



RUB5,000,000,000 16.50% Loan Participation Notes due 26 May 2025
issued by, but with limited recourse to,
CBOM Finance p.l.c.
for the sole purpose of financing a subordinated 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 6th Floor, Pinnacle 2, Eastpoint Business Park, Dublin 3, Ireland and registered under number 425241 (the **Issuer**), has issued an aggregate principal amount of RUB5,000,000,000 16.50% Loan Participation Notes due 26 May 2025 (the **Notes**) issued by, but with limited recourse to the Issuer for the sole purpose of financing a subordinated loan (the **Subordinated Loan**) to CREDIT BANK OF MOSCOW (open joint-stock company) (the **Borrower** or **CBM**) on the terms of a subordinated loan agreement dated 24 November 2014 (the **Subordinated Loan Agreement**) between the Issuer and CBM. The Notes are constituted by, are subject to, and have the benefit of, a trust deed dated 26 November 2014 (the **Trust Deed**) between the Issuer and Citibank, N.A., London Branch as trustee (the **Trustee**) for the benefit of the Noteholders (as defined in “*Terms and Conditions of the Notes*”). Under the Trust Deed, the Issuer has charged, 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 Subordinated Loan Agreement and the Account (as defined in the Trust Deed). In addition, the Issuer has assigned absolutely certain of its administrative rights under the Subordinated 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 Subordinated Loan Agreement excluding, however, any amounts paid in respect of Reserved Rights (as defined in the Trust Deed). The Issuer has no other financial obligation under the Notes.

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

On each Interest Payment Date (as defined below) (being 26 May and 26 November in each year, commencing on 26 May 2015 and ending on 26 May 2025), 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 Subordinated Loan Agreement, which interest under the Subordinated Loan Agreement is equal to 16.50% per annum. See “*Overview – Overview of the Notes and Subordinated Loan Agreement*”.

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 Subordinated 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 12 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 plc (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 will be 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 Subordinated 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 to persons who are not U.S. persons in offshore transactions in reliance on Regulation S. For a description of these and certain other restrictions, see “*Transfer Restrictions*”.

Notes are represented by beneficial interests in a permanent global note (the **Global Note**) in registered form, without interest coupons attached, which is registered in the name of Citivic Nominees Limited as nominee for, and deposited on 26 November 2014 (the **Closing Date**) with, Citibank Europe Plc as common depositary for, and in respect of interests held through, Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Notes will be issued in minimum denominations of RUB10,000,000 and integral multiples of RUB100,000 in excess thereof. See “*Terms and Conditions of the Notes – 2 Form and Denomination*”. See “*Form of the Notes*” and “*Transfer Restrictions*”. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by 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 have been rated BB- by Fitch Ratings Ltd. (**Fitch**). CBM's current long term global and local currency deposit rating by Moody's Investors Service Ltd. (**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 issuer default ratings by Standard & Poor's Credit Market Services Europe Limited (**Standard & Poor's**) are BB- 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.

The date of this Prospectus is 14 January 2015.

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 Subordinated Loan which, according to the particular nature of the Issuer, CBM, the Notes and the Subordinated 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 Subordinated 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 Subordinated 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**);
- Interfax Information Services (**Interfax**);
- Marksw Webb Rank & Report; and
- RBC Rating.

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 information concerning the Russian banking market and its competitors 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) an open joint-stock company registered under the Russian Joint Stock Companies law, 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 6th Floor, Pinnacle 2, Eastpoint Business Park, Dublin 3, Ireland. The Issuer may be reached by telephone at +353 1 680 6000.

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 and CBM 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 “*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 Subordinated 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 or the Trustee. 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 and the Issuer 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.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY 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 TRUSTEE, WHETHER AS TO THE PAST OR THE FUTURE. THE TRUSTEE DOES NOT ASSUME ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT.

EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF 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 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 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 in particular the base capital adequacy ratio 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.

