principal amount of Notes set forth opposite its name below.

Initial Purchaser	Principal Amount of Notes
Barclays Bank PLC	US$125,000,000
Merrill Lynch International	US$125,000,000
Raiffeisen Bank International AG	US$125,000,000
The Royal Bank of Scotland plc	US$125,000,000
Total	**US$500,000,000**

The Issuer and CBM have agreed in the Subscription Agreement to indemnify the Joint Lead Managers against certain liabilities.

Commissions

CBM has agreed to pay the Facility Fee to the Issuer in consideration for the Issuer agreeing to advance the Loan. From the Facility Fee, the Issuer has agreed to pay certain commissions, fees, costs and expenses in connection with the offering of the Notes and to reimburse the Joint Lead Managers and the Trustee for certain of their expenses in connection with the offering of the Notes. The Joint Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Issuer.

To the extent permitted by local law, the Joint Lead Managers and the Issuer have agreed that commissions may be offered to certain brokers, financial advisors and other intermediaries based upon the amount of investment in the Notes purchased by such intermediary and/or its customers. Each such intermediary is required by law to comply with any disclosure and other obligations related thereto, and each customer of any such intermediary is responsible for determining for itself whether an investment in the Notes is consistent with its investment objectives.

Settlement

The Issuer expects that the delivery of the Notes will be made to investors on or about 1 February 2013, which will be the fifth business day following the date of this Pricing Term Sheet (such settlement being referred to as "T+5"). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes prior to the delivery of the Notes hereunder will be required, by virtue of the fact that the Notes initially settle in T+5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their date of delivery hereunder should consult their advisers.

Broker Dealer Affiliates

The Issuer has agreed and acknowledged that the Joint Lead Managers may make offers and sales into the United States through their U.S. registered broker dealer affiliates in order to fulfil their obligations under the Subscription Agreement and to ensure compliance with U.S. securities laws and regulation with respect to U.S. investors.

Other Relationships

The Joint Lead Managers and their affiliates have engaged in, and may in the future engage in, investment banking, financial advisory, consulting, commercial banking and other commercial dealings in the ordinary course of business with the Issuer, CBM or their respective affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

The Joint Lead Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, CBM or their respective affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer, CBM or their respective affiliates routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the securities of the Issuer, CBM or their respective affiliates, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act 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, or in a transaction not subject to the registration requirements of, the Securities Act. Accordingly, the Notes are being offered and sold only (1) to QIBs in reliance on Rule 144A that are also QPs and (2) to non-U.S. persons, as defined in Regulation S, outside the United States in reliance on Regulation S.

Each of the Joint Lead Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the "**distribution compliance period**") within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) 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 substantially to the following effect:

"The Notes covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S or Rule 144A under the Securities Act. Terms used above have the meanings given to them by Regulation S."

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

The Subscription Agreement provides that the Joint Lead Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States pursuant to Rule 144A only to persons whom they reasonably believe are QIBs and QPs who can represent that (a) they are QIBs within the meaning of Rule 144A who are also QPs within the meaning of Section 2(a)(51) of the Investment Company Act, (b) they are not broker-dealers who own and invest on a discretionary basis less than US$25 million in securities of unaffiliated issuers, (c) they are not a participant-directed employee plan, such as a 401(k) plan, (d) they are acting for their own account, or the account of one or more QIBs each of which is also a QP, (e) they are not formed for the purpose of investing in the Issuer or the Notes, (f) each account for which they are purchasing will hold and transfer at least US$200,000 in principal amount of Notes at any time, (g) they understand that the Issuer may receive a list of participants holding positions in its securities

from one or more book-entry depositaries, and (h) they will provide notice of the transfer restrictions set forth in this Prospectus to any subsequent transferees.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Joint Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Joint Lead Managers; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State. The expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

United Kingdom

Each of the Joint Lead Managers has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Austria

No prospectus has been or will be approved and/or published pursuant to the Austrian Capital Markets Act *(Kapitalmarktgesetz)* as amended. Neither this document nor any other document connected therewith constitutes a prospectus according to the Austrian Capital Markets Act and neither this document nor any other document connected therewith may be distributed, passed on or disclosed to any other person in Austria, save as specifically agreed with the Joint Lead Managers. Each of the Joint Lead Managers has represented and agreed that it will offer the Notes in Austria only in compliance with the provisions of the Austrian Capital Markets Act and all other laws and regulations in Austria applicable to the offer and sale of the Notes in Austria.

Hong Kong

Each of the Joint Lead Managers has represented, warranted and agreed that:

This Prospectus has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong.

No person may offer or sell in Hong Kong, by means of any document, any Notes other than

(a) to "**professional investors**" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or

(b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance.

No person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "**professional investors**" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Ireland

Each of the Joint Lead Managers has agreed that:

(a) it will not underwrite the issue of or place the Notes, otherwise than in conformity with the provisions of the Irish European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) (as amended), including without limitation, Regulations 7 and 152 thereof or any codes of conduct used in connection therewith and the provisions of the Investors Compensation Act 1998;

(b) it will not underwrite the issue of or place the Notes, otherwise than in conformity with the provisions of the Companies Acts 1963-2012 (as amended), the Central Bank Acts 1942-2011 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;

(c) it will not underwrite the issue of, or place or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and any rules issued under Section 51 of the Irish Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Central Bank of Ireland; and

(d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/ EC) Regulations 2005 (as amended) and any rules issued under Section 34 of the Irish Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank of Ireland.

Russian Federation

Each of the Joint Lead Managers has represented and agreed that it has not offered or sold or transferred or otherwise disposed of, and will not offer or sell or transfer or otherwise dispose of, any Notes (as part of their initial distribution or at any time thereafter) to, or for the benefit of, any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation, or to any person located within the territory of the Russian Federation, unless and to the extent otherwise permitted under Russian law.

Singapore

Each of the Joint Lead Managers has represented, warranted and agreed that:

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore (the "**MAS**") under the Securities and Futures Act, Chapter 289 of Singapore (the "**Securities and Futures Act**"). Accordingly, the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of such Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person, or any person pursuant to Section 275(1 A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following relevant persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased Notes, namely a person who is:

(i) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes under Section 275 of the Securities and Futures Act except:

(A) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act;

(B) where no consideration is given for the transfer; or

(C) by operation of law.

Switzerland

Each of the Joint Lead Managers has severally and not jointly represented, warranted and agreed that:

This Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes described therein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Prospectus nor any other offering or marketing material relating to the offering nor the Issuer, nor CBM nor the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, e.g., Swiss Financial Markets Supervisory Authority FINMA, and investors in the Notes will not benefit from protection or supervision by such authority.

General

Each of the Joint Lead Managers has agreed, severally and not jointly, that it has (to the best of its knowledge and belief) complied and will comply with all applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or CBM.

No action has been taken or will be taken in any jurisdiction by the Issuer, CBM or the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes or possession or distribution of the Prospectus of any other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Accordingly, each of the Joint Lead Managers has, severally and not jointly, undertaken to the Issuer and CBM 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.

Persons into whose possession this Prospectus comes are required by the Issuer, CBM and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

1. *Clearing Systems*

The Notes are expected to be accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg. The Common Code and ISIN of the Unrestricted Global Notes are 087910555 and XS0879105558 respectively. The Common Code, CUSIP Number and ISIN of the Restricted Global Notes are 087946762, 12504PAA8 and US12504PAA84 respectively.

2. *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. It is expected that admission of the Notes to trading will be granted on or before the next working day after the Closing Date.

3. *Authorisations*

The Issuer and CBM have obtained all necessary consents, approvals and authorisations in Ireland and Russia, respectively, in connection with the issue and performance of the Notes and the making of the Loan. The issue of the Notes and the execution and performance of the Loan Agreement and the other documents to be entered into by the Issuer in relation to the issue of the Notes have been authorised by the Board of Directors of the Issuer on 28 January 2013. The execution and performance of the Loan Agreement and the other documents to be entered into by CBM in relation to the transaction have been authorised by a resolution of the Supervisory Board of CBM dated 11 January 2013.

4. *Consents*

No consents, approvals or orders of any regulatory authorities are required by the Issuer under the laws of Ireland for the maintenance of and performance of its obligations under the Loan and for the issue of and performance of its obligations under the Notes.

5. *Material Adverse Change*

There has been no significant change in the financial or trading position of CBM (or of CBM together with its subsidiaries) since 30 September 2012 and no material adverse change in the prospects of CBM (or of CBM together with its subsidiaries) since 31 December 2011. There has been no significant change and/or material adverse change in the financial or trading position or prospects of the Issuer since 31 December 2011. The Issuer has no subsidiaries.

6. *Litigation*

There are no, and have not been, any governmental, legal or arbitration proceedings that may have or have had during the twelve months before the date of this Prospectus a significant effect on the financial position or profitability of CBM (or of CBM together with its subsidiaries), nor, so far as CBM is aware, are any such proceedings pending or threatened. There are no, and have not been, any governmental, legal or arbitration proceedings that may have or have had during the twelve months before the date of this Prospectus a significant effect on the financial position or profitability of the Issuer, nor, so far as the Issuer is aware, are any such proceedings pending or threatened.

7. *Auditors*

ZAO KPMG have audited, and rendered unqualified audit reports on, the Annual Financial Statements of CBM and have reviewed and rendered a review report on the Interim Financial Statements of CBM.

KPMG have audited and rendered unqualified audit reports on, the audited financial statements of the Issuer.

8. *No Other Contracts*

Neither CBM nor the Issuer has entered into contracts outside the ordinary course of business and which could result in any member of CBM or the Issuer becoming subject to an obligation or entitlement that would be material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes or CBM's ability to meet its obligations under the Loan Agreement.

9. *Documents on Display*

For so long as any of the Notes are outstanding, physical or electronic copies (and certified English translations where documents at issue are not in English) of the following documents may be inspected at the offices of the Principal Paying Agent in London and the registered office of the Issuer during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted):

(a) a copy of this Prospectus along with any supplement to this Prospectus;

(b) the Memorandum and Articles of Association of the Issuer;

(c) the Charter of CBM;

(d) the Interim Financial Statements, the 2011 Annual Financial Statements, the 2010 Annual Financial Statements, the 2009 Annual Financial Statements and the Directors report and audited financial statements of the Issuer dated 31 December 2011, 31 December 2010 and 31 December 2009;

(e) the reports of ZAO KPMG in respect of the audited financial statements and the interim financial statements of CBM;

(f) the reports of KPMG in respect of the audited financial statements of the Issuer;

(g) the Trust Deed;

(h) the Loan Agreement; and

(i) the Agency Agreement.

10. *Yield*

The yield to maturity on the Notes is 7.70% per annum. This calculation is based on the coupon rate, length of time to maturity and market price. It assumes that the interest paid over the life of the Notes is reinvested at the same rate.

11. *Interests in the Issue of the Notes*

Save for the fees payable to the Joint Lead Managers, the Trustee and the Agents, so far as CBM and the Issuer are aware no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.

12. *Listing Agent*

Arthur Cox Listing Services Limited is acting solely in its capacity as Listing Agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List or trading on the regulated market of the Irish Stock Exchange for the purpose of the Prospectus Directive.

13. *Websites*

Any reference to websites in this Prospectus is for information purposes only and such websites shall not form part of this Prospectus.

14. *Expenses*

The estimated expenses associated with the admission to trading of the Notes on the regulated market of the ISE are expected to be approximately €5,000.

15. *Post-Issuance Information*

Neither the Issuer nor CBM intends to provide any post-issuance information.

INDEX TO FINANCIAL STATEMENTS

Consolidated Interim Condensed Financial Information of CBM as at and for the nine month period ended 30 September 2012 . . . . . F-2
Review Report F-4
Consolidated Interim Condensed Statement of Comprehensive Income F-5
Consolidated Interim Condensed Statement of Financial Position F-6
Consolidated Interim Condensed Statement of Cash Flows. F-7
Consolidated Interim Condensed Statement of Changes in Equity. F-8
Notes to the Consolidated Interim Condensed Financial Information F-9

Consolidated Financial Statements of CBM as at and for the year ended 31 December 2011 F-33
Independent Auditor's Report F-35
Consolidated Statement of Comprehensive Income F-36
Consolidated Statement of Financial Position F-37
Consolidated Statement of Cash Flows. F-38
Consolidated Statement of Changes in Equity F-40
Notes to the Consolidated Financial Statements F-41

Consolidated Financial Statements of CBM as at and for the year ended 31 December 2010 F-99
Independent Auditor's Report F-101
Consolidated Statement of Comprehensive Income F-102
Consolidated Statement of Financial Position F-103
Consolidated Statement of Cash Flows. F-104
Consolidated Statement of Changes in Equity F-106
Notes to the Consolidated Financial Statements F-107

Consolidated Financial Statements of CBM as at and for the year ended 31 December 2009 F-167
Independent Auditor's Report F-169
Consolidated Statement of Comprehensive Income F-170
Consolidated Statement of Financial Position F-171
Consolidated Statement of Cash Flows. F-172
Consolidated Statement of Changes in Equity F-174
Notes to the Consolidated Financial Statements F-175

CREDIT BANK OF MOSCOW
(open joint-stock company)

Consolidated Interim Condensed
Financial Statements
for the nine-month period
ended 30 September 2012

Contents

Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Information 3
Consolidated Interim Condensed Statement of Comprehensive Income 4
Consolidated Interim Condensed Statement of Financial Position 5
Consolidated Interim Condensed Statement of Cash Flows 6
Consolidated Interim Condensed Statement of Changes in Equity 7
Notes to the Consolidated Interim Condensed Financial Statements 8
1 Background 8
2 Basis of preparation 9
3 Significant accounting policies 10
4 Net interest income 10
5 Fee and commission income 11
6 Salaries, employment benefits and administrative expenses 11
7 Income taxes 12
8 Cash and cash equivalents 12
9 Due from credit institutions 13
10 Financial instruments at fair value through profit or loss 14
11 Available-for-sale securities 14
12 Loans to customers 15
13 Deposits by credit institutions 23
14 Deposits by customers 23
15 Debt securities issued 23
16 Share capital 24
17 Commitments 24
18 Contingencies 24
19 Related party transactions 25
20 Capital management 26
21 Analysis by segment 28
22 Events subsequent to the reporting date 31

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Independent Auditors' Report on review of Consolidated Interim Condensed Financial Information

To the Management of Credit Bank of Moscow (open joint-stock company)

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of Credit Bank of Moscow (open joint-stock company) as at 30 September 2012, and the related consolidated interim condensed statements of comprehensive income for the three- and nine-month periods ended 30 September 2012 and the related consolidated interim condensed statements of changes in equity and cash flows for the nine-month period ended 30 September 2012, and notes to the interim financial information (the consolidated interim condensed financial information). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 September 2012 and for the three- and the nine-month periods then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

ZAO KPMG

ZAO KPMG
23 November 2012

ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a subsidiary of KPMG Europe LLP, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

	Notes	Nine-Month Period Ended 30 September 2012 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2011 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2012 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2011 RUB'000 (Unaudited)
Interest income	4	20 424 967	14 791 150	7 398 774	5 555 562
Interest expense	4	(11 582 206)	(8 824 609)	(4 078 604)	(3 463 098)
Net interest income	4	**8 842 761**	**5 966 541**	**3 320 170**	**2 092 464**
Provision for impairment of loans	12	(1 715 400)	(1 120 418)	(692 226)	(306 448)
Net interest income after provision for impairment		**7 127 361**	**4 846 123**	**2 627 944**	**1 786 016**
Fee and commission income	5	2 799 950	1 864 315	1 057 438	725 636
Net gain (loss) on financial instruments at fair value through profit or loss		215 288	(962 651)	211 363	(1 021 571)
Net realized gain (loss) on available-for-sale securities		15 660	43 702	15 018	(109)
Foreign exchange (losses) gains, net		(106 647)	381 326	(114 090)	212 991
Other operating income		345 293	197 628	197 842	89 543
Non-interest income		**3 269 544**	**1 524 320**	**1 367 571**	**6 490**
Salaries and employment benefits	6	(2 538 726)	(1 527 576)	(847 523)	(552 699)
Administrative expenses	6	(1 774 608)	(1 244 919)	(668 520)	(497 591)
Provision for impairment of other assets and credit related commitments		(262 688)	(72 943)	(64 663)	64 434
Depreciation of property and equipment		(260 381)	(169 281)	(93 971)	(59 963)
Fee and commission expense		(283 352)	(125 054)	(104 593)	(51 052)
State deposit insurance scheme contributions		(270 364)	(189 464)	(92 689)	(73 208)
Other operating expenses		(283 009)	(97 490)	(94 586)	(4 488)
Non-interest expense		**(5 673 128)**	**(3 426 727)**	**(1 966 545)**	**(1 174 567)**
Income before income taxes		**4 723 777**	**2 943 716**	**2 028 970**	**617 939**
Income taxes	7	(961 347)	(587 254)	(419 032)	(120 236)
Net income		**3 762 430**	**2 356 462**	**1 609 938**	**497 703**
Other comprehensive income					
Revaluation reserve for available-for-sale securities					
- Net change in fair value		98 260	(184 282)	79 597	(127 781)
- Net change in fair value transferred to profit or loss		(41 116)	45 412	(47 649)	(17)
Income taxes related to other comprehensive income		(11 429)	27 774	(6 389)	25 560
Other comprehensive income (loss) for the period, net of income taxes		**45 715**	**(111 096)**	**25 559**	**(102 238)**
Comprehensive income for the period		**3 808 145**	**2 245 366**	**1 635 497**	**395 465**

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

The consolidated interim condensed statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements.

	Notes	30 September 2012 RUB'000 (Unaudited)	31 December 2011 RUB'000
ASSETS			
Cash and cash equivalents	8	25 557 226	34 433 419
Obligatory reserves with the Central Bank of the Russian Federation		2 489 994	2 259 170
Due from credit institutions	9	12 530 174	5 301 412
Financial instruments at fair value through profit or loss	10	21 123 909	22 783 760
Available-for-sale securities	11	6 190 115	2 030 678
Loans to customers	12	204 345 925	159 019 821
Property and equipment		5 340 485	4 969 932
Other assets		1 667 772	1 572 561
Total assets		**279 245 600**	**232 370 753**
LIABILITIES AND EQUITY			
Deposits by the Central Bank of the Russian Federation		3 005 943	-
Deposits by credit institutions	13	31 593 690	24 964 128
Deposits by customers	14	164 592 962	146 690 886
Debt securities issued	15	38 036 746	31 118 869
Deferred tax liability		2 427 071	2 074 397
Current tax liability		-	15 870
Other liabilities		2 951 214	1 898 697
Total liabilities		**242 607 626**	**206 762 847**
Equity			
Share capital	16	13 539 763	11 638 088
Additional paid-in capital		9 019 295	3 699 047
Revaluation surplus for buildings		500 424	500 424
Revaluation reserve for available-for-sale securities		(7 302)	(53 017)
Retained earnings		13 585 794	9 823 364
Total equity		**36 637 974**	**25 607 906**
Total liabilities and equity		**279 245 600**	**232 370 753**
Commitments and Contingencies	17-18		

The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements.

	Notes	Nine-Month Period Ended 30 September 2012 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2011 RUB'000 (Unaudited)
Net cash used in operations		**(16 845 000)**	**(22 499 907)**
Net cash (used in) from investing activities		**(4 651 390)**	**1 448 635**
Net cash from financing activities		**12 851 890**	**15 394 189**
Effect of exchange rates changes on cash and cash equivalents		(231 693)	286 319
Change in cash and cash equivalents		**(8 876 193)**	**(5 370 764)**
Cash and cash equivalents, beginning of the period		34 433 419	23 336 426
Cash and cash equivalents, end of the period	8	**25 557 226**	**17 965 662**

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements.

	Share capital	Additional paid-in capital	Revaluation surplus for buildings	Revaluation reserve for available-for-sale securities	Retained earnings	Total equity
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
1 January 2011	**7 138 088**	**162 686**	**500 424**	**28 067**	**5 937 830**	**13 767 095**
Total comprehensive income for the period (unaudited)	-	-	-	(111 096)	2 356 462	2 245 366
Transactions with owners, recorded directly in equity						
Shares issued (unaudited)	4 500 000	-	-	-	-	4 500 000
Contribution from the ultimate shareholder (net of deferred tax of RUB 884 090 thousand) (note 16) (unaudited)	-	3 536 361	-	-	-	3 536 361
Total transactions with owners, recorded directly in equity (unaudited)	4 500 000	3 536 361	-	-	-	8 036 361
30 September 2011 (unaudited)	**11 638 088**	**3 699 047**	**500 424**	**(83 029)**	**8 294 292**	**24 048 822**
1 January 2012	**11 638 088**	**3 699 047**	**500 424**	**(53 017)**	**9 823 364**	**25 607 906**
Total comprehensive income for the period (unaudited)	-	-	-	45 715	3 762 430	3 808 145
Transactions with owners, recorded directly in equity						
Shares issued (unaudited)	1 901 675	3 860 400	-	-	-	5 762 075
Contribution from the ultimate shareholder (net of deferred tax of RUB 364 962 thousand) (note 16) (unaudited)	-	1 459 848	-	-	-	1 459 848
Total transactions with owners, recorded directly in equity (unaudited)	1 901 675	5 320 248	-	-	-	7 221 923
30 September 2012 (unaudited)	**13 539 763**	**9 019 295**	**500 424**	**(7 302)**	**13 585 794**	**36 637 974**

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements.

1 Background

Principal activities

These consolidated interim condensed financial statements include the financial statements of CREDIT BANK OF MOSCOW (open joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was formed on 5 August 1992 as an open joint-stock company, then re-registered as a closed joint-stock company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganized as an open joint-stock company. The Bank's registered legal address is 2 (bldg. 1) Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central Bank of the Russian Federation, granted on 20 January 2000. In December 2004 the Bank was admitted to the Central Bank of Russia program for individual deposit insurance. The Bank is among the 20 largest banks in Russia by total assets and runs its business in Moscow and the Moscow region with a branch network comprising 61 branches, and ATMs and payment terminals totalling 672 and 4175 items, respectively.

The principal subsidiaries of the Group are as follows:

				Degree of control, %	
Name	**Date of incorporation**	**Country of incorporation**	**Principal activities**	**30 September 2012**	**31 December 2011**
CBOM Finance p.l.c.	17 Aug 2006	Ireland	Raising finance	100%	100%
MKB-Invest	4 June 2007	Russia	Transactions with securities	100%	100%
MKB-Leasing	20 Sep 2005	Russia	Finance leasing	100%	100%

The Bank does not have any direct or indirect shareholdings in the subsidiaries noted above. CBOM Finance p.l.c. was established to raise capital by the issue of debt securities and to use an amount equal to the proceeds of each such issuance to advance loans to the Bank. MKB-Invest and MKB-Leasing are controlled by the Group through option agreements.

Shareholders

On 24 August 2012 there was an additional share issue. As a result the stake of Concern Rossium, former sole shareholder, reduced to 85% and European Bank for Reconstruction and Development (EBRD) and International Finance Corporation (IFC) each acquired 7.5% of the total number of the Bank's outstanding voting shares.

The members of the Supervisory Board are as follows:

Supervisory Board

Sandy Vaci	Chairman
Richard Damien Glasspool	Member
Genadi Lewinski	Member
Andrew Sergio Gazitua	Member
Mustafa Boran	Member
Roman I. Avdeev	Member
Alexander N. Nikolashin	Member
Anton R. Avdeev	Member
Nikolay V. Kosarev	Member
Vladimir A. Chubar	Member

Related party transactions are detailed in note 19.

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. The consolidated interim condensed 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 interim condensed financial statements are prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full financial statements, and should be read in conjunction with the consolidated financial statements as at and for the year ended 31 December 2011, as these consolidated interim condensed financial statements provide an update of previously reported financial information.

Basis of measurement

The consolidated interim condensed financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated interim condensed financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3 Significant accounting policies

The accounting policies applied by the Group in the preparation of these consolidated interim condensed financial statements are consistent with those applied by the Group in the consolidated financial statements for the year ended 31 December 2011.

Certain improvements to IFRS became effective from 1 January 2012 and have been adopted by the Group since that date. These changes do not have a significant effect on the consolidated interim condensed financial statements.

4 Net interest income

	Nine-Month Period Ended 30 September 2012 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2011 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2012 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2011 RUB'000 (Unaudited)
Interest income				
Loans to customers	17 630 867	12 386 624	6 523 372	4 723 695
Financial instruments at fair value through profit or loss and available-for-sale securities	2 276 759	2 227 068	672 307	753 382
Due from credit institutions and the Central Bank of the Russian Federation	517 341	177 458	203 095	78 485
	20 424 967	**14 791 150**	**7 398 774**	**5 555 562**
Interest expense				
Deposits by customers	(8 303 701)	(5 703 565)	(2 789 379)	(2 287 279)
Debt securities issued	(2 121 100)	(2 110 350)	(800 297)	(861 616)
Deposits by credit institutions and the Central Bank of the Russian Federation	(1 157 405)	(1 010 694)	(488 928)	(314 203)
	(11 582 206)	**(8 824 609)**	**(4 078 604)**	**(3 463 098)**
Net interest income	**8 842 761**	**5 966 541**	**3 320 170**	**2 092 464**

5 Fee and commission income

	Nine-Month Period Ended 30 September 2012 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2011 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2012 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2011 RUB'000 (Unaudited)
Cash collection delivery	709 192	530 318	262 188	195 838
Settlements and wire transfers	622 689	529 073	218 358	213 927
Guarantees and letters of credit	620 334	359 944	216 442	134 097
Insurance contracts processing	477 437	152 457	236 434	80 411
Plastic cards	245 904	183 186	80 308	68 577
Other cash operations	92 306	68 945	34 133	21 972
Other	32 088	40 392	9 575	10 814
Fee and commission income	**2 799 950**	**1 864 315**	**1 057 438**	**725 636**

6 Salaries, employment benefits and administrative expenses

	Nine-Month Period Ended 30 September 2012 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2011 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2012 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2011 RUB'000 (Unaudited)
Salaries	2 024 431	1 191 470	686 200	448 565
Social security costs	490 065	318 835	152 810	97 934
Other	24 230	17 271	8 513	6 200
Salaries and employment benefits	**2 538 726**	**1 527 576**	**847 523**	**552 699**
Occupancy	634 433	373 607	206 316	156 775
Advertising and business development	366 409	274 296	180 397	99 962
Operating taxes	314 978	234 280	120 223	115 922
Security	154 560	119 151	54 884	40 627
Property maintenance	136 259	110 317	45 310	28 397
Transport	42 212	28 032	14 998	10 721
Communications	36 489	34 863	13 916	12 699
Computer maintenance and software expenses	31 771	35 496	18 274	13 958
Other	57 497	34 877	14 202	18 530
Administrative expenses	**1 774 608**	**1 244 919**	**668 520**	**497 591**

7 Income taxes

	Nine-Month Period Ended 30 September 2012 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2011 RUB'000 (Unaudited)
Current tax charge	1 015 800	229 973
Deferred taxation	(54 453)	357 281
Income tax expense	**961 347**	**587 254**

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The income tax rate for the Bank is 20% (2011: 20%).

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

	Nine-Month Period Ended 30 September 2012 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2011 RUB'000 (Unaudited)
Income before tax	4 723 777	2 943 716
Applicable statutory tax rate	20%	20%
Income tax using the applicable tax rate	944 755	588 743
Income taxed at lower rates	(26 006)	(34 049)
Non-deductible costs	42 598	32 560
Income tax expense	**961 347**	587 254

8 Cash and cash equivalents

	30 September 2012 RUB'000 (Unaudited)	31 December 2011 RUB'000
Cash on hand	6 895 797	7 235 147
Correspondent account with the Central Bank of the Russian Federation	7 220 141	7 369 693
Nostro accounts with other banks		
rated from AA+ to AA-	339 459	844 958
rated from A+ to A-	1 846 322	697 121
rated from BBB+ to BBB-	248 874	1 876 423
rated from BB+ to BB-	3 446	5 504
rated from B+ to B-	25 418	183 608
not rated	605 400	1 719 034
Total nostro accounts with other banks	**3 068 919**	**5 326 648**

	30 September 2012 RUB'000 (Unaudited)	31 December 2011 RUB'000
Due from credit institutions with maturity of less than 1 month		
rated from AA+ to AA-	-	1 337 973
rated A- to A+	4 529 669	-
rated from BBB+ to BBB-	-	9 729 891
rated from BB+ to BB-	1 672 872	-
rated from B+ to B-	1 550 126	1 932 050
not rated	619 702	1 502 017
Total due from credit institutions with maturity of less than 1 month	**8 372 369**	**14 501 931**
Total cash and cash equivalents	**25 557 226**	**34 433 419**

Ratings are based on Standard & Poor's rating system.

None of cash and cash equivalents are impaired or past due.

The correspondent account with the Central Bank of the Russian Federation represents balances held with the Central Bank of Russia related to settlement activity, and is available for withdrawal at period end.

Settlements with stock exchanges are included in not rated nostro accounts in the amount of RUB 577 536 thousand as at 30 September 2012 (31 December 2011: RUB 1 271 352 thousand).

9 Due from credit institutions

	30 September 2012 RUB'000 (Unaudited)	31 December 2011 RUB'000
Term deposits		
rated from A+ to A-	-	30 586
rated from BBB+ to BBB-	-	2 841 567
rated from BB+ to BB-	1 569 456	-
rated from B+ to B-	6 047 837	1 620 332
not rated	4 912 881	808 927
Total due from credit institutions	**12 530 174**	**5 301 412**

None of due from credit institutions are impaired or past due.

10 Financial instruments at fair value through profit or loss

	30 September 2012 RUB'000 (Unaudited)	31 December 2011 RUB'000
Held by the Bank		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	5 066 300	9 286 846
Moscow Government bonds	460 621	927 144
Regional authorities and municipal bonds	357 405	372 780
Russian Government Eurobonds	47	1 789 318
Corporate bonds		
from BBB+ to BBB-	4 079 514	4 007 920
from BB+ to BB-	4 077 599	2 101 783
from B+ to B-	6 339 014	3 213 814
from CCC+ to CCC-	-	52 618
not rated	743 390	1 031 514
Equity investments	19	23
Total financial instruments at fair value through profit or loss	**21 123 909**	**22 783 760**

None of financial instruments at fair value through profit or loss are impaired or past due.

As at 30 September 2012 debt instruments in the amount of RUB 18 982 979 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2011: RUB 20 225 639 thousand).

11 Available-for-sale securities

	30 September 2012 RUB'000 (Unaudited)	31 December 2011 RUB'000
Held by the Bank		
Government and municipal bonds		
Regional authorities and municipal bonds	10 490	10 277
Corporate bonds		
from BBB+ to BBB-	1 158 483	410 734
from BB+ to BB-	2 363 356	385 133
from B+ to B-	493 230	1 017 580
not rated	60 097	179 948
Promissory notes		
from BBB+ to BBB-	887 376	-
from BB+ to BB-	365 016	-
from B+ to B-	502 531	-
Equity investments	27 506	27 006
Total available-for-sale securities held by the Bank	**5 868 085**	**2 030 678**

	30 September 2012 RUB'000 (Unaudited)	31 December 2011 RUB'000
Pledged under sale and repurchase agreements		
Corporate bonds		
from BB+ to BB-	322 030	-
Total available-for-sale securities pledged under sale and repurchase agreements	**322 030**	**-**
Total available-for-sale securities	**6 190 115**	**2 030 678**

None of available-for-sale securities are impaired or past due.

As at 30 September 2012 debt instruments in the amount of RUB 2 329 239 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2011: RUB 371 884 thousand).

12 Loans to customers

	30 September 2012 RUB'000 (Unaudited)	30 September 2012 RUB'000 (Unaudited)	31 December 2011 RUB'000	31 December 2011 RUB'000
	Loans	**Impairment allowance**	**Loans**	**Impairment allowance**
Loans to corporate clients	**165 446 878**	**(3 239 785)**	**132 844 258**	**(2 624 407)**
Loans to individuals				
Auto loans	9 690 766	(42 283)	6 175 018	(23 778)
Mortgage loans	9 308 096	(280 583)	7 661 002	(261 229)
Consumer loans	24 812 950	(1 350 114)	16 021 975	(773 018)
Total loans to individuals	**43 811 812**	**(1 672 980)**	**29 857 995**	**(1 058 025)**
Gross loans to customers	**209 258 690**	**(4 912 765)**	**162 702 253**	**(3 682 432)**
Net loans to customers	**204 345 925**		**159 019 821**	

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 30 September 2012:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000 (Unaudited)	RUB'000 (Unaudited)	RUB'000 (Unaudited)	% (Unaudited)
Loans to customers				
- Not past due	205 565 056	(3 105 694)	202 459 362	1.5%
- Overdue less than 31 days	781 923	(149 413)	632 510	19.1%
- Overdue 31-60 days	197 386	(87 174)	110 212	44.2%
- Overdue 61-90 days	145 190	(85 703)	59 487	59.0%
- Overdue 91-180 days	673 867	(366 079)	307 788	54.3%
- Overdue 181-360 days	742 971	(555 220)	187 751	74.7%
- Overdue more than 360 days	1 152 297	(563 482)	588 815	48.9%
Total loans to customers	**209 258 690**	**(4 912 765)**	**204 345 925**	**2.3%**

The following table provides information on credit quality of the loan portfolio as at 31 December 2011:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Loans to customers				
- Not past due	160 099 212	(2 566 290)	157 532 922	1.6%
- Overdue less than 31 days	355 052	(71 237)	283 815	20.1%
- Overdue 31-60 days	350 478	(111 034)	239 444	31.7%
- Overdue 61-90 days	132 488	(68 061)	64 427	51.4%
- Overdue 91-180 days	911 837	(285 716)	626 121	31.3%
- Overdue 181-360 days	307 977	(229 514)	78 463	74.5%
- Overdue more than 360 days	545 209	(350 580)	194 629	64.3%
Total loans to customers	**162 702 253**	**(3 682 432)**	**159 019 821**	**2.3%**

As at 30 September 2012, the loan portfolio includes loans that have been restructured and would otherwise be past due or impaired in the amount of RUB 902 076 thousand (31 December 2011: RUB 904 633 thousand). Such restructuring activity is aimed at managing customer relationships and maximizing the quality of the loan portfolio. Restructured loans are included in loans not past due unless the borrower is unable to comply with the renegotiated terms.

The following table provides information on restructured loans as at 30 September 2012 and 31 December 2011:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Restructured loans				
- As at 30 September 2012	902 076	(45 104)	856 972	5.0%
- As at 31 December 2011	904 633	(48 185)	856 448	5.3%

As at 30 September 2012, the gross amount of overdue loans with payments that are overdue at least one day totals RUB 3 693 634 thousand, which represents 1.8% of the loan portfolio (31 December 2011: RUB 2 603 041 thousand and 1.6%, respectively).

Nonperforming loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 2 569 135 thousand or 1.2% of the loan portfolio (31 December 2011: RUB 1 765 023 thousand and 1.2%, respectively).

NPLs together with restructured loans amount to RUB 3 471 211 thousand or 1.7% of the loan portfolio (31 December 2011: RUB 2 669 656 thousand and 1.6%, respectively).

As at 30 September 2012, the ratio of total impairment allowance to overdue loans equals 133.0%, the ratio of total impairment allowance to NPLs equals 191.2% and the ratio of total impairment allowance to NPLs together with restructured loans equals 141.5% (31 December 2011: 141.5%, 208.6% and 137.9%, respectively).

Movements in the loan impairment allowance for the nine-month periods ended 30 September 2012 and 30 September 2011 are as follows:

	2012 RUB'000 (Unaudited)	**2011 RUB'000 (Unaudited)**
Balance at the beginning of the period	3 682 432	2 793 109
Net charge	1 715 400	1 120 418
Net write-offs	(485 067)	(183 129)
Balance at the end of the period	**4 912 765**	**3 730 398**

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 30 September 2012:

	Gross loans	**Impairment allowance**	**Net loans**	**Impairment to gross loans**
	RUB'000 (Unaudited)	**RUB'000 (Unaudited)**	**RUB'000 (Unaudited)**	**% (Unaudited)**
Loans to corporate clients				
- Not past due	164 568 521	(2 969 944)	161 598 577	1.8%
- Overdue less than 31 days	41 463	(935)	40 528	2.3%
- Overdue 61-90 days	1 778	(736)	1 042	41.4%
- Overdue 91-180 days	327 290	(153 451)	173 839	46.9%
- Overdue 181-360 days	101 299	(75 778)	25 521	74.8%
- Overdue more than 360 days*	406 527	(38 941)	367 586	9.6%
Total loans to corporate clients	**165 446 878**	**(3 239 785)**	**162 207 093**	**2.0%**

The following table provides information on credit quality of loans to corporate clients as at 31 December 2011:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Loans to corporate clients				
- Not past due	132 187 233	(2 459 881)	129 727 352	1.9%
- Overdue less than 31 days	48 560	(22 774)	25 786	46.9%
- Overdue 31-60 days	130 641	(54 930)	75 711	42.0%
- Overdue 61-90 days	2 616	(826)	1 790	31.6%
- Overdue 91-180 days*	405 492	(21 128)	384 364	5.2%
- Overdue 181-360 days	22 599	(19 506)	3 093	86.3%
- Overdue more than 360 days	47 117	(45 362)	1 755	96.3%
Total loans to corporate clients	**132 844 258**	**(2 624 407)**	**130 219 851**	**2.0%**

* As at 30 September 2012, overdue more than 360 days category contains a loan in the amount of RUB 386 397 thousand with real estate collateral (31 December 2011: the overdue category is 91-180 days and the loan amount is RUB 403 127 thousand). The Group estimates loan impairment for this loan based on an analysis of future cash flows from the collateral.