DOCUMENTS INCORPORATED BY REFERENCE

The audited financial statements of the Issuer as at and for the years ended 31 December 2013, 31 December 2012 and 31 December 2011 together with the audit reports thereon, have been filed with the Central Bank of Ireland and shall be deemed to be incorporated in, and to form part of, this Prospectus. The financial statements as at and for the years ended 31 December 2011 can be located at www.ise.ie/app/announcementdetails.aspx?ID=11448278. The financial statements as at and for the year ended 31 December 2012 can be located at <http://www.ise.ie/app/announcementDetails.aspx?ID=11546953>. The financial statements as at and for the year ended 31 December 2013 can be located at <http://www.ise.ie/app/announcementDetails.aspx?ID=12178703>.

FATCA

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "foreign financial institution", or **FFI** (as defined by FATCA)) that does not become a "**Participating FFI**" by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Issuer (a "Recalcitrant Holder"). The Issuer is classified as an FFI.

The new withholding regime is phased in beginning 1 July 2014 for payments from sources within the United States and will apply to "**foreign passthru payments**" (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of any Notes characterised as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued after the "**grandfathering date**", which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date. If Notes are issued before the grandfathering date, and additional Notes of the same series are issued on or after that date, the additional Notes may not be treated as grandfathered, which may have negative consequences for the existing Notes, including a negative impact on market price.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "**Reporting FI**" not subject to withholding under FATCA on any payments it receives. Further, an FFI in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being **FATCA Withholding**) from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS.

The Issuer and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA.

Whilst the Notes are in global form and held within Euroclear or Clearstream, Luxembourg, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any paying agent and the common depositary, given that each of the entities in the payment chain between the Issuer and the participants in Euroclear or Clearstream, Luxembourg, is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of Euroclear or Clearstream, Luxembourg. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Notes will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented

in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Notes.

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

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 Subordinated Loan Agreement is 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 Subordinated 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.

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 consolidated interim condensed financial statements for the nine-month period ended 30 September 2014 (the **Interim Financial Information**) and CBM's audited consolidated financial statements as of 31 December 2013 and for the year then ended (the **2013 Annual Financial Statements**) and as of 31 December 2012 and for the year then ended (the **2012 Annual Financial Statements**) and as of 31 December 2011 and for the year then ended (the **2011 Annual Financial Statements**) and, together with the 2013 Annual Financial Statements and the 2012 Annual Financial Statements, the **Annual Financial Statements**, and the Annual Financial Statements together with the Interim Financial Information, the **Financial Statements**) set forth on pages F-2 through F-190 of this Prospectus. The Interim Financial Information and the Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (**IFRS**) as promulgated by the International Accounting Standards Board, and the Annual Financial Statements have been audited.

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.

CBM's Independent Auditors

The Annual Financial Statements included in the Prospectus have been audited, and the Interim Financial Information has been reviewed but not audited, by ZAO KPMG (KPMG), as stated in their reports appearing herein. 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*).

Comparative Information

In preparing the 2013 Annual Financial Statements, CBM changed the presentation of certain captions relating to fee and commission income, foreign exchange gains (losses), net other operating income and administrative expenses was changed for the year ended 31 December 2013 in comparison with the year ended 31 December 2012 to better present the nature of the underlying transactions. The comparative information as at and for the year ended 31 December 2012 as presented in the 2013 Annual Financial Statements was reclassified to conform to changes in presentation in connection with preparation of the 2013 Annual Financial Statements. The effect of this change in presentation is as follows:

	For the year ended 31 December 2012, as previously reported	Reclassification amounts	For the year ended 31 December 2012, as currently reported
	<i>RUB millions</i>		
Reclassification of foreign exchange transaction related fees from "Foreign exchange gains (losses), net" to "Fee and commission income"			
Fee and commission income	4,106.2	176.9	4,283.1
Net foreign exchange gains (losses)	(208.2)	(176.9)	(385.1)
Reclassification of write-off of low-value fixed assets from "Other operating expenses" to "Administrative expenses" and presentation of other operating income and expense in one line "Other operating income, net"			
Other operating expenses.....	(366.5)	366.5	-
Other operating income	467.2	(467.2)	-
Other operating income, net	-	243.0	243.0
Administrative expenses.....	(2,487.7)	(142.3)	(2,630.0)

In preparing the 2012 Annual Financial Statements, CBM changed the presentation of certain captions relating to derivative financial instruments, fee and commission income and foreign exchange gains (losses) for the year ended 31