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 30 September 2012 and 31 December 2011:

	30 September 2012 RUB'000 (Unaudited)	31 December 2011 RUB'000 (Unaudited)
	Loans to customers, gross RUB'000	Loans to customers, gross RUB'000
Real estate	30 476 190	25 098 278
Goods	26 025 170	18 937 944
Securities	18 958 889	15 069 861
Equipment & motor vehicles	7 838 754	8 272 587
Claims for contract receivables	11 124 547	5 071 560
Bank's own debts	400 507	5 658 958
Corporate guarantees and no collateral	70 705 790	54 735 070
	165 529 847	**132 844 258**

Loans to corporate customers that are past due or impaired

Impaired or overdue loans to corporate customers are secured by collateral with a fair value of RUB 551 406 thousand (2011: RUB 581 065 thousand), excluding the effect of overcollateralization.

As at 30 September 2012 the Group plans to recover a portion of impaired lease contracts with a gross amount of RUB 12 495 thousand (31 December 2011: RUB 15 715 thousand) through the sale of collateral with a fair value of RUB 5 661 thousand (31 December 2011: RUB 12 099 thousand).

Loans to corporate customers that are neither past due or impaired

For loans to corporate customers with a net carrying amount of RUB 161 598 577 thousand (2011: RUB 129 727 352 thousand), which are neither past due or impaired, the fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

Collateral obtained

During the period ended 30 September 2012, the Group obtained certain assets by taking possession of collateral for loans to corporate customers. As at 30 September 2012, the carrying amount of such assets was RUB 28 643 thousand (31 December 2011: RUB 95 321 thousand). The Group's policy is to sell these assets as soon as it is practicable.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance for loans to corporate clients for the nine-month periods ended 30 September 2012 and 30 September 2011 are as follows:

	2012 RUB'000 (Unaudited)	**2011 RUB'000 (Unaudited)**
Balance at the beginning of the period	2 624 407	1 990 001
Net charge	762 513	880 109
Net write-offs	(147 135)	(103 882)
Balance at the end of the period	**3 239 785**	**2 766 228**

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 30 September 2012:

	Gross loans	**Impairment allowance**	**Net loans**	**Impairment to gross loans**
	RUB'000 (Unaudited)	**RUB'000 (Unaudited)**	**RUB'000 (Unaudited)**	**% (Unaudited)**
Auto loans				
- Not past due	9 581 530	(3 097)	9 578 433	0.0%
- Overdue less than 31 days	36 932	(2 457)	34 475	6.7%
- Overdue 31-60 days	11 568	(2 358)	9 210	20.4%
- Overdue 61-90 days	8 459	(2 451)	6 008	29.0%
- Overdue 91-180 days	20 212	(8 537)	11 675	42.2%
- Overdue 181-360 days	26 614	(18 280)	8 334	68.7%
- Overdue more than 360 days	5 451	(5 103)	348	93.6%
Total auto loans	**9 690 766**	**(42 283)**	**9 648 483**	**0.4%**

	Gross loans RUB'000 (Unaudited)	Impairment allowance RUB'000 (Unaudited)	Net loans RUB'000 (Unaudited)	Impairment to gross loans % (Unaudited)
Mortgage loans				
- Not past due	8 580 057	(16 066)	8 563 991	0.2%
- Overdue less than 31 days	81 054	(92)	80 962	0.1%
- Overdue 31-60 days	27 490	(552)	26 938	2.0%
- Overdue 61-90 days	7 281	(98)	7 183	1.3%
- Overdue 91-180 days	52 071	(1 663)	50 408	3.2%
- Overdue 181-360 days	124 791	(35 024)	89 767	28.1%
- Overdue more than 360 days	435 352	(227 088)	208 264	52.2%
Total mortgage loans	**9 308 096**	**(280 583)**	**9 027 513**	**3.0%**
Consumer loans				
- Not past due	22 834 948	(116 587)	22 718 361	0.5%
- Overdue less than 31 days	622 474	(145 929)	476 545	23.4%
- Overdue 31-60 days	158 328	(84 264)	74 064	53.2%
- Overdue 61-90 days	127 672	(82 418)	45 254	64.6%
- Overdue 91-180 days	274 294	(202 428)	71 866	73.8%
- Overdue 181-360 days	490 267	(426 138)	64 129	86.9%
- Overdue more than 360 days	304 967	(292 350)	12 617	95.9%
Total consumer loans	**24 812 950**	**(1 350 114)**	**23 462 836**	**5.4%**
Total loans to individuals	**43 811 812**	**(1 672 980)**	**42 138 832**	**3.8%**

The following table provides information on the credit quality of loans to individuals as at 31 December 2011:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment to gross loans %
Auto loans				
- Not past due	6 097 845	(2 515)	6 095 330	0.0%
- Overdue less than 31 days	29 710	(1 551)	28 159	5.2%
- Overdue 31-60 days	9 312	(1 297)	8 015	13.9%
- Overdue 61-90 days	10 388	(2 194)	8 194	21.1%
- Overdue 91-180 days	10 691	(3 696)	6 995	34.6%
- Overdue 181-360 days	10 383	(6 317)	4 066	60.8%
- Overdue more than 360 days	6 689	(6 208)	481	92.8%
Total auto loans	**6 175 018**	**(23 778)**	**6 151 240**	**0.4%**
Mortgage loans				
- Not past due	6 975 596	(25 571)	6 950 025	0.4%
- Overdue less than 31 days	46 368	(42)	46 326	0.1%
- Overdue 31-60 days	93 765	(2 935)	90 830	3.1%
- Overdue 61-90 days	3 795	-	3 795	0.0%
- Overdue 91-180 days	117 849	(9 098)	108 751	7.7%
- Overdue 181-360 days	16 312	(3 340)	12 972	20.5%
- Overdue more than 360 days	407 317	(220 243)	187 074	54.1%
Total mortgage loans	**7 661 002**	**(261 229)**	**7 399 773**	**3.4%**

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment to gross loans %
Consumer loans				
- Not past due	14 838 538	(78 323)	14 760 215	0.5%
- Overdue less than 31 days	230 414	(46 870)	183 544	20.3%
- Overdue 31-60 days	116 760	(51 872)	64 888	44.4%
- Overdue 61-90 days	115 689	(65 041)	50 648	56.2%
- Overdue 91-180 days	377 805	(251 794)	126 011	66.6%
- Overdue 181-360 days	258 683	(200 351)	58 332	77.5%
- Overdue more than 360 days	84 086	(78 767)	5 319	93.7%
Total consumer loans	**16 021 975**	**(773 018)**	**15 248 957**	**4.8%**
Total loans to individuals	**29 857 995**	**(1 058 025)**	**28 799 970**	**3.5%**

Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying car. Credit card overdrafts and consumer loans are not secured.

Management does not estimate loan impairment based on analysis of fair value of collateral. However once a loan becomes impaired, management considers the fair value of collateral when assessing the impairment allowance for each individual loan.

As at 30 September 2012 impaired mortgage loans in the amount of RUB 728 039 thousand are secured by collateral with a fair value of RUB 882 532 thousand. As at 30 September 2012, the Group estimates the fair value of private real estate undergoing foreclosure to be RUB 138 757 thousand (31 December 2011: RUB 36 396 thousand).

Management believes that it is impracticable to estimate the fair value of collateral held in respect of auto loans.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of retail loans for the nine-month period ended 30 September 2012 are as follows:

	Auto loans RUB'000 (Unaudited)	Mortgage loans RUB'000 (Unaudited)	Consumer loans RUB'000 (Unaudited)	Total RUB'000 (Unaudited)
Balance at the beginning of the period	23 778	261 229	773 018	1 058 025
Net charge	27 000	19 354	906 533	952 887
Net write-offs	(8 495)	-	(329 437)	(337 932)
Balance at the end of the period	**42 283**	**280 583**	**1 350 114**	**1 672 980**

Movements in the loan impairment allowance by classes of retail loans for the nine-month period ended 30 September 2011 are as follows:

	Auto loans **RUB'000** **(Unaudited)**	**Mortgage loans** **RUB'000** **(Unaudited)**	**Consumer loans** **RUB'000** **(Unaudited)**	**Total** **RUB'000** **(Unaudited)**
Balance at the beginning of the period	87 657	430 242	285 209	803 108
Net (recovery) charge	(38 542)	(128 747)	407 598	240 309
Net write-offs	(27 055)	-	(52 192)	(79 247)
Balance at the end of the period	**22 060**	**301 495**	**640 615**	**964 170**

Industry and geographical 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:

	30 September 2012 **RUB'000** **(Unaudited)**	**31 December 2011** **RUB'000**
Loans to individuals	43 811 812	29 857 995
Consumer electronics, appliances and computers	24 321 314	18 459 411
Food and farm products	22 741 633	20 956 404
Residential and commercial construction and development	16 388 681	12 119 200
Industrial equipment and machinery	11 965 850	8 318 855
Clothing, shoes, textiles and sporting goods	11 292 550	9 149 182
Construction and decorative materials, furniture	11 240 269	10 813 405
Property rental	8 679 360	8 164 457
Services	8 346 712	4 809 991
Metallurgical	7 640 684	3 681 045
Pharmaceutical and medical products	6 694 118	6 099 881
Consumer chemicals, perfumes and hygiene products	5 404 801	4 023 559
Automotive, motorcycles and spare parts	4 767 554	5 396 030
Paper, stationery and packaging products	4 513 510	4 001 577
Oil and industrial chemicals	4 164 146	3 182 725
Industrial and infrastructure construction	3 554 283	1 510 690
Electric utility	3 419 446	-
Equipment leasing	3 237 434	4 443 980
Products for home, gifts, jewelry and business accessories	1 225 161	408 239
Financial	1 201 456	1 424 049
Gardening and pet products	1 089 694	942 175
Telecommunications	632 047	1 340 167
Books, video, print and copy	554 022	526 557
Other	2 372 153	3 072 679
	209 258 690	**162 702 253**
Impairment allowance	(4 912 765)	(3 682 432)
	204 345 925	**159 019 821**

13 Deposits by credit institutions

	30 September 2012 RUB'000 (Unaudited)	31 December 2011 RUB'000
Demand deposits	170 396	64 496
Term deposits	20 706 104	18 168 718
Syndicated loans	5 335 452	5 421 197
Payables under repurchase agreements	4 131 217	-
Subordinated debt	1 250 521	1 309 717
Total deposits by credit institutions	**31 593 690**	**24 964 128**

The securities pledged under sale and repurchase agreements as at 30 September 2012 were purchased by the Bank under agreements to resell and recorded as amounts receivable under reverse repo transactions within due from credit institutions.

14 Deposits by customers

		30 September 2012 RUB'000 (Unaudited)	31 December 2011 RUB'000
Corporate customers	Demand	21 173 807	17 838 871
	Term	41 094 300	34 843 029
	Subordinated	2 248 585	2 745 236
	Term notes	3 060 067	5 894 492
Total corporate customers		**67 576 759**	**61 321 628**
Individuals	Demand	6 424 538	4 842 326
	Term	90 591 665	80 526 932
Total individuals		**97 016 203**	**85 369 258**
Total deposits by customers		**164 592 962**	**146 690 886**

15 Debt securities issued

	30 September 2012 RUB'000 (Unaudited)	31 December 2011 RUB'000
Promissory notes issued at nominal value	8 011 485	6 789 426
Accrued interest	9 502	32 768
Unamortized discount on promissory notes	(366 386)	(304 874)
	7 654 601	**6 517 320**
Bonds issued	30 382 145	24 601 549
Total debt securities issued	**38 036 746**	**31 118 869**

RUB denominated bonds issue BO-03 (30 September 2012: RUB 3 797 999 thousand) was issued in April 2012 with a fixed coupon rate of 9.25% for the first year. The Bank sets the coupon rate for each subsequent six month period until the final maturity date of 27 April 2015.

16 Share capital

Share capital consists of ordinary shares and was contributed by the shareholders in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital comprises 12 677 832 952 shares (31 December 2011: 10 776 158 008 shares) with par value of 1 RUB per share. The total hyperinflation adjustment related to equity as at 31 December 2002, was RUB 861 930 thousand.

On 24 August 2012 the Central Bank of the Russian Federation registered CREDIT BANK OF MOSCOW's additional share issue. The additionally issued 1 901 674 944 ordinary shares with par value of 1 RUB per share were acquired by the European Bank for Reconstruction and Development and International Financial Corporation for RUB 5.8 billion in total. As a result EBRD and IFC shares each amount to 7.5% of total share capital. The stake of the majority shareholder, Concern Rossium, became 85%.

Due to the fact that interest rates applicable to subordinated loans from the majority shareholder of the Bank were substantially lower than the market rates, in 2011 the Bank converted part of these subordinated loans in the amount of RUB 3 536 361 thousand (net of deferred tax of RUB 884 090 thousand) into additional paid-in-capital.

In 2012 the Bank converted another part of subordinated loans from the majority shareholder of the Bank with lower than the market interest rates in the amount of RUB 1 459 848 thousand (net of deferred tax of RUB 364 962 thousand) into additional paid-in-capital due to the change in the maturity of these subordinated loans.

This additional paid-in capital represents tier 1 capital according to the Basel Capital Accord.

17 Commitments

	30 September 2012 RUB'000 (Unaudited)	**31 December 2011 RUB'000**
Guarantees and letters of credit	40 133 004	29 869 161
Undrawn loan commitments	1 619 532	1 079 727
Other contingent liabilities	246 018	214 784
	41 998 554	**31 163 672**

18 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 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.

19 Related party transactions

The outstanding balances and related average interest rates as at 30 September 2012 and 31 December 2011 with related parties are as follows:

	30 September 2012 (Unaudited)		31 December 2011	
	Amount RUB'000	Average effective interest rate %	Amount RUB'000	Average effective interest rate %
Loans to customers				
Majority shareholder	-	-	70 208	12.0%
Management	72 264	10.9%	43 977	10.7%
Other	-	-	87 138	12.0%
Total loans	**72 264**		**201 323**	
Deposits by customers				
Majority shareholder	299 261	8.7%	31 993	3.9%
Parent company	252 476	7.9%	250 896	8.3%
Management	116 107	7.4%	35 481	7.6%
Other	2 341 570	6.7%	2 909 463	7.9%
Total deposits	**3 009 414**		**3 227 833**	

Amounts included in the consolidated interim condensed statement of comprehensive income for the nine-month periods ended 30 September 2012 and 30 September 2011 in relation to transactions with related parties are as follows:

	Nine-Month Period Ended 30 September 2012 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2011 RUB'000 (Unaudited)
Interest income on loans to customers		
Majority shareholder	1 981	27 694
Other	5 044	39 097
Management	4 492	3 664
Total interest income	**11 517**	**70 455**
Interest expense on deposits by customers		
Majority shareholder	11 044	275
Parent company	15 334	26 595
Other	58 055	126 344
Management	1 006	1 202
Total interest expense	**85 439**	**154 416**

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the nine-month periods ended 30 September 2012 and 30 September 2011 (refer to note 6) is as follows:

	Nine-Month Period Ended 30 September 2012 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2011 RUB'000 (Unaudited)
Members of the Supervisory Board	23 207	3 149
Members of the Management Board	98 641	34 246
	121 848	**37 395**

20 Capital management

The Central Bank of the Russian Federation 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 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 30 September 2012, this minimum level is 10%. The Bank was in compliance with the statutory capital ratio during the nine-month period ended 30 September 2012 and the year ended 31 December 2011.

The Group also monitors its capital adequacy levels 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 (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 Basel Accord, as at 30 September 2012 and 31 December 2011:

	30 September 2012 RUB'000 (Unaudited)	**31 December 2011 RUB'000**
Tier 1 capital		
Share capital and additional paid-in capital	22 559 058	15 337 135
Retained earnings	13 585 794	9 823 364
Total tier 1 capital	**36 144 852**	**25 160 499**
Tier 2 capital		
Revaluation surplus for buildings	500 424	500 424
Revaluation reserve for investments available-for-sale	(7 302)	(53 017)
Subordinated loans		
Subordinated loan from EBRD	401 920	482 942
Subordinated loan from BLACK SEA TRADE AND DEVELOPMENT BANK	525 587	643 922
Subordinated loans from WELLCREEK CORPORATION	2 248 585	2 745 236
Total tier 2 capital	**3 669 214**	**4 319 507**
Total capital	**39 814 066**	**29 480 006**
Risk-weighted assets		
Banking book	240 803 271	184 090 083
Trading book	28 017 307	21 012 847
Total risk weighted assets	**268 820 578**	**205 102 930**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**14.8**	**14.4**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**13.4**	**12.3**

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 unrecognised exposures, 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 Basel Accord established by covenants under liabilities incurred by the Group. The Group complied with all externally imposed capital requirements during the nine-month period ended 30 September 2012 and the year ended 31 December 2011.

21 Analysis by segment

The Group has five reportable segments, as described below, which are 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 Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate banking: comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guaranties, corporate deposit taking, settlements and money transfer, currency conversion
- Retail banking: comprises retail demand and term deposit services; retail lending, including consumer loans, car loans and mortgages, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals
- Treasury: comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes
- International business: comprises borrowings from international financial institutions and trade finance operations
- Cash collection and other cash operations: comprise all operations connected with cash, cash collection, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on financial information prepared in accordance with IFRS, as included in the internal management reports that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The segment breakdown of assets and liabilities is set out below:

	30 September 2012 RUB'000 (Unaudited)	**31 December 2011 RUB'000**
ASSETS		
Corporate banking	163 227 991	131 168 702
Retail banking	43 607 928	30 110 289
Treasury	58 505 628	57 314 123
Cash operations	6 895 797	7 235 146
Unallocated assets	7 008 256	6 542 493
Total assets	**279 245 600**	**232 370 753**
LIABILITIES		
Corporate banking	67 576 759	61 321 627
Retail banking	97 016 203	85 369 257
Treasury	47 062 010	31 243 275
International business	25 574 369	24 839 724
Unallocated liabilities	5 378 285	3 988 964
Total liabilities	**242 607 626**	**206 762 847**

Segment information for the main reportable segments for the nine-month period ended 30 September 2012 is set out below:

RUB'000 (Unaudited)	Corporate banking	Retail banking	Treasury	International business	Cash operations	Unallocated	Total
External interest income	13 739 717	4 912 715	1 772 535	-	-	-	20 424 967
Fee and commission income	1 223 777	814 323	3 365	-	758 485	-	2 799 950
Net gain on securities	-	-	230 948	-	-	-	230 948
Net foreign exchange loss	(56 614)	(14 308)	(35 725)	-	-	-	(106 647)
Other income	50 484	272 973	21 836	-	-	-	345 293
(Expenses) revenue from other segments	(5 304 219)	3 744 473	(130 003)	1 607 105	82 644	-	-
Revenue	**9 653 145**	**9 730 176**	**1 862 956**	**1 607 105**	**841 129**	-	**23 694 511**
Impairment losses	(762 513)	(952 887)	-	-	-	-	(1 715 400)
Interest expense	(2 434 420)	(5 895 087)	(2 432 449)	(820 250)	-	-	(11 582 206)
Fee and commission expense	(3 443)	(39 230)	(87 156)	(153 097)	(426)	-	(283 352)
General administrative and other expenses	(474 565)	(2 355 128)	(124 884)	(21 201)	(711 414)	(1 702 584)	(5 389 776)
Income (loss) before income taxes	**5 978 204**	**487 844**	**(781 533)**	**612 557**	**129 289**	**(1 702 584)**	**4 723 777**
Income taxes	-	-	-	-	-	(961 347)	(961 347)
Segment result	**5 978 204**	**487 844**	**(781 533)**	**612 557**	**129 289**	**(2 663 931)**	**3 762 430**

Segment information for the main reportable segments for the nine-month period ended 30 September 2011 is set out below:

RUB'000 (Unaudited)	Corporate banking	Retail banking	Treasury	International business	Cash operations	Unallocated	Total
External interest income	9 463 921	3 072 185	2 255 044	-	-	-	14 791 150
Fee and commission income	670 280	632 133	2 883	-	559 019	-	1 864 315
Net loss on securities	-	-	(918 949)	-	-	-	(918 949)
Net foreign exchange income	295 166	34 638	51 522	-	-	-	381 326
Other income	86 595	90 376	20 657	-	-	-	197 628
(Expenses) revenue from other segments	(3 094 727)	2 669 594	(513 806)	924 889	14 050	-	-
Revenue	**7 421 235**	**6 498 926**	**897 351**	**924 889**	**573 069**	**-**	**16 315 470**
Impairment losses	(880 109)	(240 309)	-	-	-	-	(1 120 418)
Interest expense	(1 645 669)	(4 450 994)	(2 261 821)	(466 125)	-	-	(8 824 609)
Fee and commission expense	(7 268)	(31 676)	(52 117)	(33 554)	(439)	-	(125 054)
General administrative and other expenses	(146 393)	(1 564 168)	(93 616)	(16 352)	(520 253)	(960 891)	(3 301 673)
Income (loss) before income taxes	**4 741 796**	**211 779**	**(1 510 203)**	**408 858**	**52 377**	**(960 891)**	**2 943 716**
Income taxes	-	-	-	-	-	(587 254)	**(587 254)**
Segment result	**4 741 796**	**211 779**	**(1 510 203)**	**408 858**	**52 377**	**(1 548 145)**	**2 356 462**

22 Events subsequent to the reporting date

In October 2012 the Bank paid out the fifth coupon in the amount of RUB 102.20 million, or RUB 44.88 per bond, of domestic bond issue series 08. The issue was placed on 14 April 2010 in the amount of RUB 3 billion with a maturity of 5 years.

In October 2012 the Bank paid out the third coupon in the amount of RUB 200.55 million, or RUB 40.11 per bond, of domestic exchange bond issue series BO-04. The issue was placed on 15 April 2011 in the amount of RUB 5 billion with a maturity of 3 years.

In October 2012 the Bank bought back 1 159 802 bonds series 08 (38.7%) from their holders within a put option at the price of 100% of par value and then sold 540 000 bonds on the market.. Par value of each bond is RUB 1 000.

In October 2012 the Bank bought back 2 934 766 exchange bonds series BO-04 (58.7%) from their holders within a put option at the price of 100% of par value and then sold 1 942 966 bonds on the market. Par value of each bond is RUB 1 000.

In October 2012 the Bank paid out the first coupon in the amount of RUB 188.52 million, or RUB 46.38 per bond, of domestic exchange bond issue series BO-03. The issue was placed on 27 April 2012 in the amount of RUB 4 billion with a maturity of 3 years.

In November 2012 the Bank signed a 1-year credit line facility agreement with “SME Bank” for the total amount of RUB 800 million. The funds will be used to finance small- and medium- size businesses.

In November 2012 the Bank repaid in full 1-year USD 131 million B loan under A/B structured syndicated loan with the IFC acting as transaction arranger. The B Loan was provided by thirteen foreign commercial banks.

CREDIT BANK OF MOSCOW
(open joint-stock company)

Consolidated Financial Statements
for the year ended 31 December 2011

Contents

Independent Auditors' Report 3
Consolidated Statement of Comprehensive Income 4
Consolidated Statement of Financial Position 5
Consolidated Statement of Cash Flows 6
Consolidated Statement of Changes in Equity 8
Notes to the Consolidated Financial Statements 9
1 Background 9
2 Basis of preparation 10
3 Significant accounting policies 11
4 Net interest income 22
5 Fee and commission income 22
6 Salaries, employment benefits and administrative expenses 23
7 Provision for impairment of other assets and credit related commitments 23
8 Income tax 24
9 Cash and cash equivalents 26
10 Due from credit institutions 27
11 Financial instruments at fair value through profit or loss 28
12 Available-for-sale securities 29
13 Loans to customers 30
14 Property and equipment 38
15 Other assets 39
16 Deposits by credit institutions 40
17 Deposits by customers 40
18 Debt securities issued 41
19 Other liabilities 42
20 Share capital 42
21 Commitments 42
22 Operating leases 43
23 Contingencies 43
24 Custody activities 44
25 Related party transactions 44
26 Capital management 45
27 Analysis by segment 46
28 Risk management 50
29 Fair value of financial instruments 64
30 Events subsequent to the reporting date 66

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Independent Auditors' Report

To the Management of Credit Bank of Moscow (open joint-stock company)

We have audited the accompanying consolidated financial statements of Credit Bank of Moscow (open joint-stock company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
27 March 2012

ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a subsidiary of KPMG Europe LLP, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

	Notes	31 December 2011 RUB'000	31 December 2010 RUB'000
Interest income	4	20 980 864	14 544 991
Interest expense	4	(12 257 202)	(8 478 432)
Net interest income	4	**8 723 662**	**6 066 559**
Provision for impairment of loans	13	(1 283 719)	(1 539 798)
Net interest income after provision for impairment		**7 439 943**	**4 526 761**
Fee and commission income	5	2 718 563	1 757 978
Net (loss) gain on financial instruments at fair value through profit or loss		(856 946)	83 474
Net realized gain on available-for-sale assets		39 994	338 527
Foreign exchange gains, net		473 386	232 039
Other operating income		182 455	181 488
Non-interest income		**2 557 452**	**2 593 506**
Salaries and employment benefits	6	(2 126 118)	(1 373 503)
Administrative expenses	6	(1 862 731)	(1 287 388)
Provision for impairment of other assets and credit related commitments	7	(247 039)	(143 438)
Depreciation of property and equipment	14	(242 048)	(178 163)
Fee and commission expense		(192 366)	(102 363)
State deposit insurance scheme contributions		(269 583)	(153 049)
Other operating expenses		(199 170)	(129 840)
Non-interest expense		**(5 139 055)**	**(3 367 744)**
Income before income taxes		**4 858 340**	**3 752 523**
Income tax	8	(972 806)	(731 147)
Net income		**3 885 534**	**3 021 376**
Other comprehensive income			
Revaluation reserve for available-for-sale securities			
- Net change in fair value		(137 169)	(780 485)
- Net change in fair value transferred to profit or loss		35 814	408 326
Income tax related to other comprehensive income		20 271	74 432
Other comprehensive loss for the period, net of tax		**(81 084)**	**(297 727)**
Comprehensive income for the period		**3 804 450**	**2 723 649**

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V.Sass

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	31 December 2011 RUB'000	31 December 2010 RUB'000
ASSETS			
Cash and cash equivalents	9	34 433 419	23 336 426
Obligatory reserves with the Central Bank of the Russian Federation		2 259 170	756 584
Due from credit institutions	10	5 301 412	586 968
Financial instruments at fair value through profit or loss	11	22 783 760	27 475 153
Available-for-sale securities	12	2 030 678	4 461 645
Loans to customers	13	159 019 821	103 852 309
Property and equipment	14	4 969 932	4 255 117
Other assets	15	1 572 561	746 441
Total assets		**232 370 753**	**165 470 643**
LIABILITIES AND EQUITY			
Deposits by credit institutions	16	24 964 128	27 863 284
Deposits by customers	17	146 690 886	95 088 028
Debt securities issued	18	31 118 869	27 251 096
Deferred tax liability	8	2 074 397	493 903
Current tax liability	8	15 870	142 237
Other liabilities	19	1 898 697	865 000
Total liabilities		**206 762 847**	**151 703 548**
Equity			
Share capital	20	11 638 088	7 138 088
Additional paid-in capital		3 699 047	162 686
Revaluation surplus for buildings		500 424	500 424
Revaluation reserve for available-for-sale securities		(53 017)	28 067
Retained earnings		9 823 364	5 937 830
Total equity		**25 607 906**	**13 767 095**
Total liabilities and equity		**232 370 753**	**165 470 643**

Commitments and Contingencies 21-23

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	31 December 2011 RUB'000		31 December 2010 RUB'000	
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income			**3 885 534**		**3 021 376**
out of which:					
- Interest income received		21 206 266		13 717 602	
- Interest expense paid		(11 133 384)		(7 569 069)	
- Income tax paid		(327 181)		(362 042)	
Adjustments to reconcile net income to net cash provided by operating activities:					
Provision for impairment of loans			1 283 719		1 539 798
Depreciation and amortization			242 884		180 323
Deferred tax expense			716 676		318 073
Revaluation of financial instruments at fair value through profit or loss			735 120		226 804
Provision for impairment of other assets and credit related commitments			247 039		143 438
Accrued interest income			159 472		(827 388)
Accrued interest expense			678 917		909 363
Other			301 462		(190 096)
Operating cash flows before changes in operating assets and liabilities			**8 250 823**		**5 321 691**
(Increase) decrease in operating assets					
Obligatory reserves with the Central Bank of the Russian Federation			(1 502 586)		(355 578)
Due from credit institutions			(4 478 956)		309 899
Financial instruments at fair value through profit or loss			3 735 101		(15 018 949)
Loans to customers			(55 657 388)		(47 051 333)
Other assets			(676 254)		(564 398)
Increase (decrease) in operating liabilities					
Deposits by credit institutions and the Central Bank of the Russian Federation			(3 025 179)		6 749 875
Deposits by customers			55 243 039		42 458 167
Promissory notes			(10 551 690)		12 117 623
Other liabilities			400 211		492
Net cash (used in) from operations			**(8 262 879)**		**3 967 489**
CASH FLOWS FROM INVESTING ACTIVITIES					
Net sale (purchase) of available-for-sale securities			2 395 388		(1 529 672)
Net purchase of property and equipment and intangible assets			(806 212)		(1 401 581)
Net cash from (used in) investing activities			**1 589 176**		**(2 931 253)**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	31 December 2011 RUB'000	31 December 2010 RUB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock		4 500 000	-
Proceeds from subordinated borrowings		982 398	6 614 638
Proceeds from syndicated borrowings		4 864 375	4 356 750
Repayment of syndicated borrowings		(5 022 958)	(892 263)
Proceeds from issuance of bonds		16 315 336	5 270 896
Repayment of bonds		(4 103 013)	(1 478 592)
Net cash from financing activities		**17 536 138**	**13 871 429**
Effect of exchange rates changes on cash and cash equivalents		234 558	(201 014)
Change in cash and cash equivalents		**11 096 993**	**14 706 651**
Cash and cash equivalents, beginning of the period		23 336 426	8 629 775
Cash and cash equivalents, end of the period	9	**34 433 419**	**23 336 426**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Share capital	Additional paid-in capital	Revaluation surplus for buildings	Revaluation reserve for available-for-sale securities	Retained earnings	Total equity
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
1 January 2010	**7 138 088**	**162 686**	**500 424**	**325 794**	**2 916 454**	**11 043 446**
Total comprehensive income for the period	-	-	-	(297 727)	3 021 376	2 723 649
31 December 2010	**7 138 088**	**162 686**	**500 424**	**28 067**	**5 937 830**	**13 767 095**
Total comprehensive income for the period	-	-	-	(81 084)	3 885 534	3 804 450
Transactions with owners, recorded directly in equity						
Shares issued	4 500 000	-	-	-	-	4 500 000
Contribution from the ultimate shareholder (net of deferred tax of RUB 884 090 thousand) (note 20)	-	3 536 361	-	-	-	3 536 361
Total transactions with owners, recorded directly in equity	4 500 000	3 536 361	-	-	-	8 036 361
31 December 2011	**11 638 088**	**3 699 047**	**500 424**	**(53 017)**	**9 823 364**	**25 607 906**

The consolidated statement of changes in 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 CREDIT BANK OF MOSCOW (open joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was formed on 5 August 1992 as an open joint-stock company, then re-registered as a closed joint-stock company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganized as an open joint-stock company. The Bank's registered legal address is 2 (bldg. 1) Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central Bank of the Russian Federation, granted on 20 January 2000. In December 2004 the Bank was admitted to the Central Bank of Russia program for individual deposit insurance. The Bank is among the 25 largest banks in Russia by assets and runs its business in Moscow and the Moscow region with a branch network comprising 60 branches, and ATMs and payment terminals totaling 604 and 4014 items, respectively.

The principal subsidiaries of the Group are as follows:

				Degree of control, %	
Name	**Date of incorporation**	**Country of incorporation**	**Principal activities**	**31 December 2011**	**31 December 2010**
CBOM Finance p.l.c.	17 Aug 2006	Ireland	Raising finance	100%	100%
MKB-Invest	4 June 2007	Russia	Operations with securities	100%	100%
MKB-Leasing	20 Sep 2005	Russia	Finance leasing	100%	100%

The Bank does not have any direct or indirect shareholdings in the subsidiaries noted above. CBOM Finance p.l.c. was established to raise capital by the issue of debt securities and to use an amount equal to the proceeds of each such issuance to advance loans to the Bank. MKB-Invest and MKB-Leasing are controlled by the Group through option agreements.

Shareholders

The Group is wholly-owned by Concern Rossium (the Shareholder Group). The sole shareholder of Concern Rossium is Roman I. Avdeev, who is also member of the Supervisory Board of the Bank. The members of the Supervisory Board are as follows:

Supervisory Board	
Sandy Vaci	Chairman
Richard Damien Glasspool	Member
Genadi Lewinski	Member
Mustafa Boran	Member
Roman I. Avdeev	Member
Alexander N. Nikolashin	Member
Anton R. Avdeev	Member
Nikolay V. Kosarev	Member
Vladimir A. Chubar	Member

Related party transactions are detailed in note 25.

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. The consolidated 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 financial securities are stated at fair value and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - note 13
- building revaluation estimates - note 14.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied by the Group entities to all periods presented in these consolidated financial statements. Future changes in accounting policies are described at the end of this note.

Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity 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.

Special purpose entities

The Bank established a special purpose entity (SPE) for execution of borrowing transactions. The Bank does not have any direct or indirect shareholdings in this entity. However, the SPE is established under terms that impose strict limits on the decision-making powers of the SPE's management over the operations of the SPE. In addition, the benefits related to its operations and net assets are presently attributable to the Bank via a number of agreements.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. 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.

Foreign currency

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 reporting date are translated to the functional currency at the foreign exchange rate ruling 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, 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 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.

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of 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

The Group considers cash and nostro accounts with the Central Bank of the Russian Federation, and due from credit institutions with maturity of less than one month to be cash and cash equivalents. The minimum reserve deposit with the Central Bank of the Russian Federation 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 may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally 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.

Management determines the appropriate classification of financial instruments in this category 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 assets 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 foreseeble 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.

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

- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,

- 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 financial assets are those non-derivative 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.

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

- 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

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. 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.

Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

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 financial asset 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 financial asset is recognized 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

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off 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 by credit institutions. The difference between the sale and repurchase prices represents interest expense and is recognized in the 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 due from credit institutions. The difference between the purchase and resale prices represents interest income and is recognized in the 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.

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.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

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

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income 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 a building 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 as other comprehensive income.

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:

	Years
Buildings	50
Furniture and other property	6
Computers and office equipment	4
Vehicles	5

When a building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Intangible assets

Intangible assets, which 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.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

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 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 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 the profit or loss and cannot be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is 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 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. An impairment loss 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 allowance for credit related commitments are included in other liabilities.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

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 Bank 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 recognised 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: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries 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. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by 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 direct costs, are deferred and amortized to the 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 has been provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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.

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 2011, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. 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 position or performance.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between

power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 *Interests in Joint Ventures*. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results in a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other

comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

- 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 purposes, will come into effect not earlier than 1 January 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	31 December 2011 RUB'000	31 December 2010 RUB'000
Interest income		
Loans to customers	17 790 664	11 868 667
Financial instruments at fair value through profit or loss and available-for-sale securities	2 892 224	2 626 061
Due from credit institutions and the Central Bank of the Russian Federation	297 976	50 263
	20 980 864	**14 544 991**
Interest expense		
Deposits by customers	(8 249 337)	(5 446 181)
Debt securities issued	(2 717 073)	(2 179 243)
Deposits by credit institutions and the Central Bank of the Russian Federation	(1 290 792)	(853 008)
	(12 257 202)	**(8 478 432)**
Net interest income	**8 723 662**	**6 066 559**

5 Fee and commission income

	31 December 2011 RUB'000	31 December 2010 RUB'000
Settlements and wire transfers	764 428	458 847
Cash collection delivery	750 537	549 536
Guarantees and letters of credit	533 983	492 866
Plastic cards	273 704	116 925
Insurance contracts processing	213 063	-
Other cash operations	104 558	77 280
Other	78 290	62 524
Fee and commission income	**2 718 563**	**1 757 978**

6 Salaries, employment benefits and administrative expenses

	31 December 2011 RUB'000	31 December 2010 RUB'000
Salaries	1 701 338	1 143 744
Social security costs	402 778	216 439
Other	22 002	13 320
Salaries and employment benefits	**2 126 118**	**1 373 503**
Occupancy	580 825	332 191
Advertising and business development	413 006	261 149
Operating taxes	368 852	290 234
Security	159 485	123 726
Property maintenance	147 781	77 378
Communications	49 433	59 827
Computer maintenance and software expenses	43 027	43 310
Transport	42 331	40 335
Other	57 991	59 238
Administrative expenses	**1 862 731**	**1 287 388**

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the statement of comprehensive income in the period the related compensation is earned by the employee. The Group does not have any stock option plans.

7 Provision for impairment of other assets and credit related commitments

	31 December 2011 RUB'000	31 December 2010 RUB'000
Provision for impairment of credit related commitments	223 978	96 830
Provision for impairment of other assets	23 061	46 608
	247 039	**143 438**

8 Income tax

	31 December 2011 RUB'000	31 December 2010 RUB'000
Current tax charge	256 131	413 074
Deferred taxation	716 675	318 073
Income tax expense	**972 806**	**731 147**

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The income tax rate for the Bank is 20% (2010: 20%).

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Income before tax	4 858 340	3 752 523
Applicable statutory tax rate	20%	20%
Income tax using the applicable tax rate	971 668	750 505
Income taxed at lower rate	(46 071)	(30 307)
Net non-deductible costs	47 209	10 949
Income tax expense	**972 806**	**731 147**

Income tax liabilities are recorded in the consolidated statement of financial position as follows:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Current tax liability	15 870	142 237
Deferred tax liability	2 074 397	493 903
Income tax liability	**2 090 267**	**636 140**

Movements in temporary differences during the years ended 31 December 2011 and 2010 are presented as follows.