December 2012 in comparison with the year ended 31 December 2011 to better present the nature of the underlying transactions. The comparative information as at and for the year ended 31 December 2011 as presented in the 2011 Annual Financial Statements was reclassified to conform to changes in presentation in connection with preparation of the 2012 Annual Financial Statements. The effect of this change in presentation is as follows:

	As at or for the year ended 31 December 2011, as previously reported	As at or for the year ended 31 December 2011
	<i>RUB millions</i>	
Reclassification of derivative financial instruments from statement of financial position caption “Other assets” to “Financial instruments at fair value through profit or loss”		
Financial instruments at fair value through profit or loss	22,783.8	22,868.3
Other assets.....	1,572.6	1,488.1
Reclassification of foreign exchange operations related fees from statement of comprehensive income caption “Foreign exchange (losses) gains, net” to “Fee and commission income”		
Fee and commission	2,718.6	2,936.9
Foreign exchange (losses) gains, net	473.4	255.0

Unless otherwise indicated, financial information presented herein as at or for the year ended 31 December 2012 is on the same basis as included in the 2013 Annual Financial Statements, and financial information as at or for the year ended 31 December 2011 is on the same basis as included in the 2012 Annual Financial Statements.

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;

- **RAS** means the Russian Accounting Standards; 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.

	<i>RUB per \$1.00</i>			
	<i>High</i>	<i>Low</i>	<i>Period end</i>	<i>Period average⁽¹⁾</i>
Year				
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	33.47	29.93	32.73	31.91
2014	67.79	32.66	56.26	38.42
Month (2014)				
January	35.24	32.66	35.24	33.46
February	36.05	34.60	36.05	35.23
March	36.65	35.45	35.69	36.21
April	36.08	35.02	35.70	35.66
May	35.84	34.08	34.74	34.94
June	35.14	33.63	33.63	34.41
July	35.73	33.84	35.73	34.64
August	36.93	35.44	36.93	36.11
September	39.39	36.80	39.39	37.88
October	43.39	39.38	43.39	40.77
November	49.32	41.96	49.32	45.91
December	67.79	49.32	56.26	55.71
Month (2015)				
January (until 13 January 2015)	62.74	56.24	62.74	56.74

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.

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 years ended 31 December 2013, 31 December 2012, and 31 December 2011, 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, 31 March, 30 June, 30 September and closing balances for the applicable year. 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 interest 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 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 2013, 2012, and 2011 Annual Financial Statements. CBM presents information on effective interest rates because IFRS requires that this rate be used in the preparation of its Financial Statements. Operationally, CBM uses this information as well as average interest rates as both are considered useful business tools.

Foreign Language Terms

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.

Information Derived from Third Parties

CBM has obtained certain statistical and market information that is presented in this Prospectus on such topics as the Russian banking sector, Russian population and unemployment statistics, Russian oil and gas reserves, and the Russian economy in general and, in some instances, CBM's competitors from the following third-party sources:

- the CBR;
- Rosstat;
- RBC Rating;
- Interfax;
- the World Bank;
- the International Monetary Fund (IMF);
- Economist Intelligence Unit;

- Expert RA; and
- Banki.ru.

This third-party information is presented in this Prospectus under the headings: "*Summary Information*", "*Risk Factors*", "*Operating and Financial Review*", "*Business*", "*The Banking Sector in Russia*" and "*Banking Regulation in Russia*".

CBM has accurately reproduced such information and, as far as it is aware and is able to ascertain from information published by such third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. Prospective investors should note that CBM's estimates are based on such third-party information. CBM has not independently verified the figures, market data or other information on which third parties have based their studies. In addition, the official data published by Russian governmental agencies is substantially less complete or researched than that of more developed countries. Official statistics, including data published by the CBR, may also be produced on different bases than those used in more developed countries. Any discussion of matters relating to Russia in this Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. For more information see "*Risk Factors – Other Risks – Publicly available data may be unreliable*".