RUB'000	Balance 1 January 2011	Recognised in profit or loss	Recognised in equity	Balance 31 December 2011
Due from credit institutions	(1 585)	(4 187)	-	(5 772)
Financial instruments at fair value through profit or loss	55 383	(65 036)	-	(9 653)
Available-for-sale securities	(1 385)	23 881	(20 271)	2 225
Loans to customers	251 334	581 014	-	832 348
Property and equipment	234 144	31 662	-	265 806
Other assets	(7 518)	8 191	-	673
Deposits by credit institutions	29 301	(6 709)	-	22 592
Deposits by customers	-	(7 226)	884 090	876 864
Debt securities issued	1 798	22 758	-	24 556
Other liabilities	(67 569)	132 327	-	64 758
	493 903	**716 675**	**863 819**	**2 074 397**

RUB'000	Balance 1 January 2010	Recognised in profit or loss	Recognised in equity	Balance 31 December 2010
Due from credit institutions	(3 249)	1 664	-	(1 585)
Financial instruments at fair value through profit or loss	137 604	(82 221)	-	55 383
Available-for-sale securities	23 919	49 128	(74 432)	(1 385)
Loans to customers	(116 751)	368 085	-	251 334
Property and equipment	189 075	45 069	-	234 144
Other assets	(1 417)	(6 101)	-	(7 518)
Deposits by credit institutions	3 704	25 597	-	29 301
Debt securities issued	(6 839)	8 637	-	1 798
Other liabilities	24 216	(91 785)	-	(67 569)
	250 262	**318 073**	**(74 432)**	**493 903**

Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income comprise:

	2011			2010		
RUB'000	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Revaluation reserve for available-for-sale securities	(101 355)	20 271	(81 084)	(372 159)	74 432	(297 727)
Other comprehensive income	**(101 355)**	**20 271**	**(81 084)**	**(372 159)**	**74 432**	**(297 727)**

9 Cash and cash equivalents

	31 December 2011 RUB'000	31 December 2010 RUB'000
Cash on hand	7 235 147	3 894 457
Correspondent account with the Central Bank of the Russian Federation	7 369 693	9 563 916
Nostro accounts with other banks		
rated AAA	-	644
rated from AA+ to AA-	844 958	947 472
rated from A+ to A-	697 121	61 884
rated BBB	-	443 966
rated from BBB+ to BBB-	1 876 423	-
rated from BB+ to BB-	5 504	4 008
rated from B+ to B-	183 608	112 262
not rated	1 719 034	585 818
Total nostro accounts with other banks	**5 326 648**	**2 156 054**
Due from credit institutions with maturity of less than 1 month		
rated from AA+ to AA-	1 337 973	458 512
rated A- to A+	-	24 410
rated BBB	-	2 968 673
rated from BBB+ to BBB-	9 729 891	-
rated from BB- to BB+	-	727 633
rated from B+ to B-	1 932 050	1 713 940
not rated	1 502 017	1 828 831
Total due from credit institutions with maturity of less than 1 month	**14 501 931**	**7 721 999**
Total cash and cash equivalents	**34 433 419**	**23 336 426**

Ratings are based on Standard & Poor's rating system.

None of cash and cash equivalents are impaired or past due.

The correspondent account with the Central Bank of the Russian Federation represents balances held with the Central Bank of the Russian Federation related to settlement activity, and was available for withdrawal at period end.

Settlements with the stock exchange are included in not rated nostro accounts in the amount of RUB 1 271 352 thousand as at 31 December 2011 (31 December 2010: RUB 535 604 thousand).

As at 31 December 2011 not rated due from credit institutions with maturity of less than 1 month includes term deposits secured by highly liquid debt securities under agreements to resell (reverse repo) in the amount of RUB 1 103 927 thousand (31 December 2010: RUB 1 783 806 thousand).

As at 31 December 2011 there are no balances that individually exceed 10% of total cash and cash equivalents (31 December 2010: one counterparty, with the gross value of these facilities RUB 3 184 487 thousand) .

Information about the currency and maturity of cash and cash equivalents is presented in note 28.

10 Due from credit institutions

	31 December 2011 RUB'000	31 December 2010 RUB'000
Term deposits		
rated from AA+ to AA-	-	201 666
rated from A+ to A-	30 586	-
rated from BBB+ to BBB-	2 841 567	-
rated from B+ to B-	1 620 332	235 302
not rated	808 927	150 000
Total due from credit institutions	**5 301 412**	**586 968**

As at 31 December 2011 the Group had three counterparties (31 December 2010: three) whose deposit balances exceed 10% of total due from credit institutions. The gross value of these facilities as at 31 December 2011 is RUB 5 270 826 thousand (31 December 2010: RUB 586 968 thousand).

Information about the currency and maturity and effective interest rates on amounts due from credit institutions is presented in note 28.

11 Financial instruments at fair value through profit or loss

	31 December 2011 RUB'000	31 December 2010 RUB'000
Held by the Bank		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	9 286 846	-
Moscow Government bonds	927 144	425 309
Regional authorities and municipal bonds	372 780	787 634
Russian Government Eurobonds	1 789 318	2 059 403
Corporate bonds		
from BBB+ to BBB-	4 007 920	1 377 171
from BB+ to BB-	2 101 783	1 479 989
from B+ to B-	3 213 814	7 159 838
from CCC+ to CCC-	52 618	-
not rated	1 031 514	2 502 079
Equity investments	23	-
Total financial instruments at fair value through profit or loss held by the Bank	**22 783 760**	**15 791 423**
Pledged under sale and repurchase agreements		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	-	6 960 112
Moscow Government bonds	-	803 035
Regional authorities and municipal bonds	-	44 566
Corporate bonds		
from BBB+ to BBB-	-	1 544 220
from BB+ to BB-	-	1 493 081
from B+ to B-	-	838 716
Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements	**-**	**11 683 730**
Total financial instruments at fair value through profit or loss	**22 783 760**	**27 475 153**

As at 31 December 2011 debt instruments in the amount of RUB 20 225 639 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2010: RUB 24 153 390 thousand).

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of spot and forward exchange contracts outstanding as at 31 December 2011 and 2010 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 resulting 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 other assets, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2011 RUB'000	**2010 RUB'000**	**2011**	**2010**
Buy USD sell RUB				
Less than 3 months	9 606 535	2 158 199	31.9154	30.3972
Buy RUB sell USD				
Less than 3 months	-	239 769	-	30.4645
Buy EUR sell USD				
Less than 3 months	-	602 317	-	1.3230
Buy EUR sell RUB				
Less than 3 months	-	344 596	-	39.9440
	9 606 535	**3 344 881**		

12 Available-for-sale securities

	31 December 2011 RUB'000	**31 December 2010 RUB'000**
Held by the Bank		
Government and municipal bonds		
Regional authorities and municipal bonds	10 277	17 140
Corporate bonds		
from BBB+ to BBB-	410 734	147 373
from BB+ to BB-	385 133	915 370
from B+ to B-	1 017 580	2 655 298
not rated	179 948	465 186
Equity investments	27 006	59 799
Total available-for-sale securities held by the Bank	**2 030 678**	**4 260 166**

	31 December 2011 RUB'000	31 December 2010 RUB'000
Pledged under sale and repurchase agreements		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	-	50 529
Corporate bonds		
from BBB+ to BBB-	-	33 523
from B+ to B-	-	117 427
Total available-for-sale securities pledged under sale and repurchase agreements	**-**	**201 479**
Total available-for-sale securities	**2 030 678**	**4 461 645**

As at 31 December 2011 debt instruments in the amount of RUB 371 884 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2010: RUB 2 436 745 thousand).

13 Loans to customers

	31 December 2011 RUB'000	31 December 2011 RUB'000	31 December 2010 RUB'000	31 December 2010 RUB'000
	Loans	**Impairment allowance**	**Loans**	**Impairment allowance**
Loans to corporate clients	**132 844 258**	**(2 624 407)**	**88 317 606**	**(1 990 001)**
Loans to individuals				
Auto loans	6 175 018	(23 778)	5 478 500	(87 657)
Mortgage loans	7 661 002	(261 229)	7 641 432	(430 242)
Other loans to individuals	16 021 975	(773 018)	5 207 880	(285 209)
Total loans to individuals	**29 857 995**	**(1 058 025)**	**18 327 812**	**(803 108)**
Gross loans to customers	**162 702 253**	**(3 682 432)**	**106 645 418**	**(2 793 109)**
Net loans to customers	**159 019 821**		**103 852 309**	

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 December 2011:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Loans to customers				
- Not past due	160 099 212	(2 566 290)	157 532 922	1.6%
- Overdue less than 31 days	355 052	(71 237)	283 815	20.1%
- Overdue 31-60 days	350 478	(111 034)	239 444	31.7%
- Overdue 61-90 days	132 488	(68 061)	64 427	51.4%
- Overdue 91-180 days	911 837	(285 716)	626 121	31.3%
- Overdue 181-360 days	307 977	(229 514)	78 463	74.5%
- Overdue more than 360 days	545 209	(350 580)	194 629	64.3%
Total loans to customers	**162 702 253**	**(3 682 432)**	**159 019 821**	**2.3%**

The following table provides information on credit quality of the loan portfolio as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Loans to customers				
- Not past due	104 463 388	(1 662 364)	102 801 024	1.6%
- Overdue less than 31 days	357 274	(41 642)	315 632	11.7%
- Overdue 31-60 days	78 384	(27 312)	51 072	34.8%
- Overdue 61-90 days	118 576	(42 282)	76 294	35.7%
- Overdue 91-180 days	242 943	(120 561)	122 382	49.6%
- Overdue 181-360 days	286 708	(191 925)	94 783	66.9%
- Overdue more than 360 days	1 098 145	(707 023)	391 122	64.4%
Total loans to customers	**106 645 418**	**(2 793 109)**	**103 852 309**	**2.6%**

As at 31 December 2011, the loan portfolio includes loans that have been restructured and would otherwise be past due or impaired in the amount of RUB 904 633 thousand (31 December 2010: RUB 1 247 175 thousand). Such restructuring activity is aimed at managing customer relationships and maximizing the quality of the loan portfolio. Restructured loans are included in loans not past due unless the borrower is unable to comply with the renegotiated terms.

The following table provides information on restructured loans as at 31 December 2011 and 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Restructured loans				
- As at 31 December 2011	904 633	(48 185)	856 448	5.3%
- As at 31 December 2010	1 247 175	(86 135)	1 161 040	6.9%

As at 31 December 2011, the gross amount of overdue loans with payments that are overdue at least one day totals RUB 2 603 041 thousand, which represents 1.6% of the loan portfolio (31 December 2010: RUB 2 182 030 thousand and 2.0%, respectively).

Nonperforming loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 1 765 023 thousand or 1.2% of the loan portfolio (31 December 2010: RUB 1 627 796 thousand and 1.5%, respectively).

NPLs together with restructured loans amount to RUB 2 669 656 thousand or 1.6% of the loan portfolio (31 December 2010: RUB 2 874 971 thousand and 2.7%, respectively).

As at 31 December 2011, the ratio of total impairment allowance to overdue loans equals 141.5%, the ratio of total impairment allowance to NPLs equals 208.6% and the ratio of total impairment allowance to NPLs together with restructured loans equals 137.9% (31 December 2010: 128.0%, 171.6% and 97.2%, respectively).

Movements in the loan impairment allowance for the years ended 31 December 2011 and 31 December 2010 are as follows:

	2011 RUB'000	**2010 RUB'000**
Balance at the beginning of the period	2 793 109	1 824 201
Net charge	1 283 719	1 539 798
Net write-offs	(394 396)	(570 890)
Balance at the end of the period	**3 682 432**	**2 793 109**

As at 31 December 2011, interest accrued on overdue loans amounts to RUB 232 214 thousand (31 December 2010: RUB 385 673 thousand).

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 31 December 2011:

	Gross loans	**Impairment allowance**	**Net loans**	**Impairment to gross loans**
	RUB'000	**RUB'000**	**RUB'000**	**%**
Loans to corporate clients				
- Not past due	132 187 233	(2 459 881)	129 727 352	1.9%
- Overdue less than 31 days	48 560	(22 774)	25 786	46.9%
- Overdue 31-60 days	130 641	(54 930)	75 711	42.0%
- Overdue 61-90 days	2 616	(826)	1 790	31.6%
- Overdue 91-180 days*	405 492	(21 128)	384 364	5.2%
- Overdue 181-360 days	22 599	(19 506)	3 093	86.3%
- Overdue more than 360 days	47 117	(45 362)	1 755	96.3%
Total loans to corporate clients	**132 844 258**	**(2 624 407)**	**130 219 851**	**2.0%**

* Included in overdue loans to corporate clients for 91-180 days is a loan in the amount of RUB 403 127 thousand with liquid real estate collateral. The Group estimates loan impairment for this loan based on an analysis of future cash flows from the collateral.

The following table provides information on credit quality of loans to corporate clients as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Loans to corporate clients				
- Not past due	87 733 857	(1 597 527)	86 136 330	1.8%
- Overdue less than 31 days	119 781	(16 689)	103 092	13.9%
- Overdue 31-60 days	9 993	(3 796)	6 197	38.0%
- Overdue 61-90 days	19 427	(9 008)	10 419	46.4%
- Overdue 91-180 days	40 310	(21 419)	18 891	53.1%
- Overdue 181-360 days	159 452	(117 458)	41 994	73.7%
- Overdue more than 360 days	234 786	(224 104)	10 682	95.5%
Total loans to corporate clients	**88 317 606**	**(1 990 001)**	**86 327 605**	**2.3%**

The Bank estimates loan impairment for loans to corporate clients based on an analysis of the future cash flows for impaired loans and based on its past loss experience adjusted for recent changes in the economic environment for portfolios of loans for which no indications of impairment have been identified. The key assumptions used in the analysis of future cash flows for impaired loans are based on the assessment of the value of collateral pledged to secure these loans when applicable. To estimate net realizable value of collateral for sale, management, generally, assumes a discount of 20-50 percent to its fair value, depending on type of collateral and market conditions.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance, as of 31 December 2011, would increase/decrease by RUB 1 302 199 thousand (31 December 2010: RUB 863 276 thousand).

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transactions: real estate (manufacturing premises, warehouses), machinery and equipment, motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes.

Loans to corporate customers that are past due or impaired

Impaired or overdue loans to corporate customers are secured by collateral with a fair value of RUB 581 065 thousand (2010: RUB 555 195 thousand), excluding the effect of overcollateralization.

As of 31 December 2011 the Group plans to recover a portion of impaired lease contracts with a gross amount of RUB 15 715 thousand (31 December 2010: RUB 19 646 thousand) through the sale of collateral with a fair value of RUB 12 099 thousand (31 December 2010: RUB 9 455 thousand).

Loans to corporate customers that are neither past due or impaired

For loans to corporate customers with a net carrying amount of RUB 129 727 352 thousand (2010: RUB 86 136 330 thousand), which are neither past due or impaired, the fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

Collateral obtained

During the year ended 31 December 2011, the Group obtained certain assets by taking possession of collateral for loans to corporate customers. As at 31 December 2011, the carrying amount of such assets was RUB 95 321 thousand (2010: RUB 68 812 thousand). The Group's policy is to sell these assets as soon as it is practicable.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance for loans to corporate clients for the years ended 31 December are as follows:

	2011 RUB'000	2010 RUB'000
Balance at the beginning of the period	1 990 001	1 003 134
Net charge	866 943	1 237 765
Net write-offs	(232 537)	(250 898)
Balance at the end of the period	**2 624 407**	**1 990 001**

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2011:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment to gross loans %
Auto loans				
- Not past due	6 097 845	(2 515)	6 095 330	0.0%
- Overdue less than 31 days	29 710	(1 551)	28 159	5.2%
- Overdue 31-60 days	9 312	(1 297)	8 015	13.9%
- Overdue 61-90 days	10 388	(2 194)	8 194	21.1%
- Overdue 91-180 days	10 691	(3 696)	6 995	34.6%
- Overdue 181-360 days	10 383	(6 317)	4 066	60.8%
- Overdue more than 360 days	6 689	(6 208)	481	92.8%
Total auto loans	**6 175 018**	**(23 778)**	**6 151 240**	**0.4%**
Mortgage loans				
- Not past due	6 975 596	(25 571)	6 950 025	0.4%
- Overdue less than 31 days	46 368	(42)	46 326	0.1%
- Overdue 31-60 days	93 765	(2 935)	90 830	3.1%
- Overdue 61-90 days	3 795	-	3 795	0.0%
- Overdue 91-180 days	117 849	(9 098)	108 751	7.7%
- Overdue 181-360 days	16 312	(3 340)	12 972	20.5%
- Overdue more than 360 days	407 317	(220 243)	187 074	54.1%
Total mortgage loans	**7 661 002**	**(261 229)**	**7 399 773**	**3.4%**

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Other loans to individuals				
- Not past due	14 838 538	(78 323)	14 760 215	0.5%
- Overdue less than 31 days	230 414	(46 870)	183 544	20.3%
- Overdue 31-60 days	116 760	(51 872)	64 888	44.4%
- Overdue 61-90 days	115 689	(65 041)	50 648	56.2%
- Overdue 91-180 days	377 805	(251 794)	126 011	66.6%
- Overdue 181-360 days	258 683	(200 351)	58 332	77.5%
- Overdue more than 360 days	84 086	(78 767)	5 319	93.7%
Total other loans to individuals	**16 021 975**	**(773 018)**	**15 248 957**	**4.8%**
Total loans to individuals	**29 857 995**	**(1 058 025)**	**28 799 970**	**3.5%**

The following table provides information on the credit quality of loans to individuals as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Auto loans				
- Not past due	5 360 587	(12 314)	5 348 273	0.2%
- Overdue less than 31 days	23 274	(3 312)	19 962	14.2%
- Overdue 31-60 days	8 512	(2 349)	6 163	27.6%
- Overdue 61-90 days	9 193	(3 679)	5 514	40.0%
- Overdue 91-180 days	14 554	(7 713)	6 841	53.0%
- Overdue 181-360 days	14 166	(11 168)	2 998	78.8%
- Overdue more than 360 days	48 214	(47 122)	1 092	97.7%
Total auto loans	**5 478 500**	**(87 657)**	**5 390 843**	**1.6%**
Mortgage loans				
- Not past due	6 566 886	(6 028)	6 560 858	0.1%
- Overdue less than 31 days	121 582	(129)	121 453	0.1%
- Overdue 31-60 days	15 905	(343)	15 562	2.2%
- Overdue 61-90 days	42 573	(1 570)	41 003	3.7%
- Overdue 91-180 days	60 238	(2 861)	57 377	4.8%
- Overdue 181-360 days	54 675	(16 737)	37 938	30.6%
- Overdue more than 360 days	779 573	(402 574)	376 999	51.6%
Total mortgage loans	**7 641 432**	**(430 242)**	**7 211 190**	**5.6%**
Other loans to individuals				
- Not past due	4 802 058	(46 495)	4 755 563	1.0%
- Overdue less than 31 days	92 637	(21 512)	71 125	23.2%
- Overdue 31-60 days	43 974	(20 824)	23 150	47.4%
- Overdue 61-90 days	47 383	(28 025)	19 358	59.1%
- Overdue 91-180 days	127 841	(88 568)	39 273	69.3%
- Overdue 181-360 days	58 415	(46 562)	11 853	79.7%
- Overdue more than 360 days	35 572	(33 223)	2 349	93.4%
Total other loans to individuals	**5 207 880**	**(285 209)**	**4 922 671**	**5.5%**
Total loans to individuals	**18 327 812**	**(803 108)**	**17 524 704**	**4.4%**

Management estimates loan impairment based on historical loss experience for these types of loans using historical loss migration patterns for the past twenty four months and fair value of collateral. The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- the Group can sell auto loans and other loans to individuals overdue more than 360 days for 6.2 % and 4.1 % of their gross amounts, respectively
- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months
- in respect of mortgage loans, a delay of 18 months in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income, and a discount of 20% to the originally appraised value if the property pledged is sold through court procedures. For impaired loans where the fair value of collateral is equal to at least 150% of the outstanding mortgage loan balance, management eliminates the impairment allowance that would otherwise result from the migration analysis.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance, as of 31 December 2011, would increase/decrease by RUB 288 000 thousand (31 December 2010: RUB 175 247 thousand).

Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying car. Credit card overdrafts and consumer loans are not secured.

Management does not estimate loan impairment based on analysis of fair value of collateral. However once a loan becomes impaired, management considers the fair value of collateral when assessing the impairment allowance for each individual loan.

As of 31 December 2011 impaired mortgage loans in the amount of RUB 685 406 thousand are secured by a collateral with a fair value of RUB 586 475 thousand. As of 31 December 2011, the Group estimates the fair value of private real estate undergoing foreclosure to be RUB 36 396 thousand (31 December 2010: RUB 300 902 thousand).

Management believes that it is impracticable to estimate the fair value of collateral held in respect of auto loans.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2011 are as follows:

	Auto loans **RUB'000**	**Mortgage loans** **RUB'000**	**Other loans to individuals** **RUB'000**	**Total** **RUB'000**
Balance at the beginning of the period	87 657	430 242	285 209	803 108
Net (reversal) charge	(32 353)	(169 013)	618 142	416 776
Net write-offs	(31 526)	-	(130 333)	(161 859)
Balance at the end of the period	**23 778**	**261 229**	**773 018**	**1 058 025**

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2010 are as follows:

	Auto loans RUB'000	Mortgage loans RUB'000	Other loans to individuals RUB'000	Total RUB'000
Balance at the beginning of the period	139 619	362 826	318 622	821 067
Net charge	8 625	90 238	203 170	302 033
Net write-offs	(60 587)	(22 822)	(236 583)	(319 992)
Balance at the end of the period	**87 657**	**430 242**	**285 209**	**803 108**

Industry and geographical 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:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Loans to individuals	29 857 995	18 327 812
Food and farm products	20 956 404	7 881 881
Consumer electronics, appliances and computers	18 459 411	13 135 208
Residential and commercial construction and development	12 119 200	7 167 974
Construction and decorative materials, furniture	10 813 405	6 643 890
Clothing, shoes, textiles and sporting goods	9 149 182	6 320 591
Industrial equipment and machinery	8 318 855	4 946 366
Property rental	8 164 457	5 650 503
Pharmaceutical and medical products	6 099 881	1 390 506
Automotive, motorcycles and spare parts	5 396 030	3 431 007
Services	4 809 991	2 720 873
Equipment leasing	4 443 980	4 031 825
Consumer chemicals, perfumes and hygiene products	4 023 559	4 578 510
Paper, stationery and packaging products	4 001 577	3 014 739
Metallurgical	3 681 045	3 203 615
Oil and industrial chemicals	3 182 725	2 918 276
Industrial and infrastructure construction	1 510 690	773 780
Financial	1 424 049	5 895 633
Telecommunications	1 340 167	1 531 982
Gardening and pet products	942 175	516 667
Books, video, print and copy	526 557	310 410
Electric utility	-	498 302
Products for home, gifts, jewelry and business accessories	408 239	346 555
Other	3 072 679	1 408 513
	162 702 253	**106 645 418**
Impairment allowance	(3 682 432)	(2 793 109)
	159 019 821	**103 852 309**

Finance lease

Finance lease receivables included in loans to customers are as follows:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Gross investment in finance lease	4 565 174	1 776 992
Unearned interest income	(991 063)	(391 230)
Net investment in finance lease before allowance	**3 574 111**	**1 385 762**
Impairment allowance	(84 971)	(310 522)
Net investment in finance lease	**3 489 140**	**1 075 240**

The contractual maturity of the net investment in leases is as follows:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Less than 1 year	1 400 740	630 110
Between 1 and 5 years	1 688 791	442 093
More than 5 years	9	3 037
	3 089 540	**1 075 240**

Loan maturities

The maturity of the loan portfolio is presented in note 28.

14 Property and equipment

The movement in property and equipment for the year ended 31 December 2011 is presented in the table below:

RUB'000	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2011	2 216 926	146 259	86 192	747 310	1 498 854	**4 695 541**
Additions	13 526	127 772	175 447	394 858	259 108	**970 711**
Disposals	-	(18 140)	(2 268)	(28 471)	-	**(48 879)**
At 31 December 2011	**2 230 452**	**255 891**	**259 371**	**1 113 697**	**1 757 962**	**5 617 373**
Accumulated depreciation						
At 1 January 2011	96 053	48 540	50 823	245 008	-	**440 424**
Depreciation charge	45 295	37 107	29 602	130 044	-	**242 048**
Disposals		(17 415)	(1 515)	(16 101)	-	**(35 031)**
At 31 December 2011	**141 348**	**68 232**	**78 910**	**358 951**	**-**	**647 441**
Carrying value						
At 31 December 2011	**2 089 104**	**187 659**	**180 461**	**754 746**	**1 757 962**	**4 969 932**

The movement in property and equipment for the year ended 31 December 2010 is presented in the table below:

RUB'000	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2010	2 215 029	101 912	64 511	526 051	21 311	**2 928 814**
Additions	1 897	66 811	22 235	277 871	1 477 543	**1 846 357**
Disposals	-	(22 464)	(554)	(56 612)	-	**(79 630)**
At 31 December 2010	**2 216 926**	**146 259**	**86 192**	**747 310**	**1 498 854**	**4 695 541**
Accumulated depreciation						
At 1 January 2010	42 026	43 195	39 848	187 327	-	**312 396**
Depreciation charge	54 027	21 402	11 529	91 205	-	**178 163**
Disposals	-	(16 057)	(554)	(33 524)	-	**(50 135)**
At 31 December 2010	**96 053**	**48 540**	**50 823**	**245 008**	**-**	**440 424**
Carrying value						
At 31 December 2010	**2 120 873**	**97 719**	**35 369**	**502 302**	**1 498 854**	**4 255 117**

Revalued assets

At 31 December 2009 buildings were revalued based on the results of an independent appraisal performed by OOO "MEF-Audit". The basis used for the appraisal is the market approach. The market approach is based upon an analysis of the results of comparable sales of similar buildings.

As at 31 December 2011 management determined that the fair value of buildings was consistent with the value obtained in 2009, and accordingly, no adjustments to fair value were made.

The carrying value of buildings as of 31 December 2011, if the buildings would not have been revalued, would be RUB 1 499 193 thousand (31 December 2010: RUB 1 517 587 thousand).

15 Other assets

	31 December 2011 RUB'000	31 December 2010 RUB'000
Receivables	759 249	469 950
Property held for sale	167 244	66 271
Prepaid expenses	165 279	88 444
Current income tax receivable	118 596	16
Intangibles	73 962	4 677
Other	288 231	117 083
Total other assets	**1 572 561**	**746 441**

16 Deposits by credit institutions

	31 December 2011 RUB'000	31 December 2010 RUB'000
Demand deposits	64 496	53 986
Term deposits	18 168 718	10 194 233
Syndicated loans	5 421 197	5 213 680
Payables under repurchase agreements	-	11 166 555
Subordinated debt	1 309 717	1 234 830
Total deposits by credit institutions	**24 964 128**	**27 863 284**

Syndicated loans represent loans denominated in USD with effective interest rates ranging from 3.4% to 5.5% (31 December 2010: from 3.8% to 5.2%) and maturity from 2012 to 2015 (31 December 2010: from 2011 to 2015).

Subordinated debt represents loans denominated in USD with effective interest rates ranging from 6.0% to 9.4% (31 December 2010: 5.7% to 8.5%) and maturity from 2015 to 2017 (31 December 2010: 2015 to 2017).

The Group shall observe certain covenants attached to syndicated loans and subordinated debt from International Finance Corporation, European Bank for Reconstruction and Development and BLACK SEA TRADE AND DEVELOPMENT BANK. As at 31 December 2011 and 2010, the Group fully meets all covenants of the loan agreements.

Information about the currency and maturity and effective interest rates on deposits by credit institutions is presented in note 28.

Concentrations of deposits by credit institutions

As at 31 December 2011 the Group has two counterparties (31 December 2010: three) whose deposits balance exceed 10% of deposits by credit institutions. The gross value of these facilities as at 31 December 2011 is RUB 8 900 996 thousand (31 December 2010: RUB 14 388 231 thousand).

17 Deposits by customers

		31 December 2011 RUB'000	31 December 2010 RUB'000
Corporate customers	Demand	17 838 871	11 142 438
	Term	34 843 029	25 630 335
	Subordinated	2 745 236	6 057 760
	Term notes	5 894 492	1 532 248
Total corporate customers		**61 321 628**	**44 362 781**
Individuals	Demand	4 842 326	2 839 841
	Term	80 526 932	47 885 406
Total individuals		**85 369 258**	**50 725 247**
Total deposits by customers		**146 690 886**	**95 088 028**

Concentrations of deposits by customers

As of 31 December 2011 and 2010, there are no demand or term deposits from customers that individually exceed 10% of total customer accounts.

Information about the currency and maturity and effective interest rates on deposits by customers is presented in note 28.

18 Debt securities issued

	31 December 2011 RUB'000	31 December 2010 RUB'000
Promissory notes issued at nominal value	6 789 426	16 307 223
Accrued interest	32 768	215 005
Unamortized discount on promissory notes	(304 874)	(412 355)
	6 517 320	**16 109 873**
Bonds issued	24 601 549	11 141 223
	31 118 869	**27 251 096**

Bondholders are entitled to demand early redemption of bonds at their nominal value. The next date on which bondholders can demand redemption is July 2012. In note 28 bonds are presented on the early redemption option dates.

RUB denominated bonds issue 05 (31 December 2011: RUB 1 682 876 thousand) was issued in April 2009 with a fixed coupon rate of 15% for the first year. The coupon rate for the six month period was reset in October 2011 at 7.4% until the final maturity date of 25 April 2012.

RUB denominated bonds issue 06 (31 December 2011: RUB 2 013 542 thousand) was issued in August 2009 with a fixed coupon rate of 16% for the first year. The coupon rate for the six month period was reset in August 2011 at 9.4% until the final maturity date of 7 August 2012.

RUB denominated bonds issue 07 (31 December 2011: RUB 2 049 005 thousand) was issued in July 2010 with a fixed coupon rate of 9.76% for the first 2 years. The Bank sets the coupon rate for each subsequent six month period until the final maturity date of 14 July 2015.

RUB denominated bonds issue 08 (31 December 2011: RUB 1 540 542 thousand) was issued in April 2010 with a fixed coupon rate of 9.7% for the first 1.5 years. The Bank sets the coupon rate for each subsequent six month period until the final maturity date of 8 April 2015. The coupon rate for the six month period was reset in October 2011 at 9.0% until April 2012.

RUB denominated bonds issue BO-01 (31 December 2011: RUB 2 585 541 thousand) was issued in February 2011 with a fixed coupon rate of 8.5% for the first 2 years. The Bank sets the coupon rate for each subsequent six month period until the final maturity date of 22 February 2014.

RUB denominated bonds issue BO-04 (31 December 2011: RUB 3 819 034 thousand) was issued in April 2011 with a fixed coupon rate of 8.0% for the first 1.5 years. The Bank sets the coupon rate for each subsequent six month period until the final maturity date of 15 April 2014.

RUB denominated bonds issue BO-05 (31 December 2011: RUB 4 494 877 thousand) was issued in June 2011 with a fixed coupon rate of 9.2% for each six month period until the final maturity date of 23 June 2014.

USD denominated Eurobonds issue (31 December 2011: RUB 6 416 132 thousand) was issued in July 2011 with a fixed coupon rate of 8.25% for each six month period until the final maturity date of 5 August 2014.

Information about the currency and maturity and effective interest rates on debt securities issued is presented in note 28.

19 Other liabilities

	31 December 2011 RUB'000	31 December 2010 RUB'000
Allowance for credit related commitments	484 397	260 419
Cash collection payables	397 693	152 366
Payables to suppliers	347 725	198 981
Deferred income	225 985	69 714
Operating taxes payable	97 944	59 253
Payables to Deposit Insurance Agency	80 119	45 231
Other	264 834	79 036
Total other liabilities	**1 898 697**	**865 000**

20 Share capital

Share capital consists of ordinary shares and was contributed by the shareholder in Roubles. The shareholder is entitled to dividends and capital distributions. Issued, outstanding and paid share capital comprises 10 776 158 008 shares (31 December 2010: 6 276 158 008 shares) with par value of 1 RUB per share. In July 2011 the Central Bank of the Russian Federation registered the Bank's share capital increase in the amount of RUB 4 500 000 000. The total hyperinflation adjustment, related to equity as at 31 December 2002, was RUB 861 930 thousand.

Due to the fact that interest rates applicable to subordinated loans from the owner of the Bank are substantially lower than the market rates, the Bank converted part of these subordinated loans in the amount of RUB 3 536 361 thousand (net of deferred tax of RUB 884 090 thousand) into additional paid-in-capital. This additional paid-in capital represents tier 1 capital according to the Basel Capital Accord.

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation, as of the reporting date, retained earnings available for distribution amount to RUB 695 720 thousand (2010: RUB 1 254 331 thousand).

21 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 applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. 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.

	31 December 2011 RUB'000	31 December 2010 RUB'000
Guarantees and letters of credit	29 869 161	15 419 408
Undrawn loan commitments	1 079 727	503 892
Other contingent liabilities	214 784	-
	31 163 672	**15 923 300**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

22 Operating leases

Leases as lessee

Future minimum lease payments on non-cancellable lease agreements are as follows:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Less than 1 year	227 407	128 331
Between 1 and 5 years	247 167	174 282
More than 5 years	214 929	102 328
	689 503	**404 941**

23 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 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.

24 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.

25 Related party transactions

The outstanding balances with related parties and related average interest rates as at 31 December 2011 and 31 December 2010 are as follows:

	31 December 2011		31 December 2010	
	Amount RUB'000	**Average effective interest rate**	**Amount RUB'000**	**Average effective interest rate**
Loans to customers				
Ultimate shareholder	70 208	12.0%	308 765	11.4%
Under control of ultimate shareholder	87 138	12.0%	333 697	10.0%
Management	43 977	10.7%	39 529	10.7%
Total loans	**201 323**		**681 991**	
Deposits by customers				
Ultimate shareholder	31 993	3.9%	51 069	10.4%
Parent company	250 896	8.3%	5 489	8.1%
Under control of ultimate shareholder	2 909 463	7.9%	6 310 867	6.3%
Management	35 481	7.6%	17 913	9.8%
Total deposits	**3 227 833**		**6 385 338**	

Amounts included in the consolidated statement of comprehensive income for the year ended 31 December in relation to transactions with related parties are as follows:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Interest income on loans to customers		
Ultimate shareholder	34 236	12 244
Under control of ultimate shareholder	38 956	17 377
Management	4 786	2 980
Total interest income on loans to customers	**77 978**	**32 601**
Interest expense on deposits by customers		
Ultimate shareholder	459	18 692
Under control of ultimate shareholder	166 694	49 890
Management	1 716	1 523
Parent company	31 743	922
Total interest expense on deposits by customers	**200 612**	**71 027**

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the year ended 31 December (refer to note 6) is as follows:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Members of the Supervisory Board	3 957	2 315
Members of the Management Board	45 596	39 373
	49 553	**41 688**

26 Capital management

The Central Bank of the Russian Federation 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 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 2011, this minimum level is 10%. The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2011 and 2010.

The Group also monitors its capital adequacy levels 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 (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 Basel Accord, as at 31 December:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Tier 1 capital		
Share capital and additional paid-in capital	15 337 135	7 300 774
Retained earnings	9 823 364	5 937 830
Total tier 1 capital	**25 160 499**	**13 238 604**
Tier 2 capital		
Revaluation surplus for buildings	500 424	500 424
Revaluation reserve for investments available-for-sale	(53 017)	28 067
Subordinated loans		
Subordinated loan from EBRD	482 942	579 061
Subordinated loan from BLACK SEA TRADE AND DEVELOPMENT BANK	643 922	609 538
Subordinated loans from WELLCREEK CORPORATION	2 745 236	6 000 000
Less limitation of subordinated capital to 50% of tier 1	-	(569 297)
Total tier 2 capital	**4 319 507**	**7 147 793**
Total capital	**29 480 006**	**20 386 397**
Risk-weighted assets		
Banking book	184 090 083	119 410 805
Trading book	21 012 847	30 390 992
Total risk weighted assets	**205 102 930**	**149 801 797**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**14.4**	**13.6**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**12.3**	**8.8**

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 unrecognised exposures, 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 Basel Accord established by covenants under liabilities incurred by the Group. The Group complied with all externally imposed capital requirements during the years ended 31 December 2011 and 2010.

27 Analysis by segment

The Group has five reportable segments, as described below, which are 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 First deputy of the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate banking: comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guaranties, corporate deposit taking, settlements and money transfer, currency conversion
- Retail banking: comprises retail demand and term deposit services; retail lending, including consumer loans, car loans and mortgages, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals
- Treasury: comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes
- International business: comprises borrowings from international financial institutions and trade finance operations
- Cash collection and other cash operations: comprise all operations connected with cash, cash collection, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on financial information prepared in accordance with IFRS, as included in the internal management reports that are reviewed by the First deputy of the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The segment breakdown of assets and liabilities is set out below:

	31 December 2011 RUB'000	**31 December 2010 RUB'000**
ASSETS		
Corporate banking	131 168 702	86 675 635
Retail banking	30 110 289	17 933 259
Treasury	57 314 123	51 965 735
Cash operations	7 235 146	3 894 457
Unallocated assets	6 542 493	5 001 557
Total assets	**232 370 753**	**165 470 643**
LIABILITIES		
Corporate banking	61 321 627	42 830533
Retail banking	85 369 257	50 725 247
Treasury	31 243 275	44 551 898
International business	24 839 723	12 094 730
Unallocated liabilities	3 988 965	1 501 140
Total liabilities	**206 762 847**	**151 703 548**

Segment information for the main reportable segments for the year ended 31 December 2011 is set below:

RUB'000	Corporate banking	Retail banking	Treasury	International business	Cash operations	Unallocated	Total
External interest income	13 475 361	4 440 110	3 065 393	-	-	-	20 980 864
Fee and commission income	1 123 736	796 771	4 970	-	793 086	-	2 718 563
Net loss on securities	-	-	(816 952)	-	-	-	(816 952)
Net foreign exchange income	241 975	28 178	203 233	-	-	-	473 386
Other income	80 985	90 430	11 040	-	-	-	182 455
(Expenses) revenue from other segments	(4 554 527)	3 868 990	(468 876)	1 136 386	18 027	-	-
Revenue	**10 367 530**	**9 224 479**	**1 998 808**	**1 136 386**	**811 113**	**-**	**23 538 316**
Impairment losses on loans	(866 943)	(416 776)	-	-	-	-	(1 283 719)
Interest expense	(2 317 426)	(6 172 591)	(3 226 993)	(540 192)	-	-	(12 257 202)
Fee and commission expense	(7 601)	(43 439)	(65 792)	(74 999)	(535)	-	(192 366)
General administrative and other expenses	(500 947)	(2 275 176)	(105 956)	(21 211)	(712 453)	(1 330 946)	(4 946 689)
Income (loss) before income taxes	**6 674 613**	**316 497**	**(1 399 933)**	**499 984**	**98 125**	**(1 330 946)**	**4 858 340**
Income tax						(972 806)	**(972 806)**
Segment result	**6 674 613**	**316 497**	**(1 399 933)**	**499 984**	**98 125**	**(2 303 752)**	**3 885 534**

Segment information for the main reportable segments for the year ended 31 December 2010 is set below:

RUB'000	Corporate banking	Retail banking	Treasury	International business	Cash operations	Unallocated	Total
External interest income	9 639 922	2 688 915	2 216 154	-	-	-	14 544 991
Fee and commission income	877 965	296 619	11 865	-	571 529	-	1 757 978
Net gain on securities	-	-	422 001	-	-	-	422 001
Net foreign exchange income (loss)	233 088	31 098	(32 147)	-	-	-	232 039
Other income (expenses)	72 036	109 821	(369)	-	-	-	181 488
(Expenses) revenue from other segments	(4 162 192)	2 577 642	610 021	953 725	20 804	-	-
Revenue	**6 660 819**	**5 704 095**	**3 227 525**	**953 725**	**592 333**	**-**	**17 138 497**
Impairment losses on loans	(1 237 765)	(302 033)	-	-	-	-	(1 539 798)
Interest expense	(1 395 715)	(4 426 918)	(2 459 924)	(195 875)	-	-	(8 478 432)
Fee and commission expense	(12 525)	(34 076)	(32 173)	(23 344)	(245)	-	(102 363)
General administrative and other expenses	(358 596)	(1 351 148)	(75 672)	(8 740)	(495 255)	(975 970)	(3 265 381)
Income (loss) before income taxes	**3 656 218**	**(410 080)**	**659 756**	**725 766**	**96 833**	**(975 970)**	**3 752 523**
Income tax	-	-	-	-	-	(731 147)	**(731 147)**
Segment result	**3 656 218**	**(410 080)**	**659 756**	**725 766**	**96 833**	**(1 707 117)**	**3 021 376**

28 Risk management

Management of risk is fundamental to the banking business and is an essential element of operations. The main risks inherent in the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates.

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 recognised and unrecognised exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and individuals)
- 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 Corporate Lending Department, which is responsible for the corporate loan portfolio. Credit reports 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 Division's Credit Risk Management Department and a second opinion is given accompanied by a check that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Corporate Lending Division and the Risk Department. Individual transactions are also reviewed by the 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 internal specialists of the Collateral Evaluation and Monitoring Service, 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 Retail Lending Division through the use of scoring models and borrowers' credit worthiness evaluation procedures and verification procedures developed together with the Risk Division.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Division with regard to credit concentration and market risks.

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

The maximum exposure to credit risk in relation to assets recognized at the reporting date is as follows:

	31 December 2011 RUB'000	31 December 2010 RUB'000
ASSETS		
Cash and cash equivalents	27 198 272	19 441 969
Obligatory reserves with the Central Bank of the Russian Federation	2 259 170	756 584
Due from credit institutions	5 301 412	586 968
Financial instruments at fair value through profit or loss	22 783 737	27 475 153
Available-for-sale securities	2 003 672	4 401 846
Loans to customers	159 019 821	103 852 309
Other assets	870 522	479 138
Total maximum exposure to credit risk on statement of financial position	**219 436 606**	**156 993 967**

For the analysis of concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to credit risk in relation to guarantees and commitments at the reporting date is presented in note 21.

Guarantees and standby letters of credit, which 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. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, can be covered by the funds deposited by customers and therefore bear limited credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group established an Operational Risk Unit as a part of the Internal Control Department. The Operational Risk Unit determines policies and procedures in the area of operational risks.

The Unit collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools. The Operational Risk Unit reports to the Head of Internal Control Department on important developments and issues. The Head of Internal Control Department reports directly to the Supervisory Board.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Bank 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 Asset and Liability Management Committee (ALCO) sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of the Russian Federation. These ratios are: (i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; (ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; (iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The Bank was in compliance with these ratios during the years ended 31 December 2011 and 2010.

The following table as at 31 December 2011 shows the undiscounted cash flows from financial liabilities on the basis of their contractual maturity. These expected cash flows can vary significantly from the actual future cash flows.

Foreign currency payments are translated using the spot exchange rate at the reporting date.

31 December 2011	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**Over 1 year**	**Total**
	RUB'000	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**
LIABILITIES					
Deposits by credit institutions	2 244 927	5 084 321	11 146 691	8 097 348	**26 573 287**
Deposits by customers	43 222 843	43 141 677	35 265 353	36 520 146	**158 150 019**
Debt securities issued	1 979 301	5 370 272	10 955 480	16 274 938	**34 579 991**
Total potential future payments for financial obligations as at 31 December 2011	**47 447 071**	**53 596 270**	**57 367 524**	**60 892 432**	**219 303 297**
Guarantees and letters of credit	1 020 402	13 841 576	7 126 078	7 881 105	**29 869 161**
Credit related commitments	1 079 727	-	-	-	**1 079 727**

31 December 2010	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**Over 1 year**	**Total**
	RUB'000	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**
LIABILITIES					
Deposits by credit institutions	12 755 231	4 951 238	6 671 004	4 672 006	**29 049 479**
Deposits by customers	22 350 904	28 234 189	18 688 821	31 793 379	**101 067 293**
Debt securities issued	1 571 491	7 675 117	12 525 993	8 799 614	**30 572 215**
Total potential future payments for financial obligations as at 31 December 2010	**36 677 626**	**40 860 544**	**37 885 818**	**45 264 999**	**160 688 987**
Guarantees and letters of credit	690 760	10 442 552	3 631 970	654 126	**15 419 408**
Credit related commitments	503 892	-	-	-	**503 892**

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Management considers term deposits from individuals to be a stable source of funding based on the past experience, thus classifiing them in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

	2011 RUB'000	**2010 RUB'000**
Demand and less than 1 month	5 040 073	3 145 962
From 1 to 6 months	32 490 657	20 702 151
From 6 to 12 months	23 931 570	16 083 299
More than 1 year	19 064 632	7 953 994
	80 526 932	**47 885 406**

The following tables show all assets and liabilities as at 31 December 2011 and 2010 by their remaining contractual maturities, including term deposits with individuals, with the exception of securities included in financial instruments at fair value through profit or loss and available-for-sale securities that qualify as collateral for borrowing from the Central Bank of the Russian Federation as collateral for its loans. Such securities are shown in the category "Less than 1 month" as management believes they are liquid assets which can be sold quickly in response to liquidity needs, if necessary. The amounts shown here represent carrying amounts on the reporting dates and do not include cash flows associated with future interest and coupon payments.

As at 31 December 2011 and 2010 the contractual maturities of all securities included in financial instruments at fair value through profit or loss and available-for-sale securities were as follows:

31 December 2011	**Less than 1 month RUB'000**	**1 to 6 months RUB'000**	**6 months to 1 year RUB'000**	**1 to 3 years RUB'000**	**3 to 5 years RUB'000**	**Over 5 years RUB'000**	**No maturity RUB'000**	**Total RUB'000**
Financial instruments at fair value through profit or loss	-	1 598 664	961 248	7 629 243	6 547 877	6 046 705	23	**22 783 760**
Available-for-sale securities	-	197 250	528 167	625 001	103 079	550 175	27 006	**2 030 678**

31 December 2010	**Less than 1 month RUB'000**	**1 to 6 months RUB'000**	**6 months to 1 year RUB'000**	**1 to 3 years RUB'000**	**3 to 5 years RUB'000**	**Over 5 years RUB'000**	**No maturity RUB'000**	**Total RUB'000**
Financial instruments at fair value through profit or loss	-	3 211 012	4 104 788	8 560 974	9 536 426	2 061 953	-	**27 475 153**
Available-for-sale securities	-	729 542	777 134	2 266 619	525 147	103 404	59 799	**4 461 645**

31 December 2011	Less than 1 month RUB'000	1 to 3 months RUB'000	3 to 6 months RUB'000	6 to 9 months RUB'000	9 months to 1 year RUB'000	1 to 2 years RUB'000	2 to 3 years RUB'000	3 to 5 years RUB'000	Over 5 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
ASSETS												
Cash and cash equivalents	34 433 419	-	-	-	-	-	-	-	-	-	-	**34 433 419**
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	-	-	-	-	2 259 170	-	**2 259 170**
Due from credit institutions	-	5 270 826	30 586	-	-	-	-	-	-	-	-	**5 301 412**
Financial instruments at fair value through profit or loss	20 225 992	-	559 346	79 191	350 998	177 323	689 737	701 150	-	23	-	**22 783 760**
Available-for-sale securities	371 885	-	51 626	419 739	98 150	515 525	-	103 079	443 668	27 006	-	**2 030 678**
Loans to customers	12 292 527	27 454 499	32 353 751	12 361 218	15 868 355	22 021 814	14 764 676	13 852 822	6 563 260	-	1 486 899	**159 019 821**
Property and equipment	-	-	-	-	-	-	-	-	-	4 969 932	-	**4 969 932**
Other assets	376 104	475 110	271 558	167 749	39 439	942	452	-	-	241 207	-	**1 572 561**
	67 699 927	**33 200 435**	**33 266 867**	**13 027 897**	**16 356 942**	**22 715 604**	**15 454 865**	**14 657 051**	**7 006 928**	**7 497 338**	**1 486 899**	**232 370 753**
LIABILITIES												
Deposits by credit institutions	2 239 428	2 191 591	2 839 045	4 450 240	6 315 653	3 525 359	897 906	1 904 128	600 778	-	-	**24 964 128**
Deposits by customers	43 158 216	18 528 125	23 602 385	17 195 828	15 970 309	9 135 332	14 092 833	2 262 622	2 745 236	-	-	**146 690 886**
Debt securities issued	1 875 939	1 623 996	3 014 127	4 977 035	5 364 688	2 591 335	11 664 500	6 559	690	-	-	**31 118 869**
Income tax liability	15 870	-	-	-	-	-	-	-	-	2 074 397	-	**2 090 267**
Other liabilities	748 221	267 234	84 297	108 365	60 228	96 393	121	-	-	533 838	-	**1 898 697**
	48 037 674	**22 610 946**	**29 539 854**	**26 731 468**	**27 710 878**	**15 348 419**	**26 655 360**	**4 173 309**	**3 346 704**	**2 608 235**	-	**206 762 847**
Net position	**19 662 253**	**10 589 489**	**3 727 013**	**(13 703 571)**	**(11 353 936)**	**7 367 185**	**(11 200 495)**	**10 483 742**	**3 660 224**	**4 889 103**	**1 486 899**	**25 607 906**
Accumulated gap	**19 662 253**	**30 251 742**	**33 978 755**	**20 275 184**	**8 921 248**	**16 288 433**	**5 087 938**	**15 571 680**	**19 231 904**	**24 121 007**	**25 607 906**	

31 December 2010

	Less than 1 month RUB'000	1 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	3 to 5 years RUB'000	Over 5 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
ASSETS									
Cash and cash equivalents	23 336 426	-	-	-	-	-	-	-	**23 336 426**
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	-	756 584	-	**756 584**
Due from credit institutions	-	436 968	150 000	-	-	-	-	-	**586 968**
Financial instruments at fair value through profit or loss	24 153 390	582 640	708 848	851 524	1 178 751	-	-	-	**27 475 153**
Available-for-sale securities	2 436 745	-	310 803	1 094 020	525 147	35 131	59 799	-	**4 461 645**
Loans to customers	5 991 701	34 496 158	23 184 002	25 715 433	8 580 143	4 833 587	-	1 051 285	**103 852 309**
Property and equipment	-	-	-	-	-	-	4 255 117	-	**4 255 117**
Other assets	164 058	166 952	245 111	74 220	12 554	-	83 546	-	**746 441**
	56 082 320	**35 682 718**	**24 598 764**	**27 735 197**	**10 296 595**	**4 868 718**	**5 155 046**	**1 051 285**	**165 470 643**
LIABILITIES									
Deposits by credit institutions	12 740 236	4 859 385	6 504 503	1 959 843	1 189 779	609 538	-	-	**27 863 284**
Deposits by customers	22 674 633	28 062 409	19 431 717	15 022 786	3 838 723	6 057 760	-	-	**95 088 028**
Debt securities issued	1 140 658	7 291 566	10 860 363	7 958 509	-	-	-	-	**27 251 096**
Income tax liability	142 237	-	-	-	-	-	493 903	-	**636 140**
Other liabilities	319 510	110 673	103 946	-	-	-	330 871	-	**865 000**
	37 017 274	**40 324 033**	**36 900 529**	**24 941 138**	**5 028 502**	**6 667 298**	**824 774**	**-**	**151 703 548**
Net position	**19 065 046**	**(4 641 315)**	**(12 301 765)**	**2 794 059**	**5 268 093**	**(1 798 580)**	**4 330 272**	**1 051 285**	**13 767 095**
Accumulated gap	**19 065 046**	**14 423 731**	**2 121 966**	**4 916 025**	**10 184 118**	**8 385 538**	**12 715 810**	**13 767 095**	

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 income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. 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 hilst optimizing the return on risk.

Overall authority for market risk is vested in ALCO which is chaired by the Chairman of the Management Board. Market risk limits are approved by ALCO based on recommendations of the Risk Division's Financial Risk Management Department.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. Limits and positions are monitored on a regular basis and reviewed and approved by the Management Board and/or ALCO.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of 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 income or the value 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 occur.

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.

The table below summarises the exposure to interest rate risks. The table presents the aggregated amounts of financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

	Less than 1 month RUB'000	1 to 6 months RUB'000	6 months to 1 year RUB'000	Over 1 year RUB'000	Overdue RUB'000	Total RUB'000
31 December 2011						
Interest-bearing assets	25 742 936	66 905 576	29 718 988	78 704 652	1 486 900	**202 559 052**
Interest-bearing liabilities	23 680 936	51 799 268	54 273 753	49 427 278	-	**179 181 235**
Net interest sensitivity gap as at 31 December 2011	**2 062 000**	**15 106 308**	**(24 554 765)**	**29 277 374**	**1 486 900**	**23 377 817**
31 December 2010						
Interest-bearing assets	40 303 835	35 515 766	24 353 653	42 813 737	1 051 285	**144 038 276**
Interest-bearing liabilities	18 519 259	40 213 360	36 796 583	40 636 938	-	**136 166 140**
Net interest sensitivity gap as at 31 December 2010	**21 784 576**	**(4 697 594)**	**(12 442 930)**	**2 176 799**	**1 051 285**	**7 872 136**

An analysis of sensitivity of profit or loss and equity to changes in market interest rates 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 2011 and 2010 is as follows:

	2011		2010	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
100 bp parallel rise	57 164	57 164	152 662	152 662
100 bp parallel fall	(57 164)	(57 164)	(152 662)	(152 662)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2011		2010	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
100 bp parallel rise	(363 888)	(392 369)	(526 594)	(585 445)
100 bp parallel fall	363 888	392 369	526 594	585 445

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.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2011 and a simplified scenario of a 10% change in USD to Russian Rouble exchange rates is as follows:

	2011	
	Profit or loss RUB'000	**Equity RUB'000**
10% appreciation of USD against RUB	(6 468)	(6 468)
10% depreciation of USD against RUB	6 468	6 468

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2010 and a simplified scenario of a 10% change in USD to Russian Rouble exchange rates is as follows:

	2010	
	Profit or loss RUB'000	**Equity RUB'000**
10% appreciation of USD against RUB	(38 093)	(38 093)
10% depreciation of USD against RUB	38 093	38 093

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 profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 5% change in all securities prices is as follows:

	2011		2010	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
5% increase in securities prices	-	1 080	-	2 392
5% decrease in securities prices	-	(1 080)	-	(2 392)

Interest rate analysis

The interest rate policy is reviewed and approved by ALCO. The average effective interest rates for interest bearing financial instruments are as follows:

	31 December 2011			31 December 2010		
	USD	**RUB**	**Other foreign currencies**	**USD**	**RUB**	**Other foreign currencies**
Interest bearing assets						
Cash and cash equivalents	-	5.7%	-	0.7%	3.9%	1.2%
Due from credit institutions	3.2%	9.0%	3.0%	6.2%	6.0%	-
Financial instruments at fair value through profit or loss – government bonds	5.9%	7.9%	-	5.4%	6.9%	-
Financial instruments at fair value through profit or loss – corporate notes and municipal bonds	-	10.1%	-	-	8.3%	-
Available-for-sale securities – government bonds	-	-	-	-	6.4%	-
Available-for-sale securities – corporate notes and municipal bonds	8.8%	11.3%	-	9.7%	9.9%	-
Loans to customers	9.2%	12.5%	9.6%	11.6%	14.0%	11.9%
Interest bearing liabilities						
Deposits by credit institutions	4.0%	7.6%	3.3%	4.1%	4.8%	2.3%
- Syndicated loans	3.9%	-	-	4.0%	-	-
- Subordinated debt	7.7%	-	-	7.1%	-	-
Term deposits by customers	5.9%	9.3%	6.3%	7.5%	9.7%	7.4%
Debt securities issued	8.3%	8.7%	5.2%	3.6%	7.1%	4.7%

Currency analysis

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Supervisory Board sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation. The exposure of assets and liabilities to foreign currency exchange rate risk is as follows:

	31 December 2011				31 December 2010			
	USD	**RUB**	**Other currencies**	**Total**	**USD**	**RUB**	**Other currencies**	**Total**
	RUB'000	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**
ASSETS								
Cash and cash equivalents	2 853 889	28 513 466	3 066 064	**34 433 419**	1 887 758	17 550 107	3 898 561	**23 336 426**
Obligatory reserves with the Central Bank of the Russian Federation	-	2 259 170	-	**2 259 170**	-	756 584	-	**756 584**
Due from credit institutions	3 262 873	1 620 332	418 207	**5 301 412**	235 303	150 000	201 665	**586 968**
Financial instruments at fair value through profit or loss	1 789 318	20 994 442	-	**22 783 760**	2 059 403	25 415 750	-	**27 475 153**
Available-for-sale securities	546 748	1 483 930	-	**2 030 678**	127 883	4 333 762	-	**4 461 645**
Loans to customers	18 186 054	132 935 173	7 898 594	**159 019 821**	13 853 038	84 589 069	5 410 202	**103 852 309**
Property and equipment	-	4 969 932	-	**4 969 932**	-	4 255 117	-	**4 255 117**
Other assets	38 388	1 494 063	40 110	**1 572 561**	75 648	668 208	2 585	**746 441**
	26 677 270	**194 270 508**	**11 422 975**	**232 370 753**	**18 239 033**	**137 718 597**	**9 513 013**	**165 470 643**

	31 December 2011				31 December 2010			
	USD	**RUB**	**Other currencies**	**Total**	**USD**	**RUB**	**Other currencies**	**Total**
	RUB'000	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**
LIABILITIES								
Deposits by credit institutions	16 752 464	6 504 539	1 707 125	**24 964 128**	10 978 350	15 463 943	1 420 991	**27 863 284**
Deposits by customers	12 883 207	123 628 785	10 178 894	**146 690 886**	8 341 260	77 625 812	9 120 956	**95 088 028**
Debt securities issued	6 700 568	24 407 370	10 931	**31 118 869**	702 440	26 377 351	171 305	**27 251 096**
Income tax liability	-	2 090 267	-	**2 090 267**	-	636 140	-	**636 140**
Other liabilities	28 413	1 840 441	29 843	**1 898 697**	9 263	853 417	2 320	**865 000**
	36 364 652	**158 471 402**	**11 926 793**	**206 762 847**	**20 031 313**	**120 956 663**	**10 715 572**	**151 703 548**
Net position before hedging	**(9 687 382)**	**35 799 106**	**(503 818)**	**25 607 906**	**(1 792 280)**	**16 761 934**	**(1 202 559)**	**13 767 095**
Spot contracts	9 606 635	(9 606 635)	-	-	1 316 113	(2 263 026)	946 913	-
Net position	**(80 747)**	**26 192 471**	**(503 818)**	**25 607 906**	**(476 167)**	**14 498 908**	**(255 646)**	**13 767 095**

Geographical risk

The geographical risk is the risk due to political economic or social instability in the respective country.

The geographical concentration of financial assets and liabilities as at 31 December 2011 and 2010 is disclosed in the table below:

	31 December 2011				31 December 2010			
	Russia	**OECD**	**Other non-OECD**	**Total**	**Russia**	**OECD**	**Other non-OECD**	**Total**
	RUB'000	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**
ASSETS								
Cash and cash equivalents	29 860 525	4 567 963	4 931	**34 433 419**	18 020 750	5 314 349	1 327	**23 336 426**
Obligatory reserves with the Central Bank of the Russian Federation	2 259 170	-	-	**2 259 170**	756 584	-	-	**756 584**
Due from credit institutions	1 620 331	3 681 081	-	**5 301 412**	385 303	201 665	-	**586 968**
Financial instruments at fair value through profit or loss	22 783 760	-	-	**22 783 760**	27 321 018	-	154 135	**27 475 153**
Available-for-sale securities	2 030 678	-	-	**2 030 678**	4 461 645	-	-	**4 461 645**
Loans to customers	153 650 417	4 236 030	1 133 374	**159 019 821**	103 401 019	451 290	-	**103 852 309**
	212 204 881	**12 485 074**	**1 138 305**	**225 828 260**	**154 346 319**	**5 967 304**	**155 462**	**160 469 085**
LIABILITIES								
Deposits by credit institutions	6 540 537	18 413 350	10 241	**24 964 128**	15 768 554	12 094 730	-	**27 863 284**
Deposits by customers	140 648 047	333 081	5 709 758	**146 690 886**	87 288 843	302 939	7 496 246	**95 088 028**
Debt securities issued	28 183 391	2 501 684	433 794	**31 118 869**	27 136 318	1 770	113 008	**27 251 096**
	175 371 975	**21 248 115**	**6 153 793**	**202 773 883**	**130 193 715**	**12 399 439**	**7 609 254**	**150 202 408**
Net position	**36 832 906**	**(8 763 041)**	**(5 015 488)**	**23 054 377**	**24 152 604**	**(6 432 135)**	**(7 453 792)**	**10 266 677**

29 Fair value of financial instruments

For financial instruments whose fair value is estimated by using active market data the fair value represents quoted market prices at the reporting date without any deduction for transaction costs. The estimated fair values of all other financial assets (except for cash on hand) 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 following table provides an analysis of financial assets and liabilities for which the discounted cash flow techniques are used to estimate their fair value:

	2011 RUB'000	2011 RUB'000	2010 RUB'000	2010 RUB'000
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
ASSETS				
Cash and cash equivalents	34 433 419	34 433 419	23 336 426	23 336 426
Obligatory reserves with the Central Bank of the Russian Federation	2 259 170	2 259 170	756 584	756 584
Due from credit institutions	5 301 412	5 301 412	586 968	586 968
Loans to customers	159 499 028	159 019 821	104 521 779	103 852 309
LIABILITIES				
Deposits by credit institutions	24 964 128	24 964 128	27 863 284	27 863 284
Deposits by customers	147 245 274	146 690 886	95 234 842	95 088 028
Debt securities issued	31 118 869	31 118 869	28 970 940	27 251 096

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.

As disclosed in note 29, the fair value of unquoted equity securities available-for-sale with a carrying value of RUB 27 006 thousand can not be determined.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 11.8% (roubles) and 8.0 % (foreign currency) are used for discounting future cash flows from corporate loans
- discount rates of 14.6% (roubles) and 12.6 % (foreign currency) are used for discounting future cash flows from loans to retail customers
- discount rates of 9.5% (roubles) and 5.5% (foreign currency) are used for discounting future cash flows from retail deposits.

Fair value hierarchy

The Group measures fair values for financial instruments recorded on the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2: Valuation techniques based on observable inputs, either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table shows an analysis of financial instruments recorded at fair value for which 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 2011:

	Level 1	**Level 2**	**Total**
	Quoted market prices	**Valuation techniques based on market observable inputs**	
	RUB'000	**RUB'000**	**RUB'000**
Financial assets at fair value through profit or loss	22 515 445	268 315	**22 783 760**
Available-for-sale securities	1 342 130	688 548	**2 030 678**

The following table shows an analysis of financial instruments recorded at fair value 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 2010:

	Level 1	**Level 2**	**Total**
	Quoted market prices	**Valuation techniques based on market observable inputs**	
	RUB'000	**RUB'000**	**RUB'000**
Financial assets at fair value through profit or loss	27 245 376	229 777	**27 475 153**
Available-for-sale securities	4 310 667	150 978	**4 461 645**

During 2011 there were no transfers of financial instruments between Level 1 and Level 2.

As at 31 December 2011 and 2010 the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of unobservable inputs.

30 Events subsequent to the reporting date

In January 2012 the Bank paid out the third coupon in the amount of RUB 97.34 million or RUB 48.67 per bond on domestic bonds series 07. The issue was placed on 20 July 2010 in the amount of RUB 2 billion with a maturity of 5 years.

In January 2012 the Bank repaid US$ 10 million 5-year credit line granted for financing of small and medium-sized enterprises by the European Bank for Reconstruction and Development.

In January 2012 international rating agency Standard and Poor's assigned to the Bank 'B+' long-term and 'B' short-term counterparty credit and 'ruA+' Russia national scale ratings, with a stable outlook.

In February 2012 the following major changes in the management structure of the Bank took place: Chairman of the Management Board of CREDIT BANK OF MOSCOW Alexander Nikolashin became the Bank's President and First Deputy Chairman of the Management Board Vladimir Chubar became Chairman of the Management Board.

In February 2012 the Bank paid out the fifth coupon in the amount of RUB 93.74 million or RUB 46.87 per bond on domestic bonds series 06. The issue was placed on 11 August 2009 in the amount of RUB 2 billion with a maturity of 3 years.

In February 2012 the Bank paid out the second coupon in the amount of RUB 128.55 million or RUB 42.85 per bond on domestic bonds series BO-01. The issue was placed on 22 February 2011 in the amount of RUB 3 billion with a maturity of 3 years.

CREDIT BANK OF MOSCOW
(open joint-stock company)

Consolidated Financial Statements
for the year ended 31 December 2010

Contents

Independent Auditor's Report....3
Consolidated Statement of Comprehensive Income....4
Consolidated Statement of Financial Position....5
Consolidated Statement of Cash Flows....6
Consolidated Statement of Changes in Equity....8
Notes to the Consolidated Financial Statements....9
1 Background....9
2 Basis of preparation....10
3 Significant accounting policies....10
4 Net interest income....22
5 Fee and commission income....22
6 Salaries, employment benefits and administrative expenses....22
7 Provision for impairment of other assets and credit related commitments....23
8 Income tax....23
9 Cash and cash equivalents....26
10 Due from credit institutions....27
11 Financial instruments at fair value through profit or loss....28
12 Available-for-sale securities....29
13 Loans to customers....30
14 Property and equipment....39
15 Other assets....40
16 Deposits by the Central Bank of the Russian Federation....41
17 Deposits by credit institutions....41
18 Deposits by customers....42
19 Debt securities issued....42
20 Other liabilities....43
21 Share capital....43
22 Commitments....43
23 Operating leases....44
24 Contingencies....44
25 Custody activities....45
26 Related party transactions....45
27 Capital management....46
28 Analysis by segment....48
29 Risk management....52
30 Fair value of financial instruments....67
31 Events subsequent to the reporting date....68

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Independent Auditors' Report

To the Management of Credit Bank of Moscow (open joint-stock company)

We have audited the accompanying consolidated financial statements of Credit Bank of Moscow (open joint-stock company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 our auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 2010, and of 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
29 March 2011

ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a subsidiary of KPMG Europe LLP, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2010

	Notes	31 December 2010 RUR'000	31 December 2009 RUR'000
Interest income	4	14,544,991	9,584,791
Interest expense	4	(8,478,432)	(5,671,209)
Net interest income	4	**6,066,559**	**3,913,582**
Provision for impairment of loans	13	(1,539,798)	(2,465,362)
Net interest income after provision for impairment		**4,526,761**	**1,448,220**
Fee and commission income	5	1,757,978	1,191,323
Net gain on financial instruments at fair value through profit or loss		83,474	429,497
Net realized gain on available-for-sale assets		338,527	61,633
Foreign exchange gains, net		232,039	212,098
Other operating income		181,488	117,032
Non-interest income		**2,593,506**	**2,011,583**
Salaries and employment benefits	6	(1,373,503)	(1,064,102)
Administrative expenses	6	(1,287,388)	(868,148)
Provision for impairment of other assets and credit related commitments	7	(143,438)	(193,314)
Depreciation of property and equipment	14	(178,163)	(106,625)
Fee and commission expense		(102,363)	(84,653)
State deposit insurance scheme contributions		(153,049)	(82,651)
Other operating expenses		(129,840)	(88,923)
Non-interest expense		**(3,367,744)**	**(2,488,416)**
Income before income taxes		**3,752,523**	**971,387**
Income tax	8	(731,147)	(191,425)
Net income		**3,021,376**	**779,962**
Other comprehensive income			
Revaluation reserve for available-for-sale securities		(372,159)	469,456
Revaluation of buildings		-	625,531
Income tax related to other comprehensive income		74,432	(218,998)
Other comprehensive (loss) income for the period, net of tax		**(297,727)**	**875,989**
Comprehensive income for the period		**2,723,649**	**1,655,951**

Chairman of the Management Board — Alexander N.Nikolashin

Chief Accountant — Svetlana V.Sass

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	31 December 2010 RUR'000	31 December 2009 RUR'000
ASSETS			
Cash and cash equivalents	9	23,336,426	8,629,775
Obligatory reserves with the Central Bank of the Russian Federation		756,584	401,006
Due from credit institutions	10	586,968	957,665
Financial instruments at fair value through profit or loss	11	27,475,153	12,472,290
Available-for-sale securities	12	4,461,645	3,235,045
Loans to customers	13	103,852,309	58,290,515
Property and equipment	14	4,255,117	2,616,418
Other assets	15	746,441	456,286
Total assets		**165,470,643**	**87,059,000**
LIABILITIES AND EQUITY			
Deposits by the Central Bank of the Russian Federation	16	-	6,129,195
Deposits by credit institutions	17	27,863,284	11,052,903
Deposits by customers	18	93,555,780	45,624,691
Debt securities issued	19	28,783,344	12,385,902
Deferred tax liability	8	493,903	250,262
Current tax liability	8	142,237	153,797
Other liabilities	20	865,000	418,804
Total liabilities		**151,703,548**	**76,015,554**
Equity			
Share capital	21	7,138,088	7,138,088
Additional paid-in capital		162,686	162,686
Revaluation surplus for buildings		500,424	500,424
Revaluation reserve for available-for-sale securities		28,067	325,794
Retained earnings		5,937,830	2,916,454
Total equity		**13,767,095**	**11,043,446**
Total liabilities and equity		**165,470,643**	**87,059,000**
Commitments and Contingencies	22-24		

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	31 December 2010 RUR'000	31 December 2009 RUR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		3,021,376	779,962
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for impairment of loans		1,539,798	2,465,362
Depreciation and amortization		180,323	107,767
Deferred tax expense (benefit)		318,073	(202,534)
Revaluation of financial instruments at fair value through profit or loss		226,804	(490,759)
Provision for impairment of other assets and credit related commitments		143,438	193,314
Accrued interest income		(827,388)	(153,493)
Accrued interest expense		909,363	161,032
Impairment of available-for-sale securities		-	175,722
Other		(190,096)	110,310
Operating cash flows before changes in operating assets and liabilities		**5,321,691**	**3,146,683**
(Increase) decrease in operating assets			
Obligatory reserves with the Central Bank of the Russian Federation		(355,578)	(344,171)
Due from credit institutions		309,899	(628,446)
Financial instruments at fair value through profit or loss		(15,018,949)	(12,212,968)
Loans to customers		(47,051,333)	(20,348,382)
Other assets		(564,398)	(76,677)
Increase (decrease) in operating liabilities			
Deposits by credit institutions and the Central Bank of the Russian Federation		6,749,875	(3,888,872)
Deposits by customers		42,458,167	21,375,353
Debt securities issued		12,117,623	3,688,965
Other liabilities		492	(178,074)
Net cash from (used in) operations		**3,967,489**	**(9,466,589)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (purchase) sale of available-for-sale securities		(1,529,672)	4,920,606
Net purchase of property and equipment and intangible assets		(1,401,581)	(110,004)
Net cash (used in) from investing activities		**(2,931,253)**	**4,810,602**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	31 December 2010 RUR'000	31 December 2009 RUR'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock		-	3,000,000
Receipts of subordinated borrowings		6,614,638	-
Receipts of syndicated borrowings		4,356,750	-
Repayment of syndicated borrowings		(892,263)	(2,371,122)
Proceeds from issuance of bonds		5,270,896	7,626,060
Repayment of bonds		(1,478,592)	(5,440,670)
Net cash from financing activities		**13,871,429**	**2,814,268**
Effect of exchange rates changes on cash and cash equivalents		(201,014)	116,107
Change in cash and cash equivalents		**14,706,651**	**(1,725,612)**
Cash and cash equivalents, beginning of the period		8,629,775	10,355,387
Cash and cash equivalents, end of the period	9	**23,336,426**	**8,629,775**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Common stock	Additional paid-in capital	Revaluation surplus for buildings	Revaluation reserve for available-for-sale assets	Retained earnings	Total equity
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
1 January 2009	**4,138,088**	**162,686**	**-**	**(49,771)**	**2,136,492**	**6,387,495**
Total comprehensive income for the period	-	-	500,424	375,565	779,962	1,655,951
Shares issued	3,000,000	-	-	-	-	3,000,000
31 December 2009	**7,138,088**	**162,686**	**500,424**	**325,794**	**2,916,454**	**11,043,446**
Total comprehensive income for the period	-	-	-	(297,727)	3,021,376	2,723,649
31 December 2010	**7,138,088**	**162,686**	**500,424**	**28,067**	**5,937,830**	**13,767,095**

The consolidated statement of changes in 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 CREDIT BANK OF MOSCOW (open joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

CREDIT BANK OF MOSCOW was formed on 5 August 1992 as an open joint-stock company, then re-registered as a closed joint-stock company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganized as an open joint-stock company. The Bank's registered legal address is 2 (bldg. 1) Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central Bank of the Russian Federation, granted on 20 January 2000. In December 2004 the Bank was admitted to the Central Bank of Russia program for individual deposit insurance. The Bank is among the 30 largest banks in Russia by assets and runs its business in Moscow and the Moscow region with a branch network comprising 51 branches, and ATMs and payment terminals totaling 402 and 1737 items, respectively.

The principal subsidiaries of the Group are as follows:

				Degree of control, %	
Name	**Date of incorporation**	**Country of incorporation**	**Principal Activities**	**31 December 2010**	**31 December 2009**
CBOM Finance p.l.c.	17 Aug 2006	Ireland	Raising finance	100%	100%
MKB-Invest	4 June 2007	Russia	Operations with securities	100%	100%
MKB-Leasing	20 Sep 2005	Russia	Finance leasing	100%	100%

The Bank does not have any direct or indirect shareholdings in the subsidiaries noted above. However CBOM Finance p.l.c. was established under terms that impose strict limits on the decision-making powers of its management. MKB-Invest and MKB-Leasing are controlled by the Group through option agreements.

Shareholders

The Group is wholly-owned by Concern Rossium (the Shareholder Group). The sole shareholder of Concern Rossium is Roman I. Avdeev, who is also member of the Supervisory Board of the Bank. The members of the Supervisory Board are as follows:

Supervisory Board	
Sandy Vaci	Chairman
Richard Damien Glasspool	Member
Genadi Lewinski	Member
Roman I. Avdeev	Member
Alexander N. Nikolashin	Member
Anton R. Avdeev	Member
Nikolay V. Kosarev	Member
Vladimir A. Chubar	Member

Related party transactions are detailed in note 26.

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 and its impact on the Russian economy has further increased the level of economic uncertainty in the environment. These consolidated 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 financial assets 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 determined the functional currency to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Bank. The RUR is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUR is rounded to the nearest thousand.

Use of estimates and judgments

Management makes 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 13
- building revaluation estimates - note 14.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied. Changes in accounting policies described at the end of this note.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank 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.

Special purpose entities

The Bank established a special purpose entity (SPE) for trading and investment purposes. The Bank does not have any direct or indirect shareholdings in this entity. However, the SPE is established under terms that impose strict limits on the decision-making powers of the SPE's management over the operations of the SPE. In addition, the benefits related to their operations and net assets are presently attributable to the Bank via a number of agreements.

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 reporting date are translated to the functional currency at the foreign exchange rate ruling 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, 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 recognized in the consolidated statement of comprehensive income.

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of 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

The Group considers cash and nostro accounts with the Central Bank of the Russian Federation, and due from credit institutions with maturity of less than one month to be cash and cash equivalents. The minimum reserve deposit with the Central Bank of the Russian Federation 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 may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported 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.

Management determines the appropriate classification of financial instruments in this category 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 assets 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 foreseeble 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.

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

- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,

- 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 assets are those non-derivative 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.

Recognition

Financial assets and liabilities are recognized in the 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.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. 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.

Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

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 financial asset is recognized as other comprehensive income in 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 profit or loss. Interest in relation to an available-for-sale financial asset is recognized as earned in profit or loss calculated 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

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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 by credit institutions. The difference between the sale and repurchase prices represents interest expense and is recognized in the consolidated statement of comprehensive income 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 due from credit institutions. The difference between the purchase and resale prices represents interest income and is recognized in the consolidated statement of comprehensive income over the term of the repo agreement using the effective interest 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.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the 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.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a 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 a building 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 as other comprehensive income directly in equity.

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.

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:

	Years
Buildings	50
Furniture and other property	6
Computers and office equipment	4
Vehicles	5

When a building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Intangible assets

Intangible assets, which 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.

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 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 statement of comprehensive 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.

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 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 statement of comprehensive income and can not be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is 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 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. An impairment loss 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 allowance for credit related commitments are included in other liabilities.

Share capital

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 Bank to declare and pay dividends is subject to the rules and regulations of 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 recognised 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 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 direct costs, are deferred and amortized to the 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 has been provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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.

Comparative information

The presentation of certain captions relating to cash and cash equivalents was changed as at 31 December 2010 in comparison with 31 December 2009 to better present the nature of the underlying transactions. Comparative information is reclassified to conform to changes in presentation in the current year. The effect of this change in presentation is as follows:

	2009 as previously reported RUR'000	2009 as currently reported RUR'000
Reclassification of cash and cash equivalents from statement of financial position captions "Cash and due from the Central Bank of the Russian Federation", "Due from credit institutions" into separate statement of financial position caption "Cash and cash equivalents"		
Cash and cash equivalents	-	8,629,775
Cash and due from the Central Bank of the Russian Federation	6,457,166	401,006
Due from credit institutions	3,531,280	957,665

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 2010, 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 new standards on its financial statements.

- Revised IAS 24 *Related Party Disclosures* (2009) 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 for annual periods beginning on or after 1 January 2011.
- 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 International Financial Reporting Standard 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 second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts are expected to be issued during the first half of 2011. Management recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements.

- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* 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 a 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. The amendment is applicable for annual periods beginning on or after 1 February 2010.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance on accounting for debt for equity swaps by the debtor. The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph 41 of IAS 39 *Financial Instruments: Recognition and Measurement.* Additionally, the interpretation clarifies how to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010.
- *Improvements to IFRSs 2010* resulting from the International Accounting Standards Board's third annual improvements project are to be dealt with on a standard-by-standard basis. The effective date of each amendment is included in the IFRSs affected.

4 Net interest income

	31 December 2010 RUR'000	31 December 2009 RUR'000
Interest income		
Loans to customers	11,868,667	8,033,840
Financial instruments at fair value through profit or loss and available-for-sale securities	2,626,061	1,422,654
Due from credit institutions and the Central Bank of the Russian Federation	50,263	128,297
	14,544,991	**9,584,791**
Interest expense		
Deposits by customers	(5,446,181)	(2,931,465)
Debt securities issued	(2,179,243)	(1,320,755)
Deposits by credit institutions and the Central Bank of the Russian Federation	(853,008)	(1,418,989)
	(8,478,432)	**(5,671,209)**
Net interest income	**6,066,559**	**3,913,582**

5 Fee and commission income

	31 December 2010 RUR'000	31 December 2009 RUR'000
Cash collection delivery	549,536	443,509
Guarantees and letters of credit	492,866	307,016
Settlements and wire transfers	458,847	271,577
Plastic cards	116,925	59,686
Other cash operations	77,280	60,563
Other	62,524	48,972
Fee and commission income	**1,757,978**	**1,191,323**

6 Salaries, employment benefits and administrative expenses

	31 December 2010 RUR'000	31 December 2009 RUR'000
Salaries	1,143,744	890,184
Social security costs	216,439	158,955
Other	13,320	14,963
Salaries and employment benefits	**1,373, 503**	**1,064,102**

	31 December 2010 RUR'000	31 December 2009 RUR'000
Occupancy	332,191	183,274
Operating taxes	290,234	141,435
Advertising and business development	261,149	222,868
Security	123,726	117,170
Property maintenance	77,378	69,967
Communications	59,827	52,775
Computer maintenance and software expenses	43,310	24,125
Transport	40,335	30,612
Other	59,238	25,922
Administrative expenses	**1,287,388**	**868,148**

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the statement of comprehensive income in the period the related compensation is earned by the employee. The Group does not have any stock option plans.

7 Provision for impairment of other assets and credit related commitments

	31 December 2010 RUR'000	31 December 2009 RUR'000
Provision for impairment of credit related commitments	96,830	148,985
Provision for impairment of other assets	46,608	44,329
	143,438	**193,314**

8 Income tax

	31 December 2010 RUR'000	31 December 2009 RUR'000
Current tax charge	413,074	393,959
Deferred taxation	318,073	(202,534)
Income tax expense	**731,147**	**191,425**

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The income tax rate for the Bank is 20% (2009: 20%).

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

	31 December 2010 RUR'000	31 December 2009 RUR'000
Income before tax	3,752,523	971,387
Applicable statutory tax rate	20%	20%
Income tax using the applicable tax rate	750,505	194,277
Income taxed at lower rate	(30,307)	(9,622)
Net non-deductible costs	10,949	6,770
Income tax expense	**731,147**	**191,425**

Income tax liabilities are recorded in the consolidated statement of financial position as follows:

	31 December 2010 RUR'000	31 December 2009 RUR'000
Current tax liability	142,237	153,797
Deferred tax liability	493,903	250,262
Income tax liability	**636,140**	**404,059**

Movements in temporary differences during the years ended 31 December 2010 and 2009 are presented as follows.

RUR'000	Balance 1 January 2010	Recognised in profit or loss	Recognised in equity	Balance 31 December 2010
Due from credit institutions	(3,249)	1,664	-	(1,585)
Financial instruments at fair value through profit or loss	137,604	(82,221)	-	55,383
Available-for-sale securities	23,919	49,128	(74,432)	(1,385)
Loans to customers	(116,751)	368,085	-	251,334
Property and equipment	189,075	45,069	-	234,144
Other assets	(1,417)	(6,101)	-	(7,518)
Deposits by credit institutions and the Central Bank of the Russian Federation	3,704	25,597	-	29,301
Debt securities issued	(6,839)	8,637	-	1,798
Other liabilities	24,216	(91,785)	-	(67,569)
	250,262	**318,073**	**(74,432)**	**493,903**

RUR'000	Balance 1 January 2009	Recognised in profit or loss	Recognised in equity	Balance 31 December 2009
Due from credit institutions	1,407	(4,656)	-	(3,249)
Financial instruments at fair value through profit or loss	-	137,604	-	137,604
Available-for-sale securities	5,075	(75,047)	93,891	23,919
Loans to customers	172,624	(289,375)	-	(116,751)
Property and equipment	56,908	7,060	125,107	189,075
Other assets	3,671	(5,088)	-	(1,417)
Deposits by credit institutions and the Central Bank of The Russian Federation	282	3,422	-	3,704
Debt securities issued	-	(6,839)	-	(6,839)
Other liabilities	(6,169)	30,385	-	24,216
	233,798	**(202,534)**	**218,998**	**250,262**

Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income comprise:

	2010			2009		
RUR'000	**Amount before tax**	**Tax gain**	**Amount net-of-tax**	**Amount before tax**	**Tax expense**	**Amount net-of-tax**
Revaluation reserve for available-for-sale securities	(372,159)	74,432	(297,727)	469,456	(93,891)	375,565
Revaluation of property and equipment	-	-	-	625,531	(125,107)	500,424
Other comprehensive income	**(372,159)**	**74,432**	**(297,727)**	**1,094,987**	**(218,998)**	**875,989**

9 Cash and cash equivalents

	31 December 2010 RUR'000	31 December 2009 RUR'000
Cash on hand	3,894,457	2,482,467
Correspondent account with the Central Bank of the Russian Federation	9,563,916	3,573,693
Nostro accounts with other banks		
rated AAA	644	-
rated from AA+ to AA-	947,472	330,158
rated from A+ to A-	61,884	274,390
rated BBB	443,966	1,009,893
rated from BB+ to BB-	4,008	-
rated from B+ to B-	112,262	26,860
not rated	585,818	598,564
Total nostro accounts with other banks	**2,156,054**	**2,239,865**
Due from credit institutions with maturity of less than 1 month		
rated from AA+ to AA-	458,512	323,630
rated A- to A+	24,410	-
rated BBB	2,968,673	-
rated from BB- to BB+	727,633	-
rated from B+ to B-	1,713,940	-
not rated	1,828,831	10,120
Total due from credit institutions with maturity of less than 1 month	**7,721,999**	**333,750**
Total cash and cash equivalents	**23,336,426**	**8,629,775**

Ratings are based on Standard & Poor's rating system.

None of cash and cash equivalents are impaired or past due.

The correspondent account with the Central Bank of the Russian Federation represents balances held with the Central Bank of the Russian Federation related to settlement activity, and was available for withdrawal at period end.

Settlements with the stock exchange are included in not rated nostro accounts in the amount of RUR 535,604 thousand as at 31 December 2010 (31 December 2009: RUR 480,751 thousand).

As at 31 December 2010 not rated due from credit institutions with maturity of less than 1 month includes term deposits secured by highly liquid debt securities under agreements to resell ("reverse repo") in the amount of RUR 1,783,806 thousand (31 December 2009: none).

As at 31 December 2010 the Group has one counterparty (31 December 2009: none) whose nostro accounts and deposits with maturity of less than 1 month exceed 10% of total cash and cash equivalents. The gross value of these facilities as at 31 December 2010 is RUR 3,184,487 thousand.

Information about the currency and maturity of cash and cash equivalents is presented in note 29.

10 Due from credit institutions

	31 December 2010 RUR'000	31 December 2009 RUR'000
Term deposits		
rated from AA+ to AA-	201,666	-
rated from A+ to A-	-	957,665
rated from B+ to B-	235,302	-
not rated	150,000	-
Total due from credit institutions	**586,968**	**957,665**

Information about the currency and maturity and effective interest rates on amounts due from credit institutions is presented in note 29.

11 Financial instruments at fair value through profit or loss

	31 December 2010 RUR'000	31 December 2009 RUR'000
Held by the Bank		
Government and municipal bonds		
Russian Government Eurobonds	2,059,403	-
Russian Government Federal bonds (OFZ)	-	931,583
Moscow Government bonds	425,309	408,359
Regional authorities and municipal bonds	787,634	-
Corporate bonds		
from BBB+ to BBB-	1,377,171	603,456
from BB+ to BB-	1,479,989	481,832
from B+ to B-	7,159,838	2,663,910
not rated	2,502,079	1,449,045
Total financial instruments at fair value through profit or loss held by the Bank	**15,791,423**	**6,538,185**
Pledged as collateral for interbank and other loans		
Government and municipal bonds		
Regional authorities and municipal bonds	-	652,608
Corporate bonds		
from BBB+ to BBB-	-	104,267
from BB+ to BB-	-	103,089
from B+ to B-	-	1,383,011
Total financial instruments at fair value through profit or loss pledged as collateral for interbank and other loans	**-**	**2,242,975**
Pledged under sale and repurchase agreements		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	6,960,112	844,667
Moscow Government bonds	803,035	297,055
Regional authorities and municipal bonds	44,566	-
Corporate bonds		
from BBB+ to BBB-	1,544,220	647,642
from BB+ to BB-	1,493,081	1,150,835
from B+ to B-	838,716	402,165
not rated	-	348,766
Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements	**11,683,730**	**3,691,130**
Total financial instruments at fair value through profit or loss	**27,475,153**	**12,472,290**

As at 31 December 2010 debt instruments in the amount of RUR 24,153,390 thousand are included in the list of securities that can be pledged to attract funds from the Central Bank of the Russian Federation (31 December 2009: RUR 10,197,400 thousand).

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of spot and forward exchange contracts outstanding as at 31 December 2010 and 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 contractual exchange rates	
	2010 RUR'000	**2009 RUR'000**	**2010**	**2009**
Buy EUR sell USD				
Less than 3 months	602,317	1,320,732	1.3230	1.4354
Buy RUR sell USD				
Less than 3 months	239,769	26,452	30.4645	30.1995
Buy USD sell RUR				
Less than 3 months	2,158,199	128,819	30.3972	29.9927
Buy EUR sell RUR				
Less than 3 months	344,596	932,639	39.9440	43.1079
	3,344,881	**2,408,642**		

12 Available-for-sale securities

	31 December 2010 RUR'000	**31 December 2009 RUR'000**
Held by the Bank		
Government and municipal bonds		
Russian Government Eurobonds	-	7,497
Moscow Government bonds	-	29,819
Regional authorities and municipal bonds	17,140	213,005
Corporate bonds		
from BBB+ to BBB-	147,373	69,631
from BB+ to BB-	915,370	-
from B+ to B-	2,655,298	666,565
not rated	465,186	32,651
Equity investments	59,799	70,025
Total available-for-sale securities held by the Bank	**4,260,166**	**1,089,193**

	31 December 2010 RUR'000	31 December 2009 RUR'000
Pledged as collateral for interbank and other loans		
Government and municipal bonds		
Russian Government Eurobonds	-	1,594,223
Regional authorities and municipal bonds	-	230,605
Corporate bonds		
from BB+ to BB-	-	157,185
Promissory notes	-	66,580
Total available-for-sale securities pledged as collateral for interbank and other loans	**-**	**2,048,593**
Pledged under sale and repurchase agreements		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	50,529	47,794
Corporate bonds		
from BBB+ to BBB-	33,523	49,465
from B+ to B-	117,427	-
Total available-for-sale securities pledged under sale and repurchase agreements	**201,479**	**97,259**
Total available-for-sale securities	**4,461,645**	**3,235,045**

As at 31 December 2010 debt instruments in the amount of RUR 2,436,745 thousand are included in the list of securities that can be pledged to attract funds from the Central Bank of the Russian Federation (31 December 2009: RUR 2,996,160 thousand).

13 Loans to customers

	31 December 2010 RUR'000	31 December 2010 RUR'000	31 December 2009 RUR'000	31 December 2009 RUR'000
	Loans	**Impairment allowance**	**Loans**	**Impairment allowance**
Loans to corporate clients	**88,317,606**	**(1,990,001)**	**50,088,406**	**(1,003,134)**
Loans to individuals				
Auto loans	5,478,500	(87,657)	1,947,239	(139,619)
Mortgage loans	7,641,432	(430,242)	5,582,649	(362,826)
Other loans to individuals	5,207,880	(285,209)	2,496,422	(318,622)
Total loans to individuals	**18,327,812**	**(803,108)**	**10,026,310**	**(821,067)**
Gross loans to customers	**106,645,418**	**(2,793,109)**	**60,114,716**	**(1,824,201)**
Net loans to customers	**103,852,309**		**58,290,515**	

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Loans to customers				
- Not past due	104,463,388	(1,662,364)	102,801,024	1.6%
- Overdue less than 31 days	357,274	(41,642)	315,632	11.7%
- Overdue 31-60 days	78,384	(27,312)	51,072	34.8%
- Overdue 61-90 days	118,576	(42,282)	76,294	35.7%
- Overdue 91-180 days	242,943	(120,561)	122,382	49.6%
- Overdue 181-360 days	286,708	(191,925)	94,783	66.9%
- Overdue more than 360 days	1,098,145	(707,023)	391,122	64.4%
Total loans to customers	**106,645,418**	**(2,793,109)**	**103,852,309**	**2.6%**

The following table provides information on credit quality of the loan portfolio as at 31 December 2009:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Loans to customers				
- Not past due	57,826,397	(793,085)	57,033,312	1.4%
- Overdue less than 31 days	245,683	(22,810)	222,873	9.3%
- Overdue 31-60 days	126,988	(24,200)	102,788	19.1%
- Overdue 61-90 days	122,023	(56,089)	65,934	46.0%
- Overdue 91-180 days	395,372	(114,527)	280,845	29.0%
- Overdue 181-360 days	622,488	(379,955)	242,533	61.0%
- Overdue more than 360 days	775,765	(433,535)	342,230	55.9%
Total loans to customers	**60,114,716**	**(1,824,201)**	**58,290,515**	**3.0%**

As at 31 December 2010, the loan portfolio includes loans that have been restructured and would otherwise be past due or impaired in the amount of RUR 1,247,175 thousand (31 December 2009: RUR 655,577 thousand). Such restructuring activity is aimed at managing customer relationships and maximizing the quality of the loan portfolio. Restructured loans are included in loans not past due unless the borrower is unable to comply with the renegotiated terms.

The following table provides information on restructured loans as at 31 December 2010 and 31 December 2009:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Restructured loans				
- As at 31 December 2010	1,247,175	(86,135)	1,161,040	6.9%
- As at 31 December 2009	655,577	(6,312)	649,265	1.0%

As at 31 December 2010, the gross amount of overdue loans with payments that are overdue at least one day, totals RUR 2,182,030 thousand, which represents 2.0% of the loan portfolio (31 December 2009: RUR 2,288,319 thousand and 3.8%, respectively).

Nonperforming loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUR 1,627,796 thousand or 1.5% of the loan portfolio (31 December 2009: RUR 1,793,625 thousand and 3.0%, respectively).

NPLs together with restructured loans amount to RUR 2,874,971 thousand or 2.7% of the loan portfolio (31 December 2009: RUR 2,449,202 thousand and 4.1%, respectively).

As at 31 December 2010, the ratio of total impairment allowance to overdue loans equals 128.0%, the ratio of total impairment allowance to NPLs equals 171.6% and the ratio of total impairment allowance to NPLs together with the restructured loans equals 97.2% (31 December 2009: 79.7%, 101.7% and 74.5%, respectively).

Movements in the loan impairment allowance for the years ended 31 December 2010 and 31 December 2009 are as follows:

	2010 RUR'000	2009 RUR'000
Balance at the beginning of the period	1,824,201	506,140
Net charge	1,539,798	2,465,362
Net write-offs	(570,890)	(1,147,301)
Balance at the end of the period	**2,793,109**	**1,824,201**

As at 31 December 2010, interest accrued on overdue loans amounts to RUR 385,673 thousand (31 December 2009: RUR 214,939 thousand).

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality the loans to corporate clients as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Loans to corporate clients				
- Not past due	87,733,857	(1,597,527)	86,136,330	1.8%
- Overdue less than 31 days	119,781	(16,689)	103,092	13.9%
- Overdue 31-60 days	9,993	(3,796)	6,197	38.0%
- Overdue 61-90 days	19,427	(9,008)	10,419	46.4%
- Overdue 91-180 days	40,310	(21,419)	18,891	53.1%
- Overdue 181-360 days	159,452	(117,458)	41,994	73.7%
- Overdue more than 360 days	234,786	(224,104)	10,682	95.5%
Total loans to corporate clients	**88,317,606**	**(1,990,001)**	**86,327,605**	**2.3%**

The following table provides information on credit quality of loans to corporate clients as at 31 December 2009 :

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Loans to corporate clients				
- Not past due	49,406,492	(750,960)	48,655,532	1.5%
- Overdue less than 31 days	89,523	(3,066)	86,457	3.4%
- Overdue 31-60 days	21,669	(5,045)	16,624	23.3%
- Overdue 61-90 days	80,363	(40,449)	39,914	50.3%
- Overdue 91-180 days	189,536	(42,653)	146,883	22.5%
- Overdue 181-360 days	190,107	(117,055)	73,052	61.6%
- Overdue more than 360 days	110,716	(43,906)	66,810	39.7%
Total loans to corporate clients	**50,088,406**	**(1,003,134)**	**49,085,272**	**2.0%**

The Bank estimates loan impairment for loans to corporate clients based on an analysis of the future cash flows for impaired loans and based on its past loss experience adjusted for recent changes in economic environment for portfolios of loans for which no indications of impairment has been identified. The key assumptions used in the analysis of future cash flows for impaired loans are based on the assessment of the value of collateral pledged to secure these loans when applicable. To estimate net realizable value of collateral for sale, management, generally, assumes a discount of 20-50 percent to its fair value, depending on type of collateral and market conditions.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance, as of 31 December 2010, would increase/decrease by RUR 863,276 thousand (31 December 2009: RUR 490,853 thousand).

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transactions: real estate (manufacturing premises, warehouses), machinery and equipment, motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes. As of 31 December 2010 the Group plans to recover a portion of impaired lease contracts with gross amount of RUR 19,646 thousand (31 December 2009: RUR 67,843 thousand) through the sale of collateral with a fair value of RUR 9,455 thousand (31 December 2009: RUR 55,994 thousand).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance for loans to corporate clients for the year ended 31 December 2010 are as follows:

	RUR'000
Balance at the beginning of the period	1,003,134
Net charge	1,237,765
Net write-offs	(250,898)
Balance at the end of the period	**1,990,001**

Movements in the loan impairment allowance for loans to corporate clients for the year ended 31 December 2009 are as follows:

	RUR'000
Balance at the beginning of the period	241,563
Net charge	1,796,596
Net write-offs	(1,035,025)
Balance at the end of the period	**1,003,134**

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Auto loans				
- Not past due	5,360,587	(12,314)	5,348,273	0.2%
- Overdue less than 31 days	23,274	(3,312)	19,962	14.2%
- Overdue 31-60 days	8,512	(2,349)	6,163	27.6%
- Overdue 61-90 days	9,193	(3,679)	5,514	40.0%
- Overdue 91-180 days	14,554	(7,713)	6,841	53.0%
- Overdue 181-360 days	14,166	(11,168)	2,998	78.8%
- Overdue more than 360 days	48,214	(47,122)	1,092	97.7%
Total auto loans	**5,478,500**	**(87,657)**	**5,390,843**	**1.6%**
Mortgage loans				
- Not past due	6,566,886	(6,028)	6,560,858	0.1%
- Overdue less than 31 days	121,582	(129)	121,453	0.1%
- Overdue 31-60 days	15,905	(343)	15,562	2.2%
- Overdue 61-90 days	42,573	(1,570)	41,003	3.7%
- Overdue 91-180 days	60,238	(2,861)	57,377	4.8%
- Overdue 181-360 days	54,675	(16,737)	37,938	30.6%
- Overdue more than 360 days	779,573	(402,574)	376,999	51.6%
Total mortgage loans	**7,641,432**	**(430,242)**	**7,211,190**	**5.6%**
Other loans to individuals				
- Not past due	4,802,058	(46,495)	4,755,563	1.0%
- Overdue less than 31 days	92,637	(21,512)	71,125	23.2%
- Overdue 31-60 days	43,974	(20,824)	23,150	47.4%
- Overdue 61-90 days	47,383	(28,025)	19,358	59.1%
- Overdue 91-180 days	127,841	(88,568)	39,273	69.3%
- Overdue 181-360 days	58,415	(46,562)	11,853	79.7%
- Overdue more than 360 days	35,572	(33,223)	2,349	93.4%
Total other loans to individuals	**5,207,880**	**(285,209)**	**4,922,671**	**5.5%**
Total loans to individuals	**18,327,812**	**(803,108)**	**17,524,704**	**4.4%**

The following table provides information on the credit quality of loans to individuals as at 31 December 2009 :

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Auto loans				
- Not past due	1,742,956	(6,964)	1,735,992	0.4%
- Overdue less than 31 days	19,156	(3,757)	15,399	19.6%
- Overdue 31-60 days	17,382	(6,359)	11,023	36.6%
- Overdue 61-90 days	10,943	(5,516)	5,427	50.4%
- Overdue 91-180 days	27,618	(16,407)	11,211	59.4%
- Overdue 181-360 days	101,737	(75,566)	26,171	74.3%
- Overdue more than 360 days	27,447	(25,050)	2,397	91.3%
Total auto loans	**1,947,239**	**(139,619)**	**1,807,620**	**7.2%**
Mortgage loans				
- Not past due	4,563,263	(5,331)	4,557,932	0.1%
- Overdue less than 31 days	83,427	(80)	83,347	0.1%
- Overdue 31-60 days	68,156	(1,704)	66,452	2.5%
- Overdue 61-90 days	16,070	(402)	15,668	2.5%
- Overdue 91-180 days	109,926	(3,984)	105,942	3.6%
- Overdue 181-360 days	172,181	(54,635)	117,546	31.7%
- Overdue more than 360 days	569,626	(296,690)	272,936	52.1%
Total mortgage loans	**5,582,649**	**(362,826)**	**5,219,823**	**6.5%**
Other loans to individuals				
- Not past due	2,113,686	(29,830)	2,083,856	1.4%
- Overdue less than 31 days	53,577	(15,907)	37,670	29.7%
- Overdue 31-60 days	19,781	(11,092)	8,689	56.1%
- Overdue 61-90 days	14,647	(9,722)	4,925	66.4%
- Overdue 91-180 days	68,292	(51,483)	16,809	75.4%
- Overdue 181-360 days	158,463	(132,699)	25,764	83.7%
- Overdue more than 360 days	67,976	(67,889)	87	99.9%
Total other loans to individuals	**2,496,422**	**(318,622)**	**2,177,800**	**12.8%**
Total loans to individuals	**10,026,310**	**(821,067)**	**9,205,243**	**8.2%**

Management estimates loan impairment based on historical loss experience on these types of loans using historical loss migration patterns for the past twenty four months and fair value of collateral. The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- the Group can sell consumer and auto loans to individuals overdue more than 360 days for 7.63 % and 9.0 % of their gross amounts, respectively
- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months
- in respect of mortgage loans, a delay of 18 months in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income, and a discount of 20% to the originally appraised value if the property pledged is sold through court procedures.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance, as of 31 December 2010, would increase/decrease by RUR 175,247 thousand (31 December 2009: RUR 92,052 thousand).

Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying car. Credit card overdrafts and consumer loans are not secured. As of 31 December 2010, the Bank estimates the fair value of private real estate undergoing foreclosure to be RUR 300,902 thousand (31 December 2009: RUR 316,931 thousand).

Management believes that it is impracticable to estimate the fair value of collateral held in respect of auto loans.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2010 are as follows:

	Auto loans RUR'000	**Mortgage loans** RUR'000	**Other loans to individuals** RUR'000	**Total** RUR'000
Balance at the beginning of the period	139,619	362,826	318,622	821,067
Net charge	8,625	90,238	203,170	302,033
Net write-offs	(60,587)	(22,822)	(236,583)	(319,992)
Balance at the end of the period	**87,657**	**430,242**	**285,209**	**803,108**

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2009 are as follows:

	Auto loans RUR'000	**Mortgage loans** RUR'000	**Other loans to individuals** RUR'000	**Total** RUR'000
Balance at the beginning of the period	61,448	60,719	142,410	264,577
Net charge	111,281	302,107	255,378	668,766
Net write-offs	(33,110)	-	(79,166)	(112,276)
Balance at the end of the period	**139,619**	**362,826**	**318,622**	**821,067**

Industry and geographical 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:

	31 December 2010 RUR'000	31 December 2009 RUR'000
Loans to individuals	18,327,812	10,026,310
Consumer electronics, appliances and computers	13,135,208	9,418,115
Food and farm products	7,881,881	6,766,368
Residential and commercial construction and development	7,167,974	713,320
Construction and decorative materials, furniture	6,643,890	4,090,780
Clothing, shoes, textiles and sporting goods	6,320,591	3,399,728
Financial	5,895,633	19,663
Property rental	5,650,503	1,255,519
Industrial equipment and machinery	4,946,366	2,822,333
Consumer chemicals, perfumes and hygiene products	4,578,510	2,753,586
Equipment leasing	4,031,825	1,773,504
Automotive, motorcycles and spare parts	3,431,007	2,726,147
Metallurgical	3,203,615	1,740,984
Paper, stationery and packaging products	3,014,739	2,614,697
Oil and industrial chemicals	2,918,276	1,764,246
Services	2,720,873	1,842,839
Telecommunications	1,531,982	1,576,154
Pharmaceutical and medical products	1,390,506	638,306
Industrial and infrastructure construction	773,780	270,661
Gardening and pet products	516,667	321,242
Electric utility	498,302	2,013,045
Products for home, gifts, jewelry and business accessories	346,555	236,131
Books, video, print and copy	310,410	398,840
Other	1,408,513	932,198
	106,645,418	**60,114,716**
Impairment allowance	(2,793,109)	(1,824,201)
	103,852,309	**58,290,515**

Finance lease

Finance lease receivables included in loans to customers are as follows:

	31 December 2010 RUR'000	31 December 2009 RUR'000
Gross investment in finance lease	1,776,992	1,276,316
Unearned interest income	(391,230)	(273,322)
Net investment in finance lease before allowance	**1,385,762**	**1,002,994**
Impairment allowance	**(310,522)**	**(48,115)**
Net investment in finance lease	**1,075,240**	**954,879**

The contractual maturity of the net investment in leases is as follows:

	2010 RUR'000	2009 RUR'000
Less than 1 year	630,110	542,280
Between 1 and 5 years	442,093	411,445
More than 5 years	3,037	1,154
	1,075,240	**954,879**

Loan maturities

The maturity of the loan portfolio is presented in note 29.

14 Property and equipment

The movement in property and equipment for the year ended 31 December 2010 is presented in the table below:

RUR'000	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2010	2,215,029	101,912	64,511	526,051	21,311	**2,928,814**
Additions	1,897	66,811	22,235	277,871	1,477,543	**1,846,357**
Disposals	-	(22,464)	(554)	(56,612)	-	**(79,630)**
At 31 December 2010	**2,216,926**	**146,259**	**86,192**	**747,310**	**1,498,854**	**4,695,541**
Accumulated depreciation						
At 1 January 2010	42,026	43,195	39,848	187,327	-	**312,396**
Depreciation charge	54,027	21,402	11,529	91,205	-	**178,163**
Disposals	-	(16,057)	(554)	(33,524)	-	**(50,135)**
At 31 December 2010	**96,053**	**48,540**	**50,823**	**245,008**	**-**	**440,424**
Carrying value						
At 31 December 2010	**2,120,873**	**97,719**	**35,369**	**502,302**	**1,498,854**	**4,255,117**

The movement in property and equipment for the year ended 31 December 2009 is presented in the table below:

RUR'000	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2009	1,587,664	86,285	55,377	354,191	42,941	**2,126,458**
Additions	3,357	25,028	9,327	217,209	15,324	**270,245**
Disposals	(1,523)	(9,401)	(193)	(45,349)	(36,954)	**(93,420)**
Revaluation	625,531	-	-	-	-	**625,531**
At 31 December 2009	**2,215,029**	**101,912**	**64,511**	**526,051**	**21,311**	**2,928,814**
Accumulated depreciation						
At 1 January 2009	20,392	33,445	28,441	157,572	-	**239,850**
Depreciation charge	21,854	18,292	11,574	54,905	-	**106,625**
Disposals	(220)	(8,542)	(167)	(25,150)	-	**(34,079)**
At 31 December 2009	**42,026**	**43,195**	**39,848**	**187,327**	-	**312,396**
Carrying value						
At 31 December 2009	**2,173,003**	**58,717**	**24,663**	**338,724**	**21,311**	**2,616,418**

Revalued assets

At 31 December 2009 buildings were revalued based on the results of an independent appraisal performed by OOO "MEF-Audit". The basis used for the appraisal is the market approach. The market approach is based upon an analysis of the results of comparable sales of similar buildings.

The carrying value of buildings as of 31 December 2010, if the buildings would not have been revalued, would be RUR 1,495,342 thousand (31 December 2009: RUR 1,547,472 thousand).

As at 31 December 2010 management did not perform revaluation of the buildings as the movement in the fair values of buildings being revalued did not change significantly during 2010.

15 Other assets

	31 December 2010 RUR'000	31 December 2009 RUR'000
Receivables	469,950	231,085
Prepaid expenses	88,444	52,821
Property held for sale	66,271	98,359
Intangibles	4,677	11,281
Other	117,099	62,740
Total other assets	**746,441**	**456,286**

16 Deposits by the Central Bank of the Russian Federation

	31 December 2010 RUR'000	31 December 2009 RUR'000
Term deposits	-	1,605,794
Payables under repurchase agreements or collateral loans	-	4,523,401
Total deposits by the Central Bank of the Russian Federation	**-**	**6,129,195**

17 Deposits by credit institutions

	31 December 2010 RUR'000	31 December 2009 RUR'000
Demand deposits	53,986	36,473
Term deposits	10,194,233	5,291,736
Syndicated loans	5,213,680	1,825,518
Subordinated debt	1,234,830	604,884
Payables under repurchase agreements	11,166,555	3,294,292
Total deposits by credit institutions	**27,863,284**	**11,052,903**

Syndicated loans represents loans denominated in USD with effective interest rates ranging from 3.8% to 5.2% (31 December 2009: from 3.2% to 4.1%) and maturity from 2011 to 2015 (31 December 2009: from 2010 to 2011).

Subordinated debt represent loans denominated in USD with effective interest rates ranging from 5.7% to 8.5% (31 December 2009: 6.4%) and maturity from 2015 to 2017 (31 December 2009: 2015).

Information about the currency and maturity and effective interest rates on deposits by credit institutions is presented in note 29.

Concentrations of deposits by credit institutions

As at 31 December 2010 the Group has three counterparties (31 December 2009: two) whose deposits balance exceed 10% of the due to credit institutions. The gross value of these facilities as at 31 December 2010 is RUR 14,388,231 thousand (31 December 2009: RUR 4,032,910 thousand).

18 Deposits by customers

		31 December 2010 RUR'000	31 December 2009 RUR'000
Corporate customers	Demand	11,142,438	5,564,236
	Term	25,630,335	8,309,781
	Subordinated	6,057,760	-
Total corporate customers		**42,830,533**	**13,874,017**
Individuals	Demand	2,839,841	1,484,515
	Term	47,885,406	30,266,159
Total individuals		**50,725,247**	**31,750,674**
Total deposits by customers		**93,555,780**	**45,624,691**

Concentrations of deposits by customers

As of 31 December 2010 and 2009, the are no demand or term deposits from customers that individually exceed 10% of total customer accounts.

Information about the currency and maturity and effective interest rates on deposits by customers is presented in note 29.

19 Debt securities issued

	31 December 2010 RUR'000	31 December 2009 RUR'000
Promissory notes issued at nominal value	17,914,958	5,344,584
Accrued interest	215,005	-
Unamortized discount on promissory notes	(487,842)	(207,768)
	17,642,121	**5,136,816**
Bonds issued	11,141,223	7,249,086
	28,783,344	**12,385,902**

Information about the currency and maturity and effective interest rates on debt securities issued is presented in note 29.

Bondholders are entitled to demand early redemption of bonds at their nominal value. The next date on which bondholders can demand redemption is October 2011. In note 29 bonds are presented on the early redemption option dates.

RUR denominated bonds issue 04 was issued in March 2008 with a fixed coupon rate of 11.5% for the first year of floatation. Coupon rate for the six month period was reset in March 2009 at 18% and in September 2009 at 15% until the final maturity date. In March 2011 the Bank repaid the bond at par.

RUR denominated bonds issue 05 was issued in April 2009 with a fixed coupon rate of 15% for the first year of floatation. Coupon rate for the six month period was reset in April 2010 at 8.5%

until April 2011. The remaining two coupon rates are to be defined by the Bank in April 2011 and October 2011.

RUR denominated bonds issue 06 was issued in August 2009 with a fixed coupon rate of 16% for the first year of floatation. Coupon rate for the six month period was reset in August 2010 at 9.4% until the final maturity date of 7 August 2012.

RUR denominated bonds issue 07 was issued in July 2010 with a fixed coupon rate of 9.76% for the first year of floatation. The Bank sets the coupon rate for each subsequent six month period until the final maturity date of 14 July 2015.

RUR denominated bonds issue 08 was issued in April 2010 with a fixed coupon rate of 9.7% for the first 1.5 years of floatation. The Bank sets the coupon rate for each subsequent six month period until the final maturity date of 8 April 2015.

20 Other liabilities

	31 December 2010 RUR'000	31 December 2009 RUR'000
Allowance for credit related commitments	260,419	163,589
Payables to suppliers	198,981	81,761
Deferred income	69,714	10,828
Operating taxes payable	59,253	37,047
Payables to Deposit Insurance Agency	45,231	27,619
Other	231,402	97,960
Total other liabilities	**865,000**	**418,804**

21 Share capital

The share capital of the Bank consists of ordinary shares and was contributed by the shareholder in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital comprised 6,276,158,008 shares (31 December 2009: 6,276,158,008 shares) with par value of 1 RUR per share. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUR 861,930 thousand.

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation, as of the reporting date, reserves available for distribution amount to RUR 1,254,331 thousand (2009: RUR 1,102,761 thousand) (unaudited).

22 Commitments

	31 December 2010 RUR'000	31 December 2009 RUR'000
Guarantees and letters of credit	15,419,408	11,137,417
Undrawn loan commitments	503,892	294,333
	15,923,300	**11,431,750**

23 Operating leases

Leases as lessee

	2010 RUR'000	2009 RUR'000
Less than 1 year	128,331	100,161
Between 1 and 5 years	174,282	123,463
More than 5 years	102,328	75,510
	404,941	**299,134**

24 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 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.

25 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.

26 Related party transactions

The outstanding balances and related average interest rates as at 31 December with related parties are as follows:

	31 December 2010		31 December 2009	
	Amount	**Average effective interest rate**	**Amount**	**Average effective interest rate**
Loans to customers				
Ultimate shareholder	308,765	11.4%	207,682	15.7%
Under control of ultimate shareholder	333,697	10.0%	411,475	16.7%
Management	39,529	10.7%	27,188	12.4%
Total loans	**681,991**		**646,345**	
Deposits by customers				
Ultimate shareholder	51,069	10.4%	247,217	11.7%
Parent company	5,489	8.1%	41,060	15.8%
Under control of ultimate shareholder	6,310,867	6.3%	128,451	2.0%
Management	17,913	9.8%	4,446	12.9%
Total deposits	**6,385,338**		**421,174**	

Amounts included in the statement of comprehensive income for the year ended 31 December in relation to transactions with related parties are as follows:

	31 December 2010 RUR'000	31 December 2009 RUR'000
Interest income on loans to customers		
Ultimate shareholder	12,244	14,809
Under control of ultimate shareholder	17,377	51,537
Management	2,980	3,371
Total interest income on loans to customers	**32,601**	**69,717**
Interest expense on deposits by customers and promissory notes		
Ultimate shareholder	18,692	23,369
Under control of ultimate shareholder	49,890	2,569
Management	1,523	575
Parent company	922	6,500
Total interest expense on deposits by customers and promissory notes	**71,027**	**33,013**

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the year ended 31 December (refer to note 6) is as follows:

	2010 RUR'000	2009 RUR'000
Members of the Supervisory Board	2,315	2,903
Members of the Management Board	39,373	27,284
	41,688	**30,187**

27 Capital management

The Central Bank of the Russian Federation 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 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 2010, this minimum level is 10%. The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2010 and 2009.

The Group also monitors its capital adequacy levels 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 (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 Basel Accord, as at 31 December:

	2010 RUR'000	**2009 RUR'000**
Tier 1 capital		
Share capital and additional paid-in capital	7,300,774	7,300,774
Retained earnings	5,937,830	2,916,454
Total tier 1 capital	**13,238,604**	**10,217,228**
Tier 2 capital		
Revaluation surplus for buildings	500,424	500,424
Revaluation reserve for investments available-for-sale	28,067	325,794
Subordinated loans		
Subordinated loan from EBRD	579,061	604,884
Subordinated loan from BLACK SEA TRADE AND DEVELOPMENT BANK	609,538	-
Subordinated loans from WELLCREEK CORPORATION	6,000,000	-
Less limitation of subordinated capital to 50% of tier 1	(569,297)	-
Total tier 2 capital	**7,147,793**	**1,431,102**
Total capital	**20,386,397**	**11,648,330**
Risk-weighted assets		
Banking book	119,410,805	67,618,009
Trading book	30,390,992	15,619,814
Total risk weighted assets	**149,801,797**	**83,237,823**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**13.6**	**14.0**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**8.8**	**12.3**

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 unrecognised exposures, 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 Basel Accord established by covenants under liabilities incurred by the Group. The Group complied with all externally imposed capital requirements during the years ended 31 December 2010 and 2009.

28 Analysis by segment

The Group has five reportable segments, as described below, which are 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 First deputy of the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate banking: comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guaranties, corporate deposit taking, settlements and money transfer, currency conversion
- Retail banking: comprises retail demand and term deposit services; retail lending, including consumer loans, car loans and mortgages, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals
- Treasury: comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promisory notes
- International business: comprises borrowings from international financial institutions and trade finance operations
- Cash collection and other cash operations: comprise all operations connected with cash, cash collection, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on statutory financial information, as included in the internal management reports that are reviewed by the First deputy of the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The segment breakdown of assets and liabilities is set out below:

	2010 RUR'000	**2009 RUR'000**
ASSETS		
Corporate banking	80,175,809	46,689,068
Retail banking	20,510,355	9,871,494
Treasury	55,263,244	25,673,818
Cash operations	4,252,559	2,696,122
Unallocated assets	2,949,964	1,605,018
Total assets	**163,151,931**	**86,535,520**
LIABILITIES		
Corporate banking	43,668,169	13,865,315
Retail banking	50,177,207	31,372,727
Treasury	44,566,186	24,862,583
International business	10,580,271	5,190,420
Unallocated liabilities	2,609,003	1,293,002
Total liabilities	**151,600,836**	**76,584,047**

Segment information for the main reportable segments for the year ended 31 December 2010 is set below:

RUR'000	Corporate banking	Retail banking	Treasury	International business	Cash operations	Unallocated	Total
External interest income	9,217,357	2,023,678	2,220,537	-	-	-	13,461,572
Fee and commission income	1,474,816	376,684	102,123	73,067	574,063	-	2,600,753
Net gain on securities	-	-	713,392	-	-	-	713,392
Net foreign exchange income (loss)	(4,879)	28,142	(29,091)	-	-	-	(5,828)
Other income	32,456	58,501	-	-	-	-	90,957
(Expenses) revenue from other segments	(4,282,550)	3,355,381	98,059	829,110	-	-	-
Revenue	**6,437,200**	**5,842,386**	**3,105,020**	**902,177**	**574,063**	**-**	**16,860,846**
Impairment losses	(2,244,200)	(374,734)	(108,595)	-	-	-	(2,727,529)
Interest expense	(1,402,924)	(4,449,783)	(2,324,419)	(475,097)	-	-	(8,652,223)
Fee and commission expense	(25,705)	-	(13,342)	(131,042)	-	-	(170,089)
Depreciation	(19,135)	(116,525)	(227)	(10)	(26,138)	-	(162,035)
General administrative expenses	(419,156)	(1,163,332)	(58,286)	(23,051)	(469,364)	(835,502)	(2,968,691)
Other expenses	(90,029)	(6,097)	(47,635)	-	-	(47,898)	(191,659)
Income before income taxes	**2,236,051**	**(268,085)**	**552,516**	**272,977**	**78,561**	**(883,400)**	**1,988,620**
Income tax						(314,062)	**(314,062)**
Segment result	**2,236,051**	**(268,085)**	**552,516**	**272,977**	**78,561**	**(1,197,462)**	**1,674,558**

Segment information for the main reportable segments for the year ended 31 December 2009 is set below:

RUR'000	**Corporate banking**	**Retail banking**	**Treasury**	**International business**	**Cash operations**	**Unallocated**	**Total**
External interest income	6,392,026	1,179,501	1,627,705	-	-	-	9,199,232
Fee and commission income	907,877	205,861	84,377	-	443,952	-	1,642,067
Net gain on securities	-	-	787,270	-	-	-	787,270
Net foreign exchange income (loss)	180,012	169,568	(155,153)	-	-	20,091	214,518
Other income	43,076	62,881	-	-	-	13,051	119,008
(Expenses) revenue from other segments	(3,516,001)	1,867,439	310,250	1,338,312	-	-	-
Revenue	**4,006,990**	**3,485,250**	**2,654,449**	**1,338,312**	**443,952**	**33,142**	**11,962,095**
Impairment losses	(1,645,976)	(772,252)	(74,319)	-	-	-	(2,492,547)
Interest expense	(443,264)	(2,603,604)	(2,183,487)	(408,560)	-	-	(5,638,915)
Fee and commission expense	(1,321)	(5,265)	(22,134)	(73,604)	-	-	(102,324)
Depreciation	(548)	(55,520)	(688)	(41)	(20,977)	-	(77,774)
General administrative expenses	(59,680)	(665,970)	(20,771)	(29,021)	(378,529)	(1,045,387)	(2,199,358)
Other expenses	-	(67,279)	-	-	-	(113,113)	(180,392)
Income before income taxes	**1,856,201**	**(684,640)**	**353,050**	**827,086**	**44,446**	**(1,125,358)**	**1,270,785**
Income tax	-	-	-	-	-	(240,007)	**(240,007)**
Segment result	**1,856,201**	**(684,640)**	**353,050**	**827,086**	**44,446**	**(1,365,365)**	**1,030,778**

The segment breakdown of additions to property and equipment for the years ended 31 December 2010 and 2009 is set out below:

	2010 RUR'000	2009 RUR'000
Retail banking	1,721,836	203,286
Cash operations	67,314	30,518
Corporate banking	3,286	14,362
Treasury	58	914
International business	8	457
Unallocated assets	53,855	20,708
Total additions to property and equipment	**1,846,357**	**270,245**

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

	2010 RUR'000	2009 RUR'000
Income before income taxes per management accounting	1,988,620	1,270,785
Consolidation adjustments	26,173	4,921
Interest and commission accruals	440,679	(84,729)
Fair value and other adjustments to securities	(331,694)	(296,140)
Adjustments to impairment allowances	1,187,731	(166,129)
Personnel, administrative and operating expenses accruals	479,954	155,606
Other adjustments	(38,940)	87,073
Income before income tax per IFRS financials	**3,752,523**	**971,387**

	31 December 2010 RUR'000		31 December 2009 RUR'000	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Total assets/liabilities per management accounting	163,151,931	151,600,836	86,535,520	76,584,047
Accrual of administrative and operating expenses	(2,950)	85,693	-	48,766
Consolidation adjustments	25,695	(75,389)	(678,977)	(753,888)
Revaluation and other adjustments to property and equipment	137,237	-	913,437	-
Adjustment of current and deferred tax assets and liabilities	(44,453)	623,340	-	385,102
Accrual of interest and commissions	(213,202)	(151,467)	(360,981)	(12,377)
Adjustments to impairment allowances	2,612,705	(404,687)	659,753	(245,221)
Fair value adjustment to securities	(196,320)	-	(9,752)	-
Accrual of employee compensation payable	-	25,222	-	9,125
Total assets/liabilities per IFRS financials	**165,470,643**	**151,703,548**	**87,059,000**	**76,015,554**

29 Risk management

Management of risk is fundamental to the banking business and is an essential element of operations. The main risks inherent in the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates.

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 recognised and unrecognised exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and individuals)
- 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 Corporate Lending Department, which is responsible for the corporate loan portfolio. Credit reports 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 Division's Credit Risk Management Department and a second opinion is given accompanied by a check that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Corporate Lending Division and the Risk Department. Individual transactions are also reviewed by the 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 internal specialists of the Collateral Evaluation and Monitoring Service, 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 Retail Lending Division through the use of scoring models and borrowers' credit worthiness evaluation procedures and verification procedures developed together with the Risk Division.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Division with regard to credit concentration and market risks.

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

The maximum exposure to credit risk at the reporting date is as follows:

	31 December 2010 RUR'000	31 December 2009 RUR'000
ASSETS		
Cash and cash equivalents	19,441,969	6,147,308
Obligatory reserves with the Central Bank of the Russian Federation	756,584	401,006
Due from credit institutions	586,968	957,665
Financial instruments at fair value through profit or loss	27,475,153	12,472,290
Available-for-sale securities	4,401,846	3,165,020
Loans to customers	103,852,309	58,290,515
Other assets	479,138	346,646
Total maximum exposure to credit risk on statement of financial position	**156,993,967**	**81,780,450**

For the analysis of concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to unrecognised credit risk at the reporting date is presented in note 22.

Guarantees and standby letters of credit, which 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. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, can be covered by the funds deposited by customers and therefore bear limited credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group established an Operational Risk Unit as a part of the Internal Control Department. The Operational Risk Unit determines policies and procedures in the area of operational risks.

The Unit collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools. The Operational Risk Unit reports to the Head of Internal Control Department on important developments and issues. The Head of Internal Control Department reports directly to the Supervisory Board.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Bank 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 Asset and Liability Management Committee (ALCO) sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of the Russian Federation. These ratios are: (i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; (ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; (iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The Bank was in compliance with these ratios during the years ended 31 December 2010 and 2009.

The following table as at 31 December 2010 shows the undiscounted cash flows from financial liabilities on the basis of their earliest possible contractual maturity. These expected cash flows can vary significantly from the actual future cash flows.

Foreign currency payments are translated using the spot exchange rate at the reporting date.

The maturity analysis for financial liabilities as at 31 December 2010 and 2009 is as follows:

31 December 2010	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**Over 1 year**	**Total**
	RUR'000	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**
LIABILITIES					
Deposits by credit institutions	12,755,231	4,951,238	6,671,004	4,672,006	**29,049,479**
Deposits by customers	22,350,904	28,234,189	18,688,821	31,793,379	**101,067,293**
Debt securities issued	1,571,491	7,675,117	12,525,993	8,799,614	**30,572,215**
Total potential future payments for financial obligations as at 31 December 2010	**36,677,626**	**40,860,544**	**37,885,818**	**45,264,999**	**160,688,987**
Guarantees and letters of credit	690,760	10,442,552	3,631,970	654,126	**15,419,408**
Credit related commitments	503,892	-	-	-	**503,892**

31 December 2009	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**Over 1 year**	**Total**
	RUR'000	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**
LIABILITIES					
Deposits by the Central Bank of the Russian Federation	1,641,461	3,566,541	1,081,370	-	**6,289,372**
Deposits by credit institutions	4,726,087	1,872,443	1,628,673	3,492,153	**11,719,356**
Deposits by customers	12,653,364	17,576,871	9,535,569	10,526,534	**50,292,338**
Debt securities issued	1,081,830	7,266,483	2,854,005	2,104,310	**13,306,628**
Total potential future payments for financial obligations as at 31 December 2009	**20,102,742**	**30,282,338**	**15,099,617**	**16,122,997**	**81,607,694**
Guarantees and letters of credit	245,752	4,812,211	6,072,272	7,182	**11,137,417**
Credit related commitments	294,333	-	-	-	**294,333**

The following tables show all assets and liabilities as at 31 December 2010 and 2009 by their remaining contractual maturities with the exception of securities included in financial assets at fair value through profit or loss and available-for-sale that are approved by the Central Bank of the Russian Federation as collateral for its loans. Such securities are shown in the category "Less than 1 month". The amounts shown here represent carrying amounts on the reporting dates and do not include cash flows associated with future interest and coupon payments.

As at 31 December 2010 the contractual maturities of all securities included in financial assets at fair value through profit or loss and available-for-sale securities were as follows:

	Less than 1 month RUR'000	**1 to 6 months RUR'000**	**6 months to 1 year RUR'000**	**1 to 3 years RUR'000**	**3 to 5 years RUR'000**	**Over 5 years RUR'000**	**No maturity RUR'000**	**Total RUR'000**
Financial instruments at fair value through profit or loss	-	3,211,012	4,104,788	8,560,974	9,536,426	2,061,953	-	**27,475,153**
Available-for-sale securities	-	729,542	777,134	2,266,619	525,147	103,404	59,799	**4,461,645**

As at 31 December 2009 the contractual maturities of all securities included into financial assets at fair value through profit or loss were as follows:

	Less than 1 month RUR'000	**1 to 6 months RUR'000**	**6 months to 1 year RUR'000**	**1 to 3 years RUR'000**	**3 to 5 years RUR'000**	**Over 5 years RUR'000**	**No maturity RUR'000**	**Total RUR'000**
Financial instruments at fair value through profit or loss	268,803	2,361,139	3,071,495	4,082,599	2,439,831	248,423	-	**12,472,290**
Available-for-sale securities	223,765	763,866	29,819	81,966	463,884	1,601,720	70,025	**3,235,045**

As at 31 December 2010, the Bank had no funds borrowed or available for borrowing under a credit line agreement from the Central Bank of Russian Federation. As at 31 December 2009, the Bank had a revolving line of credit with the Central Bank of Russian Federation, allowing it to draw funds within given limits at any time during the term of the agreement. Cash flows associated with the credit line are presented in the relevant maturity table below.

31 December 2010

	Less than 1 month RUR'000	1 to 6 months RUR'000	6 months to 1 year RUR'000	1 to 3 years RUR'000	3 to 5 years RUR'000	Over 5 years RUR'000	No maturity RUR'000	Overdue RUR'000	Total RUR'000
ASSETS									
Cash and cash equivalents	23,336,426	-	-	-	-	-	-	-	**23,336,426**
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	-	756,584	-	**756,584**
Due from credit institutions	-	436,968	150 000	-	-	-	-	-	**586,968**
Financial instruments at fair value through profit or loss	24,153,390	582,640	708,848	851,524	1,178,751	-	-	-	**27,475,153**
Available-for-sale securities	2,436,745	-	310,803	1,094,020	525,147	35,131	59,799	-	**4,461,645**
Loans to customers	5,991,701	34,496,158	23,184,002	25,715,433	8,580,143	4,833,587	-	1,051,285	**103,852,309**
Property and equipment	-	-	-	-	-	-	4,255,117	-	**4,255,117**
Other assets	164,058	166,952	245,111	74,220	12,554	-	83,546	-	**746,441**
	56,082,320	**35,682,718**	**24,598,764**	**27,735,197**	**10,296,595**	**4,868,718**	**5,155,046**	**1,051,285**	**165,470,643**
LIABILITIES									
Deposits by credit institutions	12,740,236	4,859,385	6,504,503	1,959,843	1,189,779	609,538	-	-	**27,863,284**
Deposits by customers	22,340,004	28,062,409	18,461,959	14,794,925	3,838,723	6,057,760	-	-	**93,555,780**
Debt securities issued	1,475,287	7,291,566	11,830,121	8,186,370	-	-	-	-	**28,783,344**
Income tax liability	142,237	-	-	-	-	-	493,903	-	**636,140**
Other liabilities	319,510	110,673	103,946	-	-	-	330,871	-	**865,000**
	37,017,274	**40,324,033**	**36,900,529**	**24,941,138**	**5,028,502**	**6,667,298**	**824,774**	**-**	**151,703,548**
Net position	**19,065,046**	**(4,641,315)**	**(12,301,765)**	**2,794,059**	**5,268,093**	**(1,798,580)**	**4,330,272**	**1,051,285**	**13,767,095**
Accumulated gap	**19,065,046**	**14,423,731**	**2,121,966**	**4,916,025**	**10,184,118**	**8,385,538**	**12,715,810**	**13,767,095**	

31 December 2009

	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	No maturity	Overdue	Total
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
ASSETS									
Cash and cash equivalents	8,629,775	-	-	-	-	-	-	-	**8,629,775**
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-		401,006	-	**401,006**
Due from credit institutions	-	957,665	-	-	-	-	-	-	**957,665**
Financial instruments at fair value through profit or loss	10,197,400	1,150,056	388,038	696,050	40,746	-	-	-	**12,472,290**
Available-for-sale securities	3,062,740	24,841	-	7,811	69,628	-	70,025	-	**3,235,045**
Loans to customers	4,615,850	20,353,018	10,585,415	15,137,129	2,863,307	3,478,593	-	1,257,203	**58,290,515**
Property and equipment	-	-	-	-	-	-	2,616,418	-	**2,616,418**
Other assets	95,502	153,063	128,240	26,242	-	-	53,239	-	**456,286**
	26,601,267	**22,638,643**	**11,101,693**	**15,867,232**	**2,973,681**	**3,478,593**	**3,140,688**	**1,257,203**	**87,059,000**

	Less than 1 month RUR'000	1 to 6 months RUR'000	6 months to 1 year RUR'000	1 to 3 years RUR'000	3 to 5 years RUR'000	Over 5 years RUR'000	No maturity RUR'000	Overdue RUR'000	Total RUR'000
LIABILITIES									
Deposits by the Central Bank of the Russian Federation	1,629,195	3,500,000	1,000,000	-	-	-	-	-	**6,129,195**
Deposits by credit institutions	4,713,359	1,863,437	1,537,211	1,660,095	414,680	864,121	-	-	**11,052,903**
Deposits by customers	12,628,836	16,960,160	8,719,591	5,068,657	2,247,447	-	-	-	**45,624,691**
Debt securities issued	1,076,394	6,685,492	2,585,509	2,038,507	-	-	-	-	**12,385,902**
Income tax liability	153,797	-	-	-	-	-	250,262	-	**404,059**
Other liabilities	140,935	109,198	1,624	3,296	-	-	163,751	-	**418,804**
	20,342,516	**29,118,287**	**13,843,935**	**8,770,555**	**2,662,127**	**864,121**	**414,013**	**-**	**76,015,554**
Net	**6,258,751**	**(6,479,644)**	**(2,742,242)**	**7,096,677**	**311,554**	**2,614,472**	**2,726,675**	**1,257,203**	**11,043,446**
Available credit lines	1,629,195	3,500,000	1,000,000	(6,129,195)	-	-	-	-	-
Net position	**7,887,946**	**(2,979,644)**	**(1,742,242)**	**967,482**	**311,554**	**2,614,472**	**2,726,675**	**1,257,203**	**11,043,446**
Accumulated gap	**7,887,946**	**4,908,302**	**3,166,060**	**4,133,542**	**4,445,096**	**7,059,568**	**9,786,243**	**11,043,446**	

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 income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. 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 ALCO, which is chaired by the Chairman of the Managent Board. Market risk limits are approved by ALCO based on recommendations of the Risk Division's Financial Risk Management Department.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. Limits and positions are monitored on a regular basis and reviewed and approved by the Management Board and/or ALCO.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of 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 income or the value 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 occur.

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.

The table below summarises the exposure to interest rate risks. The table presents the aggregated amounts of financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

	Less than 1 month RUR'000	1 to 6 months RUR'000	6 months to 1 year RUR'000	Over 1 year RUR'000	Overdue RUR'000	Total RUR'000
31 December 2010						
Interest-bearing assets	40,303,835	35,515,766	24,353,653	42,813,737	1,051,285	**144,038,276**
Interest-bearing liabilities	18,519,259	40,213,360	36,796,583	40,636,938	-	**136,166,140**
Net interest sensitivity gap as at 31 December 2010	**21,784,576**	**(4,697,594)**	**(12,442,930)**	**2,176,799**	**1,051,285**	**7,872,136**
31 December 2009						
Interest-bearing assets	17,875,990	21,527,915	10,973,453	22,293,264	1,257,203	**73,927,825**
Interest-bearing liabilities	12,962,560	29,009,089	13,842,311	12,293,507	-	**68,107,467**
Net interest sensitivity gap as at 31 December 2009	**4,913,430**	**(7,481,174)**	**(2,868,858)**	**9,999,757**	**1,257,203**	**5,820,358**

An analysis of sensitivity of profit or loss and equity to changes in market interest rates 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 2010 and 2009 is as follows:

	2010		2009	
	Profit or loss RUR'000	Equity RUR'000	Profit or loss RUR'000	Equity RUR'000
100 bp parallel rise	(152,662)	(152,662)	(5,012)	(5,012)
100 bp parallel fall	152,662	152,662	5,012	5,012

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2010		2009	
	Profit or loss RUR'000	Equity RUR'000	Profit or loss RUR'000	Equity RUR'000
100 bp parallel rise	(526,594)	(585,445)	(144,750)	(285,370)
100 bp parallel fall	526,594	585,445	144,750	285,370

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.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2010 and a simplified scenario of a 20% change in USD to Russian Rouble exchange rates is as follows:

	2010	
	Profit or loss RUR'000	**Equity RUR'000**
20% appreciation of USD against RUR	(76,187)	(76,187)
20% depreciation of USD against RUR	76,187	76,187

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and a simplified scenario of a 20% change in USD to Russian Rouble exchange rates is as follows:

	2009	
	Profit or loss RUR'000	**Equity RUR'000**
20% appreciation of USD against RUR	(31,525)	(31,525)
20% depreciation of USD against RUR	31,525	31,525

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 profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 5% change in all securities prices is as follows:

	2010		2009	
	Profit or loss RUR'000	**Equity RUR'000**	**Profit or loss RUR'000**	**Equity RUR'000**
5% increase in securities prices	-	2,392	-	2,801
5% decrease in securities prices	-	(2,392)	-	(2,801)

Interest rate analysis

The interest rate policy is reviewed and approved by ALCO. The average effective interest rates for interest bearing financial instruments are as follows:

	31 December 2010			31 December 2009		
	USD	**RUR**	**Other foreign currencies**	**USD**	**RUR**	**Other foreign currencies**
Interest bearing assets						
Cash and cash equivalents	0.7%	3.9%	1.2%	0.5%	-	-
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	-
Due from credit institutions	6.2%	6.0%	-	-	-	-
Financial instruments at fair value through profit or loss – government bonds	5.4%	6.9%	-	-	7.7%	-
Financial instruments at fair value through profit or loss – corporate notes and municipal bonds	-	8.3%	-	-	10.4%	-
Available-for-sale securities – government bonds	-	6.4%	-	6.0%	8.1%	-
Available-for-sale securities – corporate notes and municipal bonds	9.7%	9.9%	-	-	11.3%	7.0%
Loans to customers	11.6%	14.0%	11.9%	12.6%	17.8%	13.0%
Interest bearing liabilities						
Deposits by the Central Bank of the Russian Federation	-	-	-	-	9.13%	-
Deposits by credit institutions	4.1%	4.8%	2.3%	4.5%	7.9%	2.1%
- Syndicated loans	4.0%	-	-	3.7%	-	-
- Subordinated debt	7.1%	-	-	6.4%	-	-
Term deposits by customers	7.5%	9.7%	7.4%	10.5%	14.4%	10.0%
Debt securities issued	3.6%	7.1%	4.7%	6.3%	14.2%	8.5%

Currency analysis

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Supervisory Board sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation. The exposure of The Group's assets and liabilities to foreign currency exchange rate risk is as follows:

	31 December 2010				31 December 2009			
	USD	**RUR**	**Other currencies**	**Total**	**USD**	**RUR**	**Other currencies**	**Total**
	RUR'000	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**
ASSETS								
Cash and cash equivalents	1,887,758	17,550,107	3,898,561	**23,336,426**	830,003	5,889,957	1,909,815	**8,629,775**
Obligatory reserves with the Central Bank of the Russian Federation	-	756,584	-	**756,584**	-	401,006	-	**401,006**
Due from credit institutions	235,303	150,000	201,665	**586,968**	-	-	957,665	**957,665**
Financial instruments at fair value through profit or loss	2,059,403	25,415,750	-	**27,475,153**	-	12,472,290	-	**12,472,290**
Available-for-sale securities	127,883	4,333,762	-	**4,461,645**	1,601,721	1,566,744	66,580	**3,235,045**
Loans to customers	13,853,038	84,589,069	5,410,202	**103,852,309**	9,883,588	44,843,957	3,562,970	**58,290,515**
Property and equipment	-	4,255,117	-	**4,255,117**	-	2,616,418	-	**2,616,418**
Other assets	75,648	668,208	2,585	**746,441**	19,294	435,641	1,351	**456,286**
	18,239,033	**137,718,597**	**9,513,013**	**165,470,643**	**12,334,606**	**68,226,013**	**6,498,381**	**87,059,000**

	31 December 2010				31 December 2009			
	USD	**RUR**	**Other currencies**	**Total**	**USD**	**RUR**	**Other currencies**	**Total**
	RUR'000	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**
LIABILITIES								
Deposits by the Central Bank of the Russian Federation	-	-	-	-	-	6,129,195	-	**6,129,195**
Deposits by credit institutions	10,978,350	15,463,943	1,420,991	**27,863,284**	4,469,566	5,518,362	1,064,975	**11,052,903**
Deposits by customers	8,341,260	76,321,425	8,893,095	**93,555,780**	6,442,761	31,945,888	7,236,042	**45,624,691**
Debt securities issued	702,440	27,681,738	399,166	**28,783,344**	397,599	11,281,757	706,546	**12,385,902**
Income tax liability	-	636,140	-	**636,140**	-	404,059	-	**404,059**
Other liabilities	9,263	853,417	2,320	**865,000**	3,349	415,268	187	**418,804**
	20,031,313	**120,956,663**	**10,715,572**	**151,703,548**	**11,313,275**	**55,694,529**	**9,007,750**	**76,015,554**
Net position	**(1,792,280)**	**16,761,934**	**(1,202,559)**	**13,767,095**	**1,021,331**	**12,531,484**	**(2,509,369)**	**11,043,446**
Spot contracts	1,316,113	(2,263,026)	946,913	**-**	(1,218,365)	(1,035,006)	2,253,371	**-**
Total	**(476 ,167)**	**14,498,908**	**(255,646)**	**13,767,095**	**(197,034)**	**11,496,478**	**(255,998)**	**11,043,446**

Geographical risk

The geographical risk is the risk of losses in the result of a foreign counterparty failing to meet its obligations due to political, economic or social instability in the respective country.

The geographical concentration of financial assets and liabilities as at 31 December 2010 and 2009 is disclosed in the table below:

	31 December 2010				31 December 2009			
	Russia	**OECD**	**Other non-OECD**	**Total**	**Russia**	**OECD**	**Other non-OECD**	**Total**
	RUR'000	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**
ASSETS								
Cash and cash equivalents	18,020,750	5,314,349	1,327	**23,336,426**	6,392,284	2,234,737	2,754	**8,629,775**
Obligatory reserves with the Central Bank of the Russian Federation	756,584			**756,584**	401,006			**401,006**
Due from credit institutions	385,303	201,665		**586,968**	-	957,665	-	**957,665**
Financial instruments at fair value through profit or loss	27,321,018	-	154,135	**27,475,153**	12,316,938	-	155,352	**12,472,290**
Available-for-sale securities	4,461,645	-	-	**4,461,645**	3,235,045	-	-	**3,235,045**
Loans to customers	103,401,019	451,290	-	**103,852,309**	58,084,109	-	206,406	**58,290,515**
	154,346,319	**5,967,304**	**155,462**	**160,469,085**	**80,429,382**	**3,192,402**	**364,512**	**83,986,296**
LIABILITIES								
Deposits by the Central Bank of the Russian Federation	-	-	-	**-**	6,129,195	-	-	**6,129,195**
Deposits by credit institutions	15,768,554	12,094,730	-	**27,863,284**	5,735,136	5,317,765	2	**11,052,903**
Deposits by customers	85,984,456	75,078	7,496,246	**93,555,780**	45,124,467	37,683	462,541	**45,624,691**
Debt securities issued	28,440,705	229,631	113,008	**28,783,344**	12,043,374	222,518	120,010	**12,385,902**
	130,193,715	**12,399,439**	**7,609,254**	**150,202,408**	**69,032,172**	**5,577,966**	**582,553**	**75,192,691**
Net position	**24,152,604**	**(6,432,135)**	**(7,453,792)**	**10,266,677**	**11,397,210**	**(2,385,564)**	**(218,041)**	**8,793,605**

30 Fair value of financial instruments

For financial instruments whose fair value is estimated by using active market data, the fair value represents 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 and discount rates for similar instruments at the reporting date.

The following table provides an analysis of financial assets and liabilities, for which the discounted cash flow techniques are used to estimate their fair value:

	2010 RUR'000 Fair value	2010 RUR'000 Carrying value	2009 RUR'000 Fair value	2009 RUR'000 Carrying value
ASSETS				
Cash and cash equivalents	23,336,426	23,336,426	8,629,775	8,629,775
Obligatory reserves with the Central Bank of the Russian Federation	756,584	756,584	401,006	401,006
Due from credit institutions	586,968	586,968	957,665	957,665
Loans to customers	104,521,779	103,852,309	57,712,021	58,290,515
LIABILITIES				
Deposits by the Central Bank of the Russian Federation	-	-	6,129,195	6,129,195
Deposits by credit institutions	27,863,284	27,863,284	11,052,903	11,052,903
Deposits by customers	95,234,842	93,555,780	46,357,273	45,624,691
Debt securities issued	28,970,940	28,783,344	12,489,310	12,385,902

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.

The following table shows an analysis of financial instruments recorded at fair value, for which 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 2010:

	Quoted market prices RUR'000	Valuation techniques based on market observable inputs RUR'000	Total RUR'000
Financial assets at fair value through profit or loss	27,245,376	229,777	**27,475,153**
Available-for-sale securities	4,310,667	150,978	**4,461,645**

The following table shows an analysis of financial instruments recorded at fair value, 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	**Valuation techniques based on market observable inputs**	**Total**
	RUR'000	**RUR'000**	**RUR'000**
Financial assets at fair value through profit or loss	12,221,365	250,925	**12,472,290**
Available-for-sale securities	3,098,834	136,211	**3,235,045**

As at 31 December 2010 and 2009, 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.

31 Events subsequent to the reporting date

In January 2011 the Bank paid out the first coupon in the amount of RUR 97.34 million or RUR 48.67 per bond on domestic bonds series 07. The issue was placed in the amount of RUR 2 billion with a maturity of 5 years.

In January 2011 the Bank opened a new branch in Moscow.

In February 2011 Mustafa Boran, Vice-President Banking of Black Sea Trade and Development Bank, joined the Supervisory Board of the Bank as a new independent member.

In February 2011 the Bank paid out the third coupon in the amount of RUR 93.74 million or RUR 46.87 per bond on domestic bonds series 06. The issue was placed in the amount of RUR 2 billion with a maturity of 3 years.

In February 2011 the Bank placed its exchange bond issue series BO-1 with a nominal value of RUR 3 billion with a 3-year maturity at MICEX.

In March 2011 the Bank repaid its domestic bonds series 04. The issue was placed on 18 March 2008 in the amount of RUR 2 billion.

CREDIT BANK OF MOSCOW

Consolidated Financial Statements
for the year ended 31 December 2009

Contents

Independent Auditors Report 3
Consolidated Statement of Comprehensive Income 4
Consolidated Statement of Financial Position 5
Consolidated Statement of Cash Flows 6
Consolidated Statement of Changes in Equity 8
Notes to the Consolidated Financial Statements 9
1 Background 9
2 Basis of preparation 10
3 Significant accounting policies 10
4 Net interest income 20
5 Fee and commission income 20
6 Salaries, employment benefits and administrative expenses 20
7 Provision for impairment of other assets and credit related commitments 21
8 Income tax 21
9 Cash and due from the Central Bank of the Russian Federation 23
10 Due from credit institutions 24
11 Financial instruments at fair value through profit or loss 25
12 Available-for-sale securities 27
13 Loans to customers 28
14 Property and equipment 35
15 Other assets 36
16 Deposits by the Central Bank of the Russian Federation 37
17 Deposits by credit institutions 37
18 Deposits by customers 38
19 Debt securities issued 38
20 Other liabilities 39
21 Share capital 39
22 Commitments 39
23 Operating lease 40
24 Contingencies 40
25 Custody activities 41
26 Related party transactions 41
27 Cash and cash equivalents 42
28 Capital management 42
29 Analysis by segment 44
30 Risk management 48
31 Fair value of financial instruments 62
32 Disposal of subsidiaries 63
33 Events subsequent to the reporting date 64
34 Disclosure of prior period errors 64

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Independent Auditors' Report

To the Management of Credit Bank of Moscow (open joint-stock company).

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Credit Bank of Moscow (open joint-stock company) 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 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
30 April 2010

ZAO KPMG, a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

	Notes	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)*
Interest income	4	9,584,791	5,370,076
Interest expense	4	(5,671,209)	(2,797,776)
Net interest income	4	**3,913,582**	**2,572,300**
Provision for impairment of loans	13	(2,465,362)	(474,918)
Net interest income after provision for impairment		**1,448,220**	**2,097,382**
Fee and commission income	5	1,191,323	931,277
Net gain (loss) on financial instruments at fair value through profit or loss		429,497	(228,304)
Net realized gain (loss) on available-for-sale assets		61,633	(141,013)
Foreign exchange gains, net		212,098	405,311
Other operating income		117,032	319,938
Non-interest income		**2,011,583**	**1,287,209**
Salaries and employment benefits	6	(1,064,102)	(1,075,783)
Administrative expenses	6	(868,148)	(710,497)
Provision for impairment of other assets and credit related commitments	7	(193,314)	(2,493)
Depreciation	14	(106,625)	(75,645)
Fee and commission expense		(84,653)	(71,887)
State deposit insurance scheme contributions		(82,651)	(51,591)
Other operating expenses		(88,923)	(98,136)
Non-interest expense		**(2,488,416)**	**(2,086,032)**
Income before income taxes		**971,387**	**1,298,559**
Income tax	8	(191,425)	(284,814)
Net income		**779,962**	**1,013,745**
Other comprehensive income			
Revaluation reserve for available-for-sale securities		469,456	(62,214)
Revaluation of buildings		625,531	-
Income tax related to other comprehensive income		(218,998)	12,443
Other comprehensive income (loss) for the period, net of tax		**875,989**	**(49,771)**
Comprehensive income for the period		**1,655,951**	**963,974**

Chairman of the Board — Alexander N.Nikolashin

Chief Accountant — Svetlana V.Sass

* Refer to Note 34 Disclosure of prior period errors

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)*	31 December 2007 RUR'000 (restated)*
ASSETS				
Cash and due from the Central Bank of the Russian Federation	9	6,457,166	6,156,493	4,759,256
Due from credit institutions	10	3,531,280	4,555,729	5,259,549
Financial instruments at fair value through profit or loss	11	12,472,290	-	3,674,360
Available-for-sale securities	12	3,235,045	7,582,347	-
Loans to customers	13	58,290,515	39,839,113	26,630,128
Property and equipment	14	2,616,418	1,886,608	1,554,955
Other assets	15	456,286	427,881	321,368
Total assets		**87,059,000**	**60,448,171**	**42,199,616**
LIABILITIES AND EQUITY				
Deposits by the Central Bank of the Russian Federation	16	6,129,195	10,104,195	-
Deposits by credit institutions	17	11,052,903	13,305,859	12,267,088
Deposits by customers	18	45,624,691	23,684,669	17,217,491
Debt securities issued	19	12,385,902	6,327,313	6,947,910
Deferred tax liability	8	250,262	233,798	168,534
Current tax liability	8	153,797	2,281	62,746
Other liabilities	20	418,804	402,561	112,326
Total liabilities		**76,015,554**	**54,060,676**	**36,776,095**
Equity				
Share capital	21	7,138,088	4,138,088	4,138,088
Additional paid-in capital		162,686	162,686	162,686
Revaluation surplus for buildings		500,424	-	-
Revaluation reserve for available-for-sale securities		325,794	(49,771)	-
Retained earnings		2,916,454	2,136,492	1,122,747
Total equity		**11,043,446**	**6,387,495**	**5,423,521**
Total liabilities and equity		**87,059,000**	**60,448,171**	**42,199,616**

Commitments and Contingencies 22-24

* Refer to Note 34 Disclosure of prior period errors
The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)*
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	779,962	1,013,745
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for impairment of loans	2,465,362	474,918
Depreciation and amortization	107,767	75,733
Deferred tax (benefit) expense	(202,534)	77,707
Revaluation of financial instruments at fair value through profit or loss	(490,759)	80,789
Provision for impairment of other assets and credit related commitments	193,314	2,493
Gain on sale of premises	-	(256,066)
Accrued interest income	(153,493)	(278,422)
Accrued interest expense	161,032	184,637
Impairment of available-for-sale securities	175,722	-
Other	110,310	50,712
Operating cash flow before changes in operating assets and liabilities	**3,146,683**	**1,426,246**
(Increase) decrease in operating assets		
Obligatory reserve deposits with the Central Bank of the Russian Federation	(344,171)	434,742
Due from credit institutions	(628,446)	(285,272)
Financial instruments at fair value through profit or loss	(12,212,968)	1,952,168
Loans to customers	(20,348,382)	(11,381,945)
Other assets	(76,677)	(42,053)
Increase (decrease) in operating liabilities		
Deposits by credit institutions and the Central Bank of the Russian Federation	(6,259,994)	9,192,164
Deposits by customers	21,375,353	5,565,211
Debt securities issued	5,874,355	(611,089)
Other liabilities	(178,074)	238,575
Net cash (used in) from operations	**(9,652,321)**	**6,488,747**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sale (purchase) of available-for-sale securities	4,920,606	(5,706,634)
Net purchase of property and equipment and intangible assets	(110,004)	(387,633)
Net cash from (used in) investing activities	**4,810,602**	**(6,094,267)**

* Refer to Note 34 Disclosure of prior period errors
The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

		31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)*
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock		3,000,000	-
Net cash from financing activities		**3,000,000**	**-**
Effect of exchange rates changes on cash and cash equivalents		116,107	448,406
Change in cash and cash equivalents		**(1,725,612)**	**842,886**
Cash and cash equivalents, beginning of the period		10,355,387	9,512,501
Cash and cash equivalents, end of the period	27	**8,629,775**	**10,355,387**

* Refer to Note 34 Disclosure of prior period errors
The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Common stock	Additional paid-in capital	Revaluation surplus for buildings	Revaluation reserve for available-for-sale assets	Retained earnings	Total equity
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
31 December 2007 (Restated)*	**4,138,088**	**162,686**	**-**	**-**	**1,122,747**	**5,423,521**
Total comprehensive income for the period	-	-	-	(49,771)	1,013,745	963,974
31 December 2008 (Restated)*	**4,138,088**	**162,686**	**-**	**(49,771)**	**2,136,492**	**6,387,495**
Total comprehensive income for the period	-	-	500,424	375,565	779,962	1,655,951
Shares issued	3,000,000	-	-	-	-	3,000,000
31 December 2009	**7,138,088**	**162,686**	**500,424**	**325,794**	**2,916,454**	**11,043,446**

* Refer to Note 34 Disclosure of prior period errors
The consolidated statement of changes in 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 CREDIT BANK OF MOSCOW (the Bank) and its subsidiaries (together referred to as the Group).

CREDIT BANK OF MOSCOW was formed on 5 August 1992 as an open joint stock company, then re-registered as a closed joint stock company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganized as an open joint stock company. The Bank's registered legal address is 2 (bldg. 1) Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central Bank of the Russian Federation, granted on 20 January 2000. In December 2004 the Bank was admitted to the Central Bank of Russia program for individual deposit insurance. The Bank is among the 45 largest banks in Russia by assets and runs its business in Moscow and the Moscow region with a branch network comprising 41 branches, ATMs and payment terminals totaling 240 and 820 items, respectively.

The principal subsidiaries of the Group are as follows:

				Degree of control, %	
Name	**Date of incorporation**	**Country of incorporation**	**Principal Activities**	**31 December 2009**	**31 December 2008**
CBOM Finance p.l.c.	17 Aug 2006	Ireland	Raising finance	100%	100%
MKB-Invest	4 June 2007	Russia	Operations with securities	100%	100%
MKB-Leasing	20 Sep 2005	Russia	Finance leasing	100%	100%
M-leasing	28 May 2007	Russia	Finance leasing	-	100%
MK-leasing	07 May 2008	Russia	Finance leasing	-	100%

The Bank does not have any direct or indirect shareholdings in the subsidiaries noted above. However CBOM Finance p.l.c. was established under terms that impose strict limits on the decision-making powers of its management. MKB-Invest, MKB-Leasing are controlled by the Group through option agreements. On 31 December 2009 the Group disposed of its investments in M-leasing and MK-leasing due to the cancellation of option agreements with them.

Shareholders

The Group is wholly-owned by Concern Rossium (the Shareholder Group). The sole shareholder of Concern Rossium is Roman I. Avdeev, who is also the President and member of the Supervisory Board of the Bank. The members of the Supervisory Board are as follows:

Supervisory Board

Sandy Vaci	Chairman
Richard Damien Glasspool	Member
Roman I. Avdeev	Member
Alexander N. Nikolashin	Member
Irina N. Nartova	Member

Related party transactions are detailed in note 26.

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 assets are stated at fair value, and, beginning in 2009, buildings are stated at revalued amounts.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (RUR). Management determined the functional currency to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Bank. The RUR is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUR is rounded to the nearest thousand.

Use of estimates and judgments

Management makes 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 13
- building revaluation estimates - note 14.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied. Changes in accounting policies described at the end of this note.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank 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.

Special purpose entities

The Bank established a special purpose entity (SPE) for trading and investment purposes. The Bank does not have any direct or indirect shareholdings in this entity. However, the SPE is established under terms that impose strict limits on the decision-making powers of the SPE's management over the operations of the SPE. In addition, the benefits related to their operations and net assets are presently attributable to the Bank via a number of agreements.

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 reporting 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 recognized in the consolidated statement of comprehensive income.

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of 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

The Group considers cash and nostro accounts with the Central Bank of the Russian Federation, due from credit institutions with maturity of less than one month to be cash and cash equivalents. The minimum reserve deposit with the Central Bank of the Russian Federation 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 assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported 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 assets 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 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 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 statement of comprehensive income. 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 reporting 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 profit or loss

- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in 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 profit or loss. Interest in relation to an available-for-sale financial asset is recognized as earned in profit or loss calculated 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 statement of financial position 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 statement of comprehensive income 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. The difference between the purchase and resale prices represents interest income and is recognized in the consolidated statement of comprehensive income over the term of the repo agreement using the effective interest 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.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the 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 and, beginning in 2009, buildings are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of buildings being revalued. A revaluation increase on an item 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 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.

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.

Depreciation

Depreciation is charged to the consolidated statement of comprehensive income 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:

	Years
Buildings	50
Furniture and other property	6
Computers and office equipment	4
Vehicles	5

When a building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Intangible assets

Intangible assets, which 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.

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 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 statement of comprehensive 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.

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 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 statement of comprehensive income 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 profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. An impairment loss 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 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.

Share capital

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 Bank to declare and pay dividends is subject to the rules and regulations of 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, 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 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

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 statement of comprehensive income using the effective interest 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 the 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 when the corresponding service has been provided.

Dividend income is recognised in the consolidated statement of comprehensive income 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.

Changes in accounting policies

IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). As at 1 January 2009, the Group adopted the revised version of IAS 1 and 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 financial assets and revaluation of buildings. 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.

Starting from 1 January 2009 the Group adopted IFRS 8 *Operating Segments,* which introduces the management approach to segment reporting and requires the disclosure of segment information based on the internal reports regularly reviewed by the chief operating decision maker in order to assess each segment's performance and to allocate resources to them.

Starting from 1 January 2009 the Group elected to adopt the revaluation model to account for buildings as allowed in IAS 16 *Property, Plant and Equipment*. Management believes that applying the new accounting policy provides more relevant information about the value of buildings and equity. Comparatives are not restated for this change in accounting policy.

Various Improvements to IFRSs are dealt with on a standard-by-standard basis.

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 new standards on its financial statements.

- IFRS 9 *Financial Instruments Part 1: Classification and Measurement* (effective from 1 January 2013, earlier adoption is permitted). IFRS 9 was issued will replace those parts of IAS 39) relating to the classification and measurement of financial assets. Key features are as follows:

  Financial assets are required to be classified into one of the two measurement categories: those to be measured subsequently at fair value, or those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  An instrument is subsequently measured at amortized cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

  All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses in other comprehensive income rather than in profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- 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.
- Amendments to IFRS 5 *Non-current Assets held for Sale* and *Discontinued Operations* (effective for annual periods beginning on or after 1 July 2009) clarifies the classification of assets and liabilities on disposal of a subsidiary.
- Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* (effective for annual periods beginning on or after 1 July 2009) clarify the separation criteria for embedded derivatives on reclassification of a hybrid instrument out of the fair value through profit or loss category.

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.

4 Net interest income

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Interest income		
Loans to customers	8,033,840	4,856,799
Debt securities	1,422,654	386,443
Due from credit institutions and the Central Bank of the Russian Federation	128,297	126,834
	9,584,791	**5,370,076**
Interest expense		
Deposits by customers	(2,931,465)	(1,114,766)
Deposits by credit institutions and the Central Bank of the Russian Federation	(1,418,989)	(862,748)
Debt securities issued	(1,320,755)	(820,262)
	(5,671,209)	**(2,797,776)**
Net interest income	**3,913,582**	**2,572,300**

5 Fee and commission income

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Cash collection delivery	443,509	380,267
Guarantees and letters of credit	307,016	99,490
Settlements and wire transfers	271,577	301,302
Other cash operations	60,563	68,407
Plastic cards	59,686	55,350
Other	48,972	26,461
Fee and commission income	**1,191,323**	**931,277**

6 Salaries, employment benefits and administrative expenses

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Salaries	890,184	887,021
Social security costs	158,955	158,758
Other	14,963	30,004
Salaries and employment benefits	**1,064,102**	**1,075,783**

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Advertising and business development	222,868	156,075
Occupancy	210,415	214,622
Operating taxes	141,435	101,234
Security	117,170	99,505
Communications	52,775	43,651
Transport	30,612	34,216
Other	92,873	61,194
Administrative expenses	**868,148**	**710,497**

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the statement of comprehensive income in the period the related compensation is earned by the employee. The Group does not have any stock option plans.

7 Provision for impairment of other assets and credit related commitments

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Provision for impairment of credit related commitments	148,985	9,611
Provision for (reversal of) impairment of other assets	44,329	(7,118)
	193,314	**2,493**

8 Income tax

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Current tax charge	393,959	207,107
Deferred taxation	(202,534)	77,707
Income tax expense	**191,425**	**284,814**

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The income tax rate for the Bank is 20% (2008: 24%).

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Income before tax	971,387	1,298,559
Applicable statutory tax rate	20%	24%
Income tax using the applicable tax rate	194,277	311,654
Income taxed at lower rate	(9,622)	(5,033)
Net non-deductible costs	6,770	23,927
Adjustment to deferred tax assets and liabilities for enacted changes in tax rates	-	(45,734)
Income tax expense	**191,425**	**284,814**

Income tax liabilities are recorded in the statement of financial position as follows:

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Current tax liability	153,797	2,281
Deferred tax liability	250,262	233,798
Income tax liability	**404,059**	**236,079**

Movements in temporary differences during the years ended 31 December 2009 and 2008 are presented as follows.

RUR'000	Balance 1 January 2009 (restated)	Recognised in income	Recognised in equity	Balance 31 December 2009
Placements with banks and other financial institutions	1,407	(4,656)	-	(3,249)
Financial instruments at fair value through profit or loss	-	137,604	-	137,604
Loans to customers	172,624	(289,375)	-	(116,751)
Available-for-sale assets	5,075	(75,047)	93,891	23,919
Property and equipment	56,908	7,060	125,107	189,075
Other assets	3,671	(5,088)	-	(1,417)
Due from credit institutions and Central Bank of Russian Federation	282	3,422	-	3,704
Debt securities issued	-	(6,839)	-	(6,839)
Other liabilities	(6,169)	30,385	-	24,216
	233,798	**(202,534)**	**218,998**	**250,262**

RUR'000	Balance 1 January 2008 (restated)	Recognised in income	Recognised in equity	Balance 31 December 2008 (restated)
Placements with banks and other financial institutions	-	1,407	-	1,407
Financial instruments at fair value through profit or loss	7,108	(7,108)	-	-
Loans to customers	126,496	46,128	-	172,624
Available-for-sale assets	-	17,518	(12,443)	5,075
Property and equipment	30,042	26,866	-	56,908
Other assets	1,902	1,769	-	3,671
Due from credit institutions and Central Bank of Russian Federation	8,780	(8,498)	-	282
Other liabilities	(5,794)	(375)	-	(6,169)
	168,534	**77,707**	**(12,443)**	**233,798**

Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income comprise:

	2009			2008 (restated)		
RUR'000	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax gain	Amount net-of-tax
Revaluation reserve for available-for-sale securities	469,456	(93,891)	375,565	(62,214)	12,443	(49,771)
Revaluation of property, plant and equipment	625,531	(125,107)	500,424	-	-	-
Other comprehensive income	**1,094,987**	**(218,998)**	**875,989**	**(62,214)**	**12,443**	**(49,771)**

9 Cash and due from the Central Bank of the Russian Federation

	31 December 2009 RUR'000	31 December 2008 RUR'000
Cash on hand	2,482,467	2,039,477
Correspondent account with the Central Bank of the Russian Federation	3,573,693	4,060,181
Obligatory reserve deposits with the Central Bank of the Russian Federation	401,006	56,835
Cash and due from the Central Bank of the Russian Federation	**6,457,166**	**6,156,493**

The obligatory reserve deposits are mandatory non-interest bearing deposits calculated in accordance with regulations issued by the Central Bank of the Russian Federation, the withdrawal of which is restricted. The correspondent account with the Central Bank of the Russian Federation represents balances held with the Central Bank of the Russian Federation related to settlement activity, and was available for withdrawal at period end.

Information about the currency and maturity of cash and due from the Central Bank of the Russian Federation is presented in note 30 to these consolidated financial statements.

10 Due from credit institutions

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Current accounts		
rated from AA+ to AA-	330,158	69,606
rated from A+ to A-	274,390	54,241
rated BBB	1,009,893	242,953
rated from BB+ to BB-	-	21,125
rated from B+ to B-	26,860	26,860
not rated	598,564	2,157,200
Total current accounts	**2,239,865**	**2,571,985**
Term deposits		
rated from AA+ to AA-	323,630	461,420
rated from A+ to A-	957,665	17,628
rated BBB	-	251,822
rated from BB+ to BB-	-	1,016,712
rated from B+ to B-	-	55,092
not rated	10,120	181,070
Total term deposits	**1,291,415**	**1,983,744**
Due from credit institutions	**3,531,280**	**4,555,729**

Ratings are based on Standard & Poor's rating system.

Settlements with the stock exchange are included in not rated current accounts in the amount of RUR 480,751 thousand as at 31 December 2009 (31 December 2008: RUR 2,074,224 thousand).

Information about the currency and maturity and effective interest rates on amounts due from credit institutions is presented in note 30 to these consolidated financial statements.

Concentrations of the due from credit institutions

As at 31 December 2009 the Group had three counterparties (31 December 2008: two) whose deposit balances exceed 10% of total due from credit institutions. The gross value of these facilities as at 31 December 2009 is RUR 2,295,997 thousand (31 December 2008: 2,545,121).

11 Financial instruments at fair value through profit or loss

	31 December 2009 RUR'000	31 December 2008 RUR'000
Held by the Bank		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	931,583	-
Moscow Government bonds	408,359	-
Corporate bonds		-
from BBB+ to BBB-	603,456	-
from BB+ to BB-	481,832	-
from B+ to B-	2,663,910	-
not rated	1,449,045	-
Total financial instruments at fair value through profit or loss held by the bank	**6,538,185**	**-**
Pledged as collateral for interbank and other loans		
Government and municipal bonds		
Regional authorities and municipal bonds	652,608	
Corporate bonds		-
from BBB+ to BBB-	104,267	-
from BB+ to BB-	103,089	-
from B+ to B-	1,383,011	-
Total financial instruments at fair value through profit or loss pledged as collateral for interbank and other loans	**2,242,975**	**-**
Pledged under sale and repurchase agreements		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	844,667	-
Moscow Government bonds	297,055	-
Corporate bonds		-
from BBB+ to BBB-	647,642	-
from BB+ to BB-	1,150,835	-
from B+ to B-	402,165	-
not rated	348,766	-
Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements	**3,691,130**	**-**
Total financial instruments at fair value through profit or loss	**12,472,290**	**-**

As at 31 December 2009 debt instruments in the amount of RUR 10,197,400 thousand are included in the list of securities that can be pledged to attract funds from the Central Bank of the Russian Federation.

In 2008 the Group reclassified certain securities held for trading with effect from 14 October 2008 into available-for-sale securities following amendments to IAS 39 *Financial instruments: Recognition and Measurement*. The Group determined that the extraordinary deterioration of the global and local financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category.

The disclosures below detail the impact of the reclassifications on the consolidated financial statements:

	2009 RUR'000		2008 RUR'000		14 October 2008 RUR'000
	Carrying value	Fair value	Carrying value	Fair value	Carrying and fair value
Trading securities reclassified to available-for-sale financial assets	408,849	408,849	1,627,239	1,627,239	2,340,263

	2009 RUR'000	2008 RUR'000
Interest income recognized in profit or loss	74,378	62,045
Losses recognized in profit or loss	(91,092)	(58,384)
Gain (loss) that would have been recognized in profit or loss if the assets had not been reclassified	51,623	(14,163)

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of spot and forward exchange contracts outstanding at 31 December 2009 and 2008 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 contractual exchange rates	
	2009 RUR'000	2008 RUR'000	2009	2008
Buy EUR sell USD				
Less than 3 months	1,320,732	457,842	1.4354	1.4424
Buy RUR sell USD				
Less than 3 months	26,452	253,281	30.1995	29.8182
Buy USD sell RUR				
Less than 3 months	128,819	-	29.9927	-

	Notional amount		Weighted average contractual exchange rates	
	2009 RUR'000	**2008 RUR'000**	**2009**	**2008**
Buy EUR sell RUR				
Less than 3 months	932,639	-	43.1079	-
Buy RUR sell EUR				
Less than 3 months	-	85,152	-	42.5760
	2,408,642	**796,275**		

12 Available-for-sale securities

	31 December 2009 RUR'000	**31 December 2008 RUR'000 (restated)**
Held by the Bank		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	-	510,898
Russian Government Eurobonds	7,497	1,323
Moscow Government bonds	29,819	3,374
Regional authorities and municipal bonds	213,005	298,773
Corporate bonds		
from BBB+ to BBB-	69,631	489,245
from BB+ to BB-	-	267,124
from B+ to B-	666,565	524,977
from CCC+ to CCC-	-	73,723
not rated	32,651	722,570
Promissory notes	-	833,679
Equity investments	70,025	51,893
Total available-for-sale securities held by the Bank	**1,089,193**	**3,777,579**
Pledged as collateral for interbank and other loans		
Government and municipal bonds		
Russian Government Eurobonds	1,594,223	-
Regional authorities and municipal bonds	230,605	-
Corporate bonds		-
from BB+ to BB-	157,185	-
Promissory notes	66,580	1,099,774
Total available-for-sale securities pledged as collateral for interbank and other loans	**2,048,593**	**1,099,774**

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Pledged under sale and repurchase agreements		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	47,794	413,418
Moscow Government bonds	-	118,568
Regional authorities and municipal bonds	-	239,285
Corporate bonds		
from BBB+ to BBB-	49,465	657,158
from BB+ to BB-	-	1,110,327
from B+ to B-	-	166,238
Total available-for-sale securities pledged under sale and repurchase agreements	**97,259**	**2,704,994**
Total available-for-sale securities	**3,235,045**	**7,582,347**

As at 31 December 2009 debt instruments in the amount of RUR 2,996,160 thousand are included in the list of securities that can be pledged to attract funds from the Central Bank of the Russian Federation.

13 Loans to customers

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)	31 December 2007 RUR'000 (restated)
Loans to corporate clients	**50,088,406**	**31,407,939**	**21,931,761**
Loans to individuals			
Auto loans	1,947,239	2,363,177	2,327,397
Mortgage loans	5,582,649	5,025,356	2,092,686
Other loans to individuals	2,496,422	1,548,781	498,337
Total loans to individuals	**10,026,310**	**8,937,314**	**4,918,420**
Gross loans to customers	**60,114,716**	**40,345,253**	**26,850,181**
Impairment allowance	(1,824,201)	(506,140)	(220,053)
Net loans to customers	**58,290,515**	**39,839,113**	**26,630,128**

During 2009 the Group renegotiated loans that would otherwise be past due or impaired of RUR 649,265 thousand (2008: RUR 460,149 thousand). Such restructuring activity is aimed at managing customer relationships and maximizing quality of the loan portfolio. Renegotiated loans are included in loans not past due unless the borrower is unable to comply with the renegotiated terms.

Movements in the loan impairment allowance for the year ended 31 December 2009 and 2008 are as follows:

	2009 RUR'000	2008 RUR'000 (restated)	2007 RUR'000 (restated)
Balance at the beginning of the period	506,140	220,053	150,542
Net charge	2,465,362	474,918	138,195
Net write-offs	(1,147,301)	(188,831)	(68,684)
Balance at the end of the period	**1,824,201**	**506,140**	**220,053**

As at 31 December 2009, interest accrued on overdue loans amounts to RUR 214,939 thousand (31 December 2008: RUR 38,361 thousand).

As at 31 December 2009, the gross amount of overdue loans with payments that are overdue at least one day, totals RUR 2,288,319 thousand, which represents 3.8% of the loan portfolio (31 December 2008: RUR 1,431,953 thousand and 3.5%, respectively). Nonperforming loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUR 1,793,625 thousand or 3.0% of the loan portfolio (31 December 2008: RUR 571,573 thousand and 1.4%, respectively)

As at 31 December 2009, the ratio of total impairment allowance to overdue loans equals to 79.7%, and the ratio of total impairment allowance to NPLs equals 101.7% (31 December 2008: 35.3% and 88.6%, respectively)

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality the loans to corporate clients as at 31 December 2009:

	Gross loans RUR'000	Impairment allowance RUR'000	Net loans RUR'000	Impairment to gross loans %
Loans to corporate clients				
- Not past due	49,406,492	(750,960)	48,655,532	1.5%
- Overdue less than 31 days	89,523	(3,066)	86,457	3.4%
- Overdue 31-90 days	102,032	(45,494)	56,538	44.6%
- Overdue 91-180 days	189,536	(42,653)	146,883	22.5%
- Overdue 181-360 days	190,107	(117,055)	73,052	61.6%
- Overdue more than 360 days	110,716	(43,906)	66,810	39.7%
Total loans to corporate clients	**50,088,406**	**(1,003,134)**	**49,085,272**	**2.0%**

The following table provides information on credit quality of loans to corporate clients as at 31 December 2008 (restated):

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Loans to corporate clients				
- Not past due	30,902,562	(129,319)	30,773,243	0.4%
- Overdue less than 31 days	55,944	(868)	55,076	1.6%
- Overdue 31-90 days	113,570	(39,615)	73,955	34.9%
- Overdue 91-180 days	250,370	(34,899)	215,471	13.9%
- Overdue 181-360 days	73,777	(28,934)	44,843	39.2%
- Overdue more than 360 days	11,716	(7,928)	3,788	67.7%
Total loans to corporate clients	**31,407,939**	**(241,563)**	**31,166,376**	**0.8%**

The Bank estimates loan impairment for loans to corporate clients 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.

Changes in these estimates could effect the the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance as of 31 December 2009 would be RUR 490,853 thousand (31 December 2008: RUR 311,664 thousand) lower/higher.

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transactions: real estate (manufacturing premises, warehouses), machinery and equipment, motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes. As the Group creates loan impairment allowances without considering the fair value of collateral, with the exception of finance leases, and writes off loans that are no longer recoverable, it is impracticable to estimate the fair value of collateral held in respect of remaining impaired or overdue loans. As of 31 December 2009 the Group plans to recover a portion of impaired lease contracts with gross amount of RUR 67,843 thousand (31 December 2008: RUR 53,482 thousand) through the sale of collateral with a fair value of RUR 55,994 thousand (31 December 2008: RUR 40,163 thousand).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance within loans to corporate clients portfolio for the year ended 31 December 2009 are as follows:

	Total RUR'000
Balance at the beginning of the period (restated)	241,563
Net charge	1,796,596
Net write-offs	(1,035,025)
Balance at the end of the period	**1,003,134**

Movements in the loan impairment allowance within loans to corporate clients portfolio for the year ended 31 December 2008 are as follows:

	RUR'000
Balance at the beginning of the period (restated)	95,746
Net charge	184,539
Net write-offs	(38,722)
Balance at the end of the period (restated)	**241,563**

Credit quality of loans to individuals

The following table provides information on credit quality of loans to individuals as at 31 December 2009:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Auto loans				
- Not past due	1,742,956	(6,964)	1,735,992	0.4%
- Overdue less than 31 days	19,156	(3,757)	15,399	19.6%
- Overdue 31-90 days	28,325	(11,875)	16,450	41.9%
- Overdue 91-180 days	27,618	(16,407)	11,211	59.4%
- Overdue 181-360 days	101,737	(75,566)	26,171	74.3%
- Overdue more than 360 days	27,447	(25,050)	2,397	91.3%
Total auto loans	**1,947,239**	**(139,619)**	**1,807,620**	**7.2%**
Mortgage loans				
- Not past due	4,563,263	(5,331)	4,557,932	0.1%
- Overdue less than 31 days	83,427	(80)	83,347	0.1%
- Overdue 31-90 days	84,226	(2,106)	82,120	2.5%
- Overdue 91-180 days	109,926	(3,984)	105,942	3.6%
- Overdue 181-360 days	172,181	(54,635)	117,546	31.7%
- Overdue more than 360 days	569,626	(296,690)	272,936	52.1%
Total mortgage loans	**5,582,649**	**(362,826)**	**5,219,823**	**6.5%**
Other loans to individuals				
- Not past due	2,113,686	(29,830)	2,083,856	1.4%
- Overdue less than 31 days	53,577	(15,907)	37,670	29.7%
- Overdue 31-90 days	34,428	(20,814)	13,614	60.5%
- Overdue 91-180 days	68,292	(51,483)	16,809	75.4%
- Overdue 181-360 days	158,463	(132,699)	25,764	83.7%
- Overdue more than 360 days	67,976	(67,889)	87	99.9%
Total other loans to individuals	**2,496,422**	**(318,622)**	**2,177,800**	**12.8%**
Total loans to individuals	**10,026,310**	**(821,067)**	**9,205,243**	**8.2%**

The follow table provides information on credit quality of loans to individual portfolios as at 31 December 2008 (restated):

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Auto loans				
- Not past due	2,237,459	(12,020)	2,225,439	0.5%
- Overdue less than 31 days	48,247	(5,158)	43,089	10.7%
- Overdue 31-90 days	29,229	(12,130)	17,099	41.5%
- Overdue 91-180 days	27,247	(15,866)	11,381	58.2%
- Overdue 181-360 days	17,033	(12,524)	4,509	73.5%
- Overdue more than 360 days	3,962	(3,750)	212	94.6%
Total auto loans	**2,363,177**	**(61,448)**	**2,301,729**	**2.6%**
Mortgage loans				
- Not past due	4,417,763	(11,020)	4,406,743	0.2%
- Overdue less than 31 days	174,880	(432)	174,448	0.2%
- Overdue 31-90 days	319,417	(15,522)	303,895	4.9%
- Overdue 91-180 days	68,108	(6,500)	61,608	9.5%
- Overdue 181-360 days	35,558	(18,679)	16,879	52.5%
- Overdue more than 360 days	9,630	(8,566)	1,064	89.0%
Total mortgage loans	**5,025,356**	**(60,719)**	**4,964,637**	**1.2%**
Other loans to individuals				
- Not past due	1,355,516	(33,676)	1,321,840	2.5%
- Overdue less than 31 days	56,321	(1,391)	54,930	2.5%
- Overdue 31-90 days	62,772	(44,823)	17,949	71.4%
- Overdue 91-180 days	42,096	(33,830)	8,266	80.4%
- Overdue 181-360 days	28,782	(25,573)	3,209	88.9%
- Overdue more than 360 days	3,294	(3,117)	177	94.6%
Total other loans to individuals	**1,548,781**	**(142,410)**	**1,406,371**	**9.2%**
Total loans to individuals	**8,937,314**	**(264,577)**	**8,672,737**	**3.0%**

The Bank 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:

- the Group can sell consumer and auto loans to individuals overdue more than 360 days for 6.1% and 8.7% of their gross amounts, respectively
- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 9 months
- in respect of mortgage loans, a delay of 18 months in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income, and a discount of 20% to the originally appraised value if the property pledged is sold through court procedures.

Changes in these estimates could effect the the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance as of 31 December 2009 would be RUR 92,052 thousand (31 December 2008: RUR 86,727 thousand) lower/higher.

Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying car. Credit card overdrafts and consumer loans are not secured. As of 31 December 2009, the Bank estimates the fair value of private real estate undergoing foreclosure to be RUR 316,931 thousand (31 December 2008: RUR 226,179 thousand).

Management believes that it is impracticable to estimate the fair value of collateral held in respect of auto loans.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2009 are as follows:

	Auto loans RUR'000	**Mortgage loans RUR'000**	**Other loans to individuals RUR'000**	**Total RUR'000**
Balance at the beginning of the period (restated)	61,448	60,719	142,410	264,577
Net charge	111,281	302,107	255,378	668,766
Net write-offs	(33,110)	-	(79,166)	(112,276)
Balance at the end of the period	**139,619**	**362,826**	**318,622**	**821,067**

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2008 (restated) are as follows:

	Auto loans RUR'000	**Mortgage loans RUR'000**	**Other loans to individuals RUR'000**	**Total RUR'000**
Balance at the beginning of the period (restated)	107,073	6,605	10,629	124,307
Net charge	83,344	61,083	145,952	290,379
Net write-offs	(128,969)	(6,969)	(14,171)	(150,109)
Balance at the end of the period (restated)	**61,448**	**60,719**	**142,410**	**264,577**

Industry and geographical 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:

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Loans to individuals	10,026,310	8,937,314
Consumer electronics and computers	9,377,791	7,794,185
Foods	6,794,778	2,926,512
Construction materials	4,504,322	2,869,668
Machinery	3,244,323	2,802,117
Light industry	3,105,261	2,661,204
Hygiene products and consumer chemicals	2,955,621	1,376,090
Paper and stationery	2,833,682	2,807,003
Automotive, motocycles and spare parts	2,501,398	1,173,086
Services	2,543,718	1,553,522
Finance, lease	2,256,264	428,884
Utilities	2,013,045	-
Metallurgic industry	1,686,564	65,284
Telecommunications	1,461,288	-
Other consumer goods	1,396,246	1,423,357
Sports goods	880,564	1,553,911
Furniture	675,726	574,903
Medical	616,941	169,699
Oil	5,578	109,331
Other corporates	1,235,296	1,119,183
	60,114,716	**40,345,253**
Impairment allowance	(1,824,201)	(506,140)
	58,290,515	**39,839,113**

Finance lease

Finance lease receivables included in loans to customers are as follows:

	31 December 2009 RUR'000	31 December 2008 RUR'000
Gross investment in finance lease	1,276,316	2,496,335
Unearned interest income	(273,322)	(632,854)
Net investment in finance lease before allowance	**1,002,994**	**1,863,481**
Impairment allowance	**(48,115)**	**(6,524)**
Net investment in finance lease	**954,879**	**1,856,957**

The contractual maturity of the net investment in leases is as follows:

	2009 RUR'000	2008 RUR'000
Less than 1 year	542,280	906,185
Between 1 and 5 years	411,445	937,861
More than 5 years	1,154	12,911
	954,879	**1,856,957**

Loan maturities

The maturity of the loan portfolio is presented in note 30.

14 Property and equipment

The movement in property and equipment for the year ended 31 December 2009 and 2008 (restated) is presented in the table below:

RUR'000	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2009 (restated)	1,587,664	86,285	55,377	354,191	42,941	**2,126,458**
Additions	3,357	25,028	9,327	217,209	15,324	**270,245**
Disposals	(1,523)	(9,401)	(193)	(45,349)	(36,954)	**(93,420)**
Revaluation	625,531	-	-	-	-	**625,531**
At 31 December 2009	**2,215,029**	**101,912**	**64,511**	**526,051**	**21,311**	**2,928,814**
Accumulated depreciation						
At 1 January 2009 (restated)	20,392	33,445	28,441	157,572	-	**239,850**
Depreciation charge	21,854	18,292	11,574	54,905	-	**106,625**
Disposals	(220)	(8,542)	(167)	(25,150)	-	**(34,079)**
At 31 December 2009	**42,026**	**43,195**	**39,848**	**187,327**	**-**	**312,396**
Carrying value						
At 31 December 2009	**2,173,003**	**58,717**	**24,663**	**338,724**	**21,311**	**2,616,418**

The movement in property and equipment for the year ended 31 December 2008 (restated) and 2007 (restated) is presented in the table below:

RUR'000	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2008 (restated)	21,804	77,126	65,647	253,654	1,334,634	**1,752,865**
Additions	212,807	31,068	3,618	110,010	61,360	**418,863**
Disposals	-	(21,909)	(13,888)	(9,473)	-	**(45 270)**
Transfers	1,353,053	-	-	-	(1,353,053)	-
At 31 December 2008 (restated)	**1,587,664**	**86,285**	**55,377**	**354,191**	**42,941**	**2,126,458**
Accumulated depreciation						
At 1 January 2008 (restated)	4,160	28,201	33,981	131,568	-	**197,910**
Depreciation charge	16,232	13,800	8,348	37,265	-	**75,645**
Disposals	-	(8,556)	(13,888)	(11,261)	-	**(33,705)**
At 31 December 2008 (restated)	**20,392**	**33,445**	**28,441**	**157,572**	**-**	**239,850**
Carrying value						
At 31 December 2008 (restated)	**1,567,272**	**52,840**	**26,936**	**196,619**	**42,941**	**1,886,608**
At 31 December 2007 (restated)	**17,644**	**48,925**	**31,666**	**122,086**	**1,334,634**	**1,554,955**

Revalued assets

At 31 December 2009 buildings are revalued based on the results of an independent appraisal performed by OOO "MEF-Audit", which is qualified and experienced in valuation of property in Moscow. The basis used for the appraisal is the market approach. The market approach is based upon an analysis of the results of comparable sales of similar buildings.

The carrying value of buildings as of 31 December 2009, if the buildings would not have been revalued, would be RUR 1,547,472 thousand (31 December 2008: RUR 1,567,272 thousand).

15 Other assets

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Receivables	213,427	229,101
Property held for sale	98,359	-
Prepaid expenses	52,821	103,155
Intangibles	11,281	3,315
Other	80,398	92,310
Other assets	**456,286**	**427,881**

16 Deposits by the Central Bank of the Russian Federation

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Term deposits	1,605,794	7,949,673
Payables under repurchase agreements or collateral loans	4,523,401	2,154,522
Deposits by the Central Bank of the Russian Federation	**6,129,195**	**10,104,195**

Information about the currency and maturity and effective interest rates on deposits by the Central Bank of Russian Federation is presented in note 30 to these consolidated financial statements.

17 Deposits by credit institutions

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Demand deposits	36,473	149,041
Term deposits	5,291,736	8,404,352
Syndicated loans	1,825,518	3,957,566
Subordinated debt	604,884	587,608
Payables under repurchase agreements	3,294,292	207,292
Deposits by credit institutions	**11,052,903**	**13,305,859**

Syndicated loans represent loans denominated in USD with effective interest rates ranging from 3.2 to 4.1% (31 December 2008: from 5.1% to 6.3%) and maturity from 2010 to 2011 (31 December 2008: from 2009 to 2011).

Subordinated debt represents a loan denominated in USD granted by the European Bank for Reconstruction and Development with effective interest rate of 6.4% (31 December 2008: 7.8%) and maturity in 2015.

Information about the currency and maturity and effective interest rates on deposits by credit institutions is presented in note 30 to these consolidated financial statements.

Concentrations of deposits by credit institutions

As at 31 December 2009 the Group had two counterparties (31 December 2008: one) whose deposits balance exceeded 10% of the due to credit institutions. The gross value of these facilities as at 31 December 2009 is RUR 4,032,910 thousand (31 December 2008: RUR 4,302,383 thousand).

18 Deposits by customers

		31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Corporate customers	Demand	5,564,236	6,089,215
	Term	8,309,781	4,393,715
Total corporate customers		**13,874,017**	**10,482,930**
Individuals	Demand	1,484,515	943,372
	Term	30,266,159	12,258,367
Total individuals		**31,750,674**	**13,201,739**
Total deposits by customers		**45,624,691**	**23,684,669**

Concentrations of current accounts and customer deposits

As of 31 December 2009 and 2008, the were no demand or term deposits from customers, which individually exceed 10% of total customer accounts.

Information about the currency and maturity and effective interest rates on deposits by customers is presented in note 30 to these consolidated financial statements.

19 Debt securities issued

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Promissory notes issued at nominal value	5,344,584	1,470,555
Unamortized discount on promissory notes	(207,768)	(55,255)
	5,136,816	**1,415,300**
Bonds issued	7,249,086	4,912,013
	12,385,902	**6,327,313**

Information about the currency and maturity and effective interest rates on debt securities issued is presented in note 30 to these consolidated financial statements.

Bondholders are entitled to require early redemption of bonds at nominal value. The next date on which bondholders can demand redemption is April 2010. In note 30 bonds are presented by early redemption option dates.

20 Other liabilities

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Allowance for credit related commitments	163,589	14,604
Payables to suppliers	81,761	265,134
Operating taxes payable	37,047	48,432
Payables to Deposit Insurance Agency	27,619	12,247
Deferred income	10,828	6,082
Other	97,960	56,062
Other liabilities	**418,804**	**402,561**

21 Share capital

The share capital of the Bank consists of ordinary shares and was contributed by the shareholder in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital comprised 6,276,158,008 shares (31 December 2008: 3,276,158,008 shares) with par value of 1 RUR per share. In June 2009 the Central Bank of the Russian Federation registered a capital increase in the amount of RUR 3,000,000,000. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUR 861,930 thousand.

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation, as of the reporting date, reserves available for distribution amount to RUR 1,102,761 thousand (2008: RUR 906,903 thousand).

22 Commitments

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Guarantees	8,994,203	4,637,989
Letters of credit	2,143,214	1,361,987
Undrawn loan commitments	294,333	781,927
	11,431,750	**6,781,903**

23 Operating lease

Leases as lessee

	2009 RUR'000	2008 RUR'000 (restated)
Less than 1 year	100,161	94,979
Between 1 and 5 years	123,463	179,587
More than 5 years	75,510	111,344
	299,134	**385,910**

24 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 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.

25 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.

26 Related party transactions

The outstanding balances and related average interest rates as at 31 December with related parties are as follows:

	31 December 2009		31 December 2008 (restated)	
	Amount	**Average effective interest rate**	**Amount**	**Average effective interest rate**
Loans to customers				
Ultimate shareholder	207,682	15.7%	48,629	18.0%
Other subsidiaries of the parent company	411,475	16.7%	236,257	16.4%
Management	27,188	12.4%	18,343	12.4%
Deposits by customers				
Ultimate shareholder	247,217	11.7%	202,418	12,6%
Parent company	41,060	15.83%	6,786	-
Other subsidiaries of the parent company	128,451	2.0%	11,737	-
Management	4,446	12.93%	9,695	10.1%

Amounts included in the statement of comprehensive income for the year ended 31 December in relation to transactions with related parties are as follows:

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Interest income on loans to customers		
Ultimate shareholder	14,809	2,195
Other subsidiaries of the parent company	51,537	93,767
Management	3,371	2,341
Interest expense on deposits by customers and promissory notes		
Ultimate shareholder	23,369	6,319
Parent company	6,500	-
Other subsidiaries of the parent company	2,569	880
Management	575	853

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the year ended 31 December (refer to note 6) is as follows:

	2009 RUR'000	2008 RUR'000
Members of the Supervisory Board	2,903	16,143
Members of the Management Board	27,284	48,986
	30,187	**65,129**

27 Cash and cash equivalents

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
Cash on hand	2,482,467	2,039,477
Correspondent account with the Central Bank of the Russian Federation	3,573,693	4,060,181
Due from credit institutions with maturity of less than 1 month	2,573,615	4,255,729
Cash and cash equivalents	**8,629,775**	**10,355,387**

28 Capital management

The Central Bank of the Russian Federation 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 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 2009, this minimum level is 10%. The Bank was 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 (restated)**
Tier 1 capital		
Share capital	7,300,774	4,300,774
Retained earnings	2,916,454	2,136,492
Total tier 1 capital	**10,217,228**	**6,437,266**
Tier 2 capital		
Revaluation surplus for buildings	500,424	-
Revaluation reserve for investments available-for-sale	325,794	(49,771)
Subordinated debt (unamortized portion)	604,884	587,608
Total tier 2 capital	**1,431,102**	**537,837**
Total capital	**11,648,330**	**6,975,103**
Risk-weighted assets		
Banking book	67,618,009	49,064,723
Trading book	15,619,814	7,388,170
Total risk weighted assets	**83,237,823**	**56,452,893**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**14.0**	**12.4**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**12.3**	**11.4**

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 exposures, 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 complied with all externally imposed capital requirements during the years ended 31 December 2009 and 2008.

29 Analysis by segment

The Group has five reportable segments, as described below, which are 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 Chief Financial Officer (CFO) reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate banking: comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guaranties, corporate deposit taking, settlements and money transfer, currency conversion
- Retail banking: comprises retail demand and term deposit services; retail lending, including consumer loans, car loans and mortgages, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals
- Treasury: comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and PNs
- International business: comprises borrowings from international financial institutions and trade finance operations
- Cash collection and other cash operations: comprise all operations connected with cash, cash collection, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on statutory financial information, as included in the internal management reports that are reviewed by the CFO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The segment breakdown of assets and liabilities is set out below:

	2009 RUR'000	2008 RUR'000
ASSETS		
Corporate banking	46,949,009	30,690,009
Retail banking	9,676,680	9,211,348
Treasury	25,690,972	16,440,569
International business	9,594	9,226
Cash operations	2,802,695	2,339,697
Unallocated assets	1,406,570	938,979
Total assets	**86,535,520**	**59,629,828**
LIABILITIES		
Corporate banking	13,865,315	10,803,023
Retail banking	31,372,727	12,980,773
Treasury	24,862,583	19,216,007
International business	5,190,420	10,289,610
Unallocated liabilities	1,293,002	746,236
Total liabilities	**76,584,047**	**54,035,649**

Segment information for the main reportable segments for the year ended 31 December 2009 is set below:

RUR'000	Corporate banking	Retail banking	Treasury	International business	Cash operations	Unallocated	Total
External interest income	6,392,026	1,179,501	1,627,705	-	-	-	9,199,232
Fee and commission income	907,877	205,861	84,377	-	443,952	-	1,642,067
Net gain on securities	-	-	787,270	-	-	-	787,270
Net foreign exchange income (loss)	180,012	169,568	(155,153)	-	-	20,091	214,518
Other income	43,076	62,881	-	-	-	13,051	119,008
(Expenses) revenue from other segments	(3,516,001)	1,867,439	310,250	1,338,312	-	-	-
Revenue	**4,006,990**	**3,485,250**	**2,654,449**	**1,338,312**	**443,952**	**33,142**	**11,962,095**
Impairment losses	(1,645,976)	(772,252)	(74,319)	-	-	-	(2,492,547)
Interest expense	(443,264)	(2,603,604)	(2,183,487)	(408,560)	-	-	(5,638,915)
Fee and commission expense	(1,321)	(5,265)	(22,134)	(73,604)	-	-	(102,324)
Depreciation	(57,848)	(11,923)	(31,655)	(12)	(3,454)	(1,733)	(106,625)
General administrative expenses	(2,380)	(709,567)	(10,196)	(29,050)	(396,052)	(1,043,654)	(2,170,507)
Other expenses	-	(67,279)	-	-	-	(113,113)	(180,392)
Income before income taxes	**1,856,201**	**(684,640)**	**353,050**	**827,086**	**44,446**	**(1,125,358)**	**1,270,785**
Income tax	-	-	-	-	-	(240,007)	**(240,007)**
Segment result	**1,856,201**	**(684,640)**	**353,050**	**827,086**	**44,446**	**(1,365,365)**	**1,030,778**

Segment information for the main reportable segments for the year ended 31 December 2008 is set below:

RUR'000	Corporate banking	Retail banking	Treasury	International business	Cash operations	Unallocated	Total
External interest income	3,641,247	876,998	461,585	-	-	-	4,979,830
Fee and commission income	658,756	299,664	-	-	386,211	-	1,344,631
Net loss on securities	-	-	(11,960)	-	-	-	(11,960)
Net foreign exchange income (loss)	488,799	5,341	(200,395)	-	-	(874)	292,871
Other income	10,914	41,604	5	-	-	-	52,523
(Expenses) revenue from other segments	(1,900,843)	475,975	190,930	1,233,938	-	-	-
Revenue	**2,898,873**	**1,699,582**	**440,165**	**1,233,938**	**386,211**	**(874)**	**6,657,895**
Impairment losses	(793,395)	(118,014)	(155,270)	-	-	-	(1,066,679)
Interest expense	(160,948)	(990,436)	(907,232)	(613,958)	-	-	(2,672,574)
Fee and commission expense	(20,918)	(4,125)	(21,744)	(121,432)	-	-	(168,219)
Depreciation	(38,933)	(11,685)	(20,856)	(12)	(2,968)	(1,191)	(75,645)
General administrative expenses	(173,555)	(351,160)	(11,043)	(22,265)	(361,456)	(811,741)	(1,731,220)
Other expenses	-	(47,206)	-	-	-	(693)	(47,899)
Income before income taxes	**1,711,124**	**176,956**	**(675,980)**	**476,271**	**21,787**	**(814,499)**	**895,659**
Income tax	-	-	-	-	-	(201,666)	**(201,666)**
Segment result	**1,711,124**	**176,956**	**(675,980)**	**476,271**	**21,787**	**(1,016,165)**	**693,993**

The segment breakdown of additions to property and equipment for the year ended 31 December 2009 and 2008 is set out below:

	2009 RUR'000	2008 RUR'000
Corporate banking	146,619	215,579
Retail banking	30,220	64,704
Treasury	80,231	115,485
International business	29	64
Cash operations	8,753	16,435
Unallocated assets	4,393	6,596
Total additions to property and equipment	**270,245**	**418,863**

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

	2009 RUR'000	2008 RUR'000
Income before income taxes per management accounting	1,270,785	895,659
Consolidation adjustments	4,921	70,802
Interest and commission accruals	(84,729)	(122,780)
Fair value and other adjustments to securities	(296,140)	(357,357)
Adjustments to impairment allowances	(166,129)	589,268
Personnel, administrative and operating expenses accruals	155,606	(106,651)
Other adjustments	87,073	329,618
Income before income taxes per IFRS financials	**971,387**	**1,298,559**

	2009 RUR'000		31 December 2008 RUR'000	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Total assets/liabilities per management accounting	86,535,520	76,584,047	59,629,828	54,035,649
Accrual of administrative and operating expenses	-	48,766	(4,405)	(4,546)
Consolidation adjustments	(678,977)	(753,888)	(62,429)	(143,265)
Revaluation and other adjustments to property and equipment	913,437	-	252,493	-
Adjustment of current and deferred tax assets and liabilities	-	385,102	-	233,800
Accrual of interest and commissions	(360,981)	(12,377)	(26,987)	3,089
Adjustments to impairment allowances	659,753	(245,221)	1,026,213	(64,842)
Fair value adjustment to securities	(9,752)	-	(366,542)	-
Accrual of employee compensation payable	-	9,125	-	791
Total assets/liabilities per IFRS financials	**87,059,000**	**76,015,554**	**60,448,171**	**54,060,676**

30 Risk management

Management of risk is fundamental to the banking business and is an essential element of operations. The main risks inherent in the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates.

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 credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and individuals)
- 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 Corporate Lending Division, which is responsible for the corporate loan portfolio. Analysis reports 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 are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Corporate Lending Division and the Risk Department. Individual transactions are also reviewed by the 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 internal 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 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 credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

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

The maximum exposure to credit risk at the reporting date is as follows:

	31 December 2009 RUR'000	31 December 2008 RUR'000 (restated)
ASSETS		
Due from the Central Bank of the Russian Federation	3,974,699	4,117,016
Due from credit institutions	3,531,280	4,555,729
Financial instruments at fair value through profit or loss	12,472,290	-
Available-for-sale securities	3,165,020	7,530,454
Loans to customers	58,290,515	39,839,113
Other assets	346,646	424,566
Total maximum exposure to on statement of financial position credit risk	**81,780,450**	**56,466,878**

For the analysis of concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to off-statement of financial position credit risk at the reporting date is presented in note 22.

Guarantees and standby letters of credit, which 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. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, can be covered by the funds deposited by customers and therefore bear limited credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group established an Operational Risk Unit as a part of the Internal Control Department. The Operational Risk Unit determines policies and procedures in the area of operational risks.

The Unit collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools. The Operational Risk Unit reports to the Head of Internal Control Department on important developments and issues. The Head of Internal Control Department reports directly to the Supervisory Board.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Bank 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 Asset and Liability Management Committee (ALCO) sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of the Russian Federation. These ratios are: (i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; (ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; (iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The Bank was in compliance with these ratios during the years ended 31 December 2009 and 2008.

The Group analyses all assets and liabilities by their remaining contractual maturities with the exception of securities included in financial assets at fair value through profit or loss that are approved by the Central Bank of Russian Federation as collateral for its loans. Such securities are shown in the category "Less than 1 month".

As at 31 December 2009 the contractual maturities of all securities included in financial assets at fair value through profit or loss were as follows:

	31 December 2009
Less than 1 month	268,803
1 to 6 months	2,361,139
6 months to 1 year	3,071,495
Over 1 year	6,770,853
	12,472,290

The following table as at 31 December 2009 shows the undiscounted cash flows from financial assets, liabilities and undrawn credit lines on the basis of their earliest possible contractual maturity. Therefore it matches all possible earliest cash inflows against all possible earliest cash outflows. The total gross inflow and outflow disclosed in the table below is the contractual undiscounted cash flow related to financial assets, financial liabilities and commitments. These expected cash flows can vary significantly from the actual future cash flows.

Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

31 December 2009	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**Over 1 year**	**Total**
	RUR'000	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**
ASSETS					
Cash and due from the Central Bank of the Russian Federation	6,056,160	-	-	401,006	**6,457,166**
Due from credit institutions	2,602,476	957,665	-	-	**3,560,141**
Financial instruments at fair value through profit or loss	10,321,827	1,261,152	454,134	849,371	**12,886,484**
Available-for-sale securities	226,445	869,404	112,399	3,868,794	**5,077,042**
Loans to customers, gross	6,288,404	22,599,982	12,889,009	33,823,434	**75,600,829**
Total potential future receipts from financial assets as at 31 December 2009	**25,495,312**	**25,688,203**	**13,455,542**	**38,942,605**	**103,581,662**
LIABILITIES					
Deposits by the Central Bank of the Russian Federation	1,641,461	3,566,541	1,081,370	-	**6,289,372**
Deposits by credit institutions	4,726,087	1,872,443	1,628,673	3,492,153	**11,719,356**
Deposits by customers	12,653,364	17,576,871	9,535,569	10,526,534	**50,292,338**
Debt securities issued	1,081,830	7,266,483	2,854,005	2,104,310	**13,306,628**
Total potential future payments for financial obligations as at 31 December 2009	**20,102,742**	**30,282,338**	**15,099,617**	**16,122,997**	**81,607,694**
Net position	**5,392,570**	**(4,594,135)**	**(1,644,075)**	**22,819,608**	**21,973,968**
Undrawn credit line from the Central Bank of the Russian Federation	5,020,000	-	-	-	**5,020,000**
Undrawn credit lines from other banks	508,166	-	-	-	**508,166**
Net overall position	**10,920,736**	**(4,594,135)**	**(1,644,075)**	**22,819,608**	**27,502,134**
Accumulated gap	**10,920,736**	**6,326,601**	**4,682,526**	**27,502,134**	
Guarantees and letters of credit	245,752	4,812,211	6,072,272	7,182	**11,137,417**
Credit related commitments	294,333	-	-	-	**294,333**

31 December 2008 (restated)	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**Over 1 year**	**Total**
	RUR'000	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**
LIABILITIES					
Deposits by the Central Bank of the Russian Federation	8,900,749	1,282,928	-	-	**10,183,677**
Deposits by credit institutions	2,853,456	4,411,753	2,390,966	4,560,701	**14,216,876**
Deposits by customers	10,675,737	6,914,848	5,641,905	1,497,707	**24,730,197**
Debt securities issued	109,203	2,116,341	1,566,542	3,392,320	**7,184,406**
Total potential future payments for financial obligations as at 31 December 2008	**22,539,145**	**14,725,870**	**9,599,413**	**9,450,728**	**56,315,156**
Guarantees and letters of credit	167,593	4,537,412	1,294,971	-	**5,999,976**
Credit related commitments	781,927	-	-	-	**781,927**

The following tables show all assets and liabilities as at 31 December 2009 by their remaining contractual maturities with the exception of securities included in financial assets at fair value through profit or loss that are approved by the Central Bank of the Russian Federation as collateral for its loans. Such securities are shown in the category "Less than 1 month". The amounts shown here represent carrying amounts on the reporting dates and do not include cash flows associated with future interest and coupon payments.

Funds attracted from the Central Bank of the Russian Federation are presented in the tables below by contractual maturities. Under the contract with the Central Bank of the Russian Federation the Bank is able to attract funds at any time within established limits. Management believes that the Bank is able to attract funds after repayment of those recognized in the statement of financial position. For this purpose the Bank presented future inflows under available credit lines in the tables below.

31 December 2009	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**Over 1 year**	**No maturity**	**Overdue**	**Total**
	RUR'000	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**
ASSETS							
Cash and due from the Central Bank of the Russian Federation	6,056,160	-	-	-	401,006	-	**6,457,166**
Due from credit institutions	2,573,615	957,665	-	-	-	-	**3,531,280**
Financial instruments at fair value through profit or loss	10,197,400	1,150,056	388,038	736,796	-	-	**12,472,290**
Available-for-sale securities	223,765	763,866	29,819	2,147,570	70,025	-	**3,235,045**
Loans to customers	4,615,850	20,353,018	10,585,415	21,479,029	-	1,257,203	**58,290,515**
Property and equipment	-	-	-	-	2,616,418	-	**2,616,418**
Other assets	95,502	153,063	128,240	26,242	53,239	-	**456,286**
	23,762,292	**23,377,668**	**11,131,512**	**24,389,637**	**3,140,688**	**1,257,203**	**87,059,000**
LIABILITIES							
Deposits by the Central Bank of the Russian Federation	1,629,195	3,500,000	1,000,000	-	-	-	**6,129,195**
Deposits by credit institutions	4,713,359	1,863,437	1,537,211	2,938,896	-	-	**11,052,903**
Deposits by customers	12,628,836	16,960,160	8,719,591	7,316,104	-	-	**45,624,691**
Debt securities issued	1,076,394	6,685,492	2,585,509	2,038,507	-	-	**12,385,902**
Income tax liability	153,797	-	-	-	250,262	-	**404,059**
Other liabilities	140,935	109,198	1,624	3,296	163,589	162	**418,804**
	20,342,516	**29,118,287**	**13,843,935**	**12,296,803**	**413,851**	**162**	**76,015,554**
Net	**3,419,776**	**(5,740,619)**	**(2,712,423)**	**12,092,834**	**2,726,837**	**1,257,041**	**11,043,446**
Available credit lines from the Central Bank of the Russian Federation	1,629,195	3,500,000	1,000,000	(6,129,195)	-	-	-
Net position	**5,048,971**	**(2,240,619)**	**(1,712,423)**	**5,963,639**	**2,726,837**	**1,257,041**	**11,043,446**
Accumulated gap	**5,048,971**	**2,808,352**	**1,095,929**	**7,059,568**	**9,786,405**	**11,043,446**	

31 December 2008 (restated)	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**Over 1 year**	**No maturity**	**Overdue**	**Total**
	RUR'000	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**
ASSETS							
Cash and due from the Central Bank of the Russian Federation	6,099,658	-	-	-	56,835	-	**6,156,493**
Due from credit institutions	4,255,729	300,000	-	-	-	-	**4,555,729**
Available-for-sale securities	684,452	3,733,904	1,373,280	1,738,818	51,893	-	**7,582,347**
Loans to customers	4,646,176	19,292,937	4,061,956	10,726,196	-	1,111,848	**39,839,113**
Property and equipment	-	-	-	-	1,886,608	-	**1,886,608**
Other assets	209,518	112,265	27,540	29,990	22,919	25,649	**427,881**
	15,895,533	**23,439,106**	**5,462,776**	**12,495,004**	**2,018,255**	**1,137,497**	**60,448,171**
LIABILITIES							
Deposits by the Central Bank of the Russian Federation	8,847,499	1,256,696	-	-	-	-	**10,104,195**
Deposits by credit institutions	2,840,335	4,334,236	2,311,876	3,819,412	-	-	**13,305,859**
Deposits by customers	10,653,520	6,701,683	5,180,658	1,148,808	-	-	**23,684,669**
Debt securities issued	108,639	2,031,810	1,451,220	2,735,644	-	-	**6,327,313**
Income tax liability	2,281	-	-	-	233,798	-	**236,079**
Other liabilities	205,236	168,323	3,516	9,650	15,836	-	**402,561**
	22,657,510	**14,492,748**	**8,947,270**	**7,713,514**	**249,634**	**-**	**54,060,676**
Net	**(6,761,977)**	**8,946,358**	**(3,484,494)**	**4,781,490**	**1,768,621**	**1,137,497**	**6,387,495**
Available credit lines from the Central Bank of the Russian Federation	8,847,499	-	-	(8,847,499)	-	-	-
Net position	**2,085,522**	**8,946,358**	**(3,484,494)**	**(4,066,009)**	**1,768,621**	**1,137,497**	**6,387,495**
Accumulated gap	**2,085,522**	**11,031,880**	**7,547,386**	**3,481,377**	**5,249,998**	**6,387,495**	

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 income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. 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 ALCO, which is chaired by the Chairman of the Board. 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 instruments, interest rate maturity and currency positions and stop-loss limits. Limits and positions are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include risk factor stress testing, where stress movements are applied to each risk category, and ad hoc stress testing, which includes applying possible stress events to specific positions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of 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 income or the value 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 occur.

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.

The table below summarises the exposure to interest rate risks. The table presents the aggregated amounts of financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

	Less than 1 month RUR'000	1 to 6 months RUR'000	6 months to 1 year RUR'000	Over 1 year RUR'000	Overdue RUR'000	Total RUR'000
31 December 2009						
Interest-bearing assets	15,037,015	22,266,940	11,003,272	24,363,395	1,257,203	**73,927,825**
Interest-bearing liabilities	12,962,560	29,009,089	13,842,311	12,293,507	-	**68,107,467**
Net interest sensitivity gap as at 31 December 2009	**2,074,455**	**(6,742,149)**	**(2,839,039)**	**12,069,888**	**1,257,203**	**5,820,358**
31 December 2008						
Interest-bearing assets	7,014,372	23,326,841	5,435,236	12,465,014	1,111,848	**49,353,311**
Interest-bearing liabilities	15,268,365	14,324,425	8,943,754	7,703,864	-	**46,240,408**
Net interest sensitivity gap as at 31 December 2008	**(8,253,993)**	**9,002,416**	**(3,508,518)**	**4,761,150**	**1,111,848**	**3,112,903**

An analysis of sensitivity of profit or loss and equity to changes in market interest rates 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 2008 is as follows:

	2009		2008	
	Profit or loss RUR'000	Equity RUR'000	Profit or loss RUR'000	Equity RUR'000
100 bp parallel rise	(25,872)	(25,872)	(22,348)	(22,348)
100 bp parallel fall	25,872	25,872	22,348	22,348

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale 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	
	Profit or loss RUR'000	Equity RUR'000	Profit or loss RUR'000	Equity RUR'000
100 bp parallel rise	(144,750)	(285,370)	-	(33,751)
100 bp parallel fall	144,750	285,370	-	33,751

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.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and a simplified scenario of a 20% change in USD to Russian Rouble exchange rates is as follows:

	2009	
	Profit or loss RUR'000	**Equity RUR'000**
20% appreciation of USD against RUR	(31,525)	(31,525)
20% depreciation of USD against RUR	31,525	31,525

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2008 and a simplified scenario of a 20% change in USD to Russian Rouble exchange rates is as follows:

	2008	
	Profit or loss RUR'000	**Equity RUR'000**
20% appreciation of USD against RUR	(18,219)	(18,219)
20% depreciation of USD against RUR	18,219	18,219

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 profit or loss and equity to changes in 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	
	Profit or loss RUR'000	**Equity RUR'000**	**Profit or loss RUR'000**	**Equity RUR'000**
5% increase in securities prices	-	2,801	-	2,076
5% decrease in securities prices	-	(2,801)	-	(2,076)

Interest rate analysis

The interest rate policy is reviewed and approved by ALCO. The average effective interest rates for interest bearing financial instruments are as follows:

	31 December 2009			31 December 2008 (restated)		
	USD	**RUR**	**Other foreign currencies**	**USD**	**RUR**	**Other foreign currencies**
Interest bearing assets						
Due from credit institutions	-	-	-	3.5%	16.0%	2.6%
Financial instruments at fair value through profit or loss – government bonds	-	7.7%	-	-	-	-
Financial instruments at fair value through profit or loss – corporate notes and municipal bonds	-	10.4%	-	-	-	-
Available-for-sale securities – government bonds	6.0%	8.1%	-	8.1%	9.3%	-
Available-for-sale securities – corporate notes and municipal bonds	-	11.3%	7.0%	6.3%	19.9%	8.9%
Loans to customers	12.6%	17.8%	13.0%	14.2%	17.9%	11.9%
Interest bearing liabilities						
Deposits by the Central Bank of the Russian Federation	-	9.13%	-	-	11.7%	-
Deposits by credit institutions	4.5%	7.9%	2.1%	6.0%	10.5%	5.5%
- Syndicated loans	3.7%	-	-	5.7%	-	-
- Subordinated debt	6.4%	-	-	7.8%	-	-
Term deposits by customers	10.5%	14.4%	10.0%	8.5%	12.8%	9.6%
Debt securities issued	6.3%	14.2%	8.5%	8.9%	12.8%	7.9%

Currency analysis

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Supervisory Board sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation. The exposure of banking assets to foreign currency exchange rate risk is as follows:

	31 December 2009				31 December 2008 (restated)			
	USD	**RUR**	**Other currencies**	**Total**	**USD**	**RUR**	**Other currencies**	**Total**
	RUR'000	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**
ASSETS								
Cash and due from the Central Bank of the Russian Federation	331,834	5,933,291	192,041	**6,457,166**	763,391	5,300,524	92,578	**6,156,493**
Due from credit institutions	498,170	357,672	2,675,438	**3,531,280**	1,829,282	1,824,435	902,012	**4,555,729**
Financial instruments at fair value through profit or loss	-	12,472,290	-	**12,472,290**	-	-	-	-
Available-for-sale securities	1,601,721	1,566,744	66,580	**3,235,045**	1,223,459	5,748,833	610,055	**7,582,347**
Loans to customers	9,883,588	44,843,957	3,562,970	**58,290,515**	9,455,007	28,543,751	1,840,355	**39,839,113**
Property and equipment	-	2,616,418	-	**2,616,418**	-	1,886,608	-	**1,886,608**
Other assets	19,294	435,641	1,351	**456,286**	10,830	415,967	1,084	**427,881**
	12,334,607	**68,226,013**	**6,498,380**	**87,059,000**	**13,281,969**	**43,720,118**	**3,446,084**	**60,448,171**

	31 December 2009				31 December 2008 (restated)			
	USD	**RUR**	**Other currencies**	**Total**	**USD**	**RUR**	**Other currencies**	**Total**
	RUR'000	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**	**RUR'000**
LIABILITIES								
Deposits by the Central Bank of the Russian Federation	-	6,129,195	-	**6,129,195**	-	10,104,195	-	**10,104,195**
Deposits by credit institutions	4,469,566	5,518,362	1,064,975	**11,052,903**	8,146,813	3,758,335	1,400,711	**13,305,859**
Deposits by customers	6,442,761	31,945,888	7,236,042	**45,624,691**	3,248,612	18,030,532	2,405,525	**23,684,669**
Debt securities issued	397,599	11,281,757	706,546	**12,385,902**	1,283,903	5,014,633	28,777	**6,327,313**
Income tax liability	-	404,059	-	**404,059**	-	236,079	-	**236,079**
Other liabilities	3,349	415,268	187	**418,804**	5,386	396,686	489	**402,561**
	11,313,275	**55,694,529**	**9,007,750**	**76,015,554**	**12,684,714**	**37,540,460**	**3,835,502**	**54,060,676**
Net position	**1,021,332**	**12,531,484**	**(2,509,370)**	**11,043,446**	**597,255**	**6,179,658**	**(389,418)**	**6,387,495**
Spot contracts	(1,218,365)	(1,035,006)	2,253,371	-	(711,123)	338,433	372,690	-
Total	**(197,033)**	**11,496,478**	**(255,999)**	**11,043,446**	**(113,868)**	**6,518,091**	**(16,728)**	**6,387,495**

Geographical risk

The geographical risk is the risk of losses in the result of a foreign counterparty failing to meet its obligations due to political, economic or social instability in the respective country.

The geographical concentration of financial assets and liabilities as at 31 December 2009 and 2008 is disclosed in the table below:

	31 December 2009				31 December 2008 (restated)			
	Russia	OECD	Other non-OECD	Total	Russia	OECD	Other non-OECD	Total
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
ASSETS								
Cash and due from the Central Bank of the Russian Federation	5,933,293	523,873	-	**6,457,166**	5,888,132	268,361	-	**6,156,493**
Due from credit institutions	859,997	2,668,529	2,754	**3,531,280**	3,923,140	628,946	3,643	**4,555,729**
Financial instruments at fair value through profit or loss	12,316,938	-	155,352	**12,472,290**	-	-	-	-
Available-for-sale securities	3,235,045	-	-	**3,235,045**	7,582,347	-	-	**7,582,347**
Loans to customers	58,084,109	-	206,406	**58,290,515**	39,721,591	-	117,522	**39,839,113**
	80,429,382	**3,192,402**	**364,512**	**83,986,296**	**57,115,210**	**897,307**	**121,165**	**58,133,682**
LIABILITIES								
Deposits by the Central Bank of the Russian Federation	6,129,195	-	-	**6,129,195**	10,104,195	-	-	**10,104,195**
Deposits by credit institutions	5,735,136	5,317,765	2	**11,052,903**	3,906,110	9,113,290	286,459	**13,305,859**
Deposits by customers	45,124,467	37,683	462,541	**45,624,691**	23,379,997	12,257	292,415	**23,684,669**
Debt securities issued	12,043,374	222,518	120,010	**12,385,902**	5,017,718	1,282,345	27,250	**6,327,313**
	69,032,172	**5,577,966**	**582,553**	**75,192,691**	**42,408,020**	**10,407,892**	**606,124**	**53,422,036**
Net position	11,397,210	(2,385,564)	(218,041)	8,793,605	14,707,190	(9,510,585)	(484,959)	4,711,646

31 Fair value of financial instruments

For financial instruments, whose fair value is estimated by using active market data, the fair value represents 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 and discount rates for similar instruments at the reporting date.

The following table provides an analysis of financial assets and liabilities, for which the discounted cash flow techniques are used to estimate their fair value:

	2009 RUR'000 Fair value	2009 RUR'000 Carrying value	2008 RUR'000 (restated) Fair value	2008 RUR'000 (restated) Carrying value
ASSETS				
Cash and due from the Central Bank of the Russian Federation	6,457,166	6,457,166	6,156,493	6,156,493
Due from credit institutions	3,531,280	3,531,280	4,555,729	4,555,729
Loans to customers	57,712,021	58,290,515	38,739,669	39,839,113
LIABILITIES				
Deposits by the Central Bank of the Russian Federation	6,129,195	6,129,195	10,104,195	10,104,195
Deposits by credit institutions	11,052,903	11,052,903	13,305,859	13,305,859
Deposits by customers	46,357,273	45,624,691	23,628,758	23,684,669
Debt securities issued	12,489,310	12,385,902	6,215,550	6,327,313

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.

The following table shows an analysis of financial instruments recorded at fair value, for which 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 at fair value through profit or loss	12,221,365	250,925	**12,472,290**
Available-for-sale financial assets	3,098,834	136,211	**3,235,045**

The following table shows an analysis of financial instruments recorded at fair value, 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
Available-for-sale financial assets	565,485	7,016,862	**7,582,347**

As at 31 December 2009 and 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.

32 Disposal of subsidiaries

On 31 December 2009 the Group disposed of its investments in M-leasing and MK-leasing due to the cancellation of option agreements resulting in a loss on disposal of RUR 6,647 thousand. M-leasing contributed a loss of RUR 30,630 thousand to the profit for the year. The effect from disposal of MK-leasing was not material.

The disposal of the M-leasing had the following effect on assets and liabilities at the date of disposal:

RUR'000	Carrying amount at date of disposal
ASSETS	
Placements with banks and other financial institutions	34,248
Loans to customers	867,929
Property and equipment	42
Other assets	56,975
LIABILITIES	
Deposits and balances from banks and other financial institutions	829,875
Other liabilities	122,654
Deferred tax liability	18
Net identifiable assets and liabilities	**6,647**
Consideration received	-
Cash disposed of	-
Net cash outflow (inflow)	-

33 Events subsequent to the reporting date

In February 2010 the Bank repaid USD 29.5 million tranche B1 within its A/B structured syndicated loan raised in August 2008 for the total amount of USD 100 million.

In March 2010 the Bank registered two domestic bond issues series 07 and 08 for RUR 2 billion and RUR 3 billion, respectively, with a 5-year maturity each in the Central Bank of the Russian Federation.

In the first quarter of 2010 Bank fully repaid deposits by the Central Bank of the Russian Federation of RUR 6,129,195 thousand.

In the first quarter of 2010 the Bank opened six branches in Moscow.

34 Disclosure of prior period errors

In course of preparation of the financial statements for the year ended 31 December 2009 management identified the following errors in the financial statements for the year ended 31 December 2008 and 2007:

- the Bank did not consolidate its subsidiaries as required by IAS 27 *Consolidated and Separate Financial Statements*
- the Bank incorrectly calculated the amount of deferred fees on loans
- the Bank incorrectly calculated the impairment allowance for loans.

The 31 December 2008 and 2007 financial statements are restated to correct for these errors. The effect of the restatement on those financial statements is summarised below.

Consolidated Statement of Comprehensive Income	**31 December 2008 RUR'000 as originally reported**	**Amount of correction RUR'000**
Interest income	5,219,322	150,754
Interest expense	(2,780,312)	(17,464)
Net interest income	2,439,010	**133,290**
Provision for impairment of loans	(813,300)	338,382
Net interest income after provision for impairment	**1,625,710**	**471,672**
Fee and commission income	1,016,363	(85,086)
Net loss on financial instruments at fair value through profit or loss	(228,304)	-
Net realized gain (loss) on available-for-sale assets	(152,126)	11,113
Foreign exchange gains, net	405,311	-
Other operating income	315,909	4,029
Non-interest income	**1,357,153**	**(69,944)**
Salaries and employment benefits	(1,074,231)	(1,552)
Administrative expenses	(708,932)	(1,565)
Provision for impairment of other assets and credit related commitments	(2,493)	-
Depreciation	(72,034)	(3,611)

Consolidated Statement of Comprehensive Income	**31 December 2008 RUR'000 as originally reported**	**Amount of correction RUR'000**
Fee and commission expense	(70,550)	(1,337)
State deposit insurance scheme contributions	(51,591)	-
Other operating expenses	(70,349)	(27,787)
Non-interest expense	**2,050,180**	**(35,852)**
Income before income taxes	**932,683**	**365,876**
Income tax	(222,064)	(62,750)
Net income	**710,619**	**303,126**
Other comprehensive loss		
Revaluation reserve for available-for-sale securities	(53,490)	(8,724)
Income tax related to other comprehensive loss	10,698	1,745
Other comprehensive loss for the period, net of tax	**(42,792)**	**(6,979)**
Comprehensive income for the period	**667,827**	**296,147**

Consolidated Statement of Financial Position	**31 December 2008**		**31 December 2007**	
	as originally reported RUR'000	**Amount of correction RUR'000**	**as originally reported RUR'000**	**Amount of correction RUR'000**
ASSETS				
Cash and due from the Central Bank of the Russian Federation	6,156,493	-	4,759,256	-
Due from credit institutions	4,555,684	45	5,258,847	702
Financial instruments at fair value through profit or loss	-	-	3,695,264	(20,904)
Available-for-sale securities	7,586,355	(4,008)	-	-
Loans to customers	39,356,206	482,907	26,329,516	300,612
Property and equipment	1,818,509	68,099	1,486,222	68,733
Other assets	295,933	131,948	384,289	(62,921)
Total assets	**59,769,180**	**678,991**	**41,913,394**	**286,222**
LIABILITIES AND EQUITY				
Deposits by the Central Bank of the Russian Federation	10,104,195	-	-	-
Deposits by credit institutions	14,613,581	(1,307,722)	13,404,799	(1,137,711)
Deposits by customers	23,744,062	(59,393)	17,082,055	135,436
Debt securities issued	5,396,671	930,642	6,284,780	663,130
Income tax liability	19,164	216,915	71,514	159,766
Other liabilities	225,307	177,254	71,873	40,453
Total liabilities	**54,102,980**	**(42,304)**	**36,915,021**	**(138,926)**
Equity				
Share capital	4,003,263	134,825	4,003,263	134,825

Consolidated Statement of Financial Position	**31 December 2008**		**31 December 2007**	
	as originally reported RUR'000	**Amount of correction RUR'000**	**as originally reported RUR'000**	**Amount of correction RUR'000**
Additional paid-in capital	237,878	(75,192)	237,878	(75,192)
Revaluation reserve for available-for-sale securities	(42,792)	(6,979)	-	-
Retained earnings	1,467,851	668,641	757,232	365,515
Total equity	**5,666,200**	**721,295**	**4,998,373**	**425,148**
Total liabilities and equity	**59,769,180**	**678,991**	**41,913,394**	**286,222**

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