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OVERVIEW

This overview highlights certain information concerning the business of CBM, the Notes and the Subordinated 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 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 handling, 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 handling 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 2014, CBM had 59 branches, 33 cash offices, over 800 ATMs and 6,000 payment terminals. As at 30 September 2014, CBM was the 14th largest bank in Russia based on net assets, 13th largest bank in Russia based on the size of its capital, 13th among Russian banks based on the size of its loan portfolio according to Banki.ru and 15th among Russian banks based on the amount of customer deposits according to Expert RA, based on Russian Accounting Standards (RAS). According to RBC Rating, as at 1 January 2013, CBM was ranked 2nd in Moscow and Russia based on number of payment terminals.

Corporate banking is CBM's core business area, representing 66.7% of total gross loans to customers as at 30 September 2014. 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 handling services to businesses in Moscow and the Moscow region. It was the second largest cash handling service provider in Moscow, according to an Interfax survey conducted in the third quarter of 2013. 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 handling 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.

CBM's total assets were RUB 496.4 billion as at 30 September 2014, RUB 454.2 billion as at 31 December 2013, RUB 308.7 billion as at 31 December 2012 and RUB 232.4 billion as at 31 December 2011. CBM's net income for the nine months ended 30 September 2014 was RUB 6.4 billion as compared to RUB 5.6 billion for the nine months ended 30 September 2013. CBM's net income for the year ended 31 December 2013 was RUB 8.9 billion, as compared to RUB 5.8 billion and RUB 3.9 billion for the years ended 31 December 2012 and 2011, respectively. CBM's total equity was RUB 56.8 billion as at 30 September 2014, and RUB 50.7 billion as at 31 December 2013.

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 counterparty default ratings by Fitch are BB and B, respectively. CBM's long term counterparty default and short term issuer default ratings by Standard & Poor's are BB- 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 believes that its competitive strengths are as follows:

- significant potential for further economic development of the Moscow and the Moscow region (collectively referred to as the **Moscow Area**) banking market;
- universal bank focused on the resilient Russian consumer market;
- efficient multichannel distribution and service platform;
- disciplined risk management driving strong portfolio performance;
- operational excellence with further upside potential;
- strong management team with proven ability to execute and best-in-class corporate governance; and
- delivering sustainable profitable growth.

Strategy

CBM's objective is to be one of the leading private universal commercial banks in Russia and become the bank of first choice for its customers. It aims to provide high-quality corporate and retail banking products and services based on the best international and Russian practices while achieving strong and sustainable performance.

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

- further capitalise on growth prospects of the Moscow Area banking market;
- expand corporate customer base in its core customer segments;
- continue developing a growing retail banking platform;
- leverage strong customer service;
- maintain disciplined approach to risk management;
- leverage efficiency to drive strong financial results; and
- have efficient top management and employees retention policy.

Recent Developments

Capital markets

In March 2014 CBM signed a syndicated loan facility agreement for up to USD 500 million with a pool of lenders from across Europe, North America and Asia. The USD/EUR facility has tenors of 364 days and 18 months, and carries interest rates of LIBOR/EURIBOR + 1.75% p.a. (364-day tenor) and LIBOR/EURIBOR + 1.95% p.a. (18-month tenor). This loan facility is the largest syndicated loan in the history of CBM's presence in the syndicated loans market and was at lower rates and longer maturities.

In June 2014 CBM transferred certain retail mortgage loans to the special purpose entity Mortgage Agent MKB (the **SPE**). The SPE issued bonds that are collateralized by the purchased assets. When CBM sells the assets to the consolidated SPE the transfer is in the form of CBM assuming an obligation to pass cash flows from the underlying assets to investors in the bonds. Although CBM does not own more than half of the voting power, CBM controls the SPE because it is exposed to the majority of risks and rewards of the SPE and therefore this SPE is consolidated. The investors in the bonds have recourse only to the cash flows from the transferred assets.

In July 2014 CBM placed two 5-year exchange-traded bond issues series BO-10 and BO-11, with a face value of RUB 5 billion each. The pre-buyback coupon rate was fixed at 10.5% p.a. for series BO-10 and at 10.9% p.a. for series BO-11. The buyback for the bonds series BO-10 and BO-11 will take place at the end of the second and third coupon periods respectively.

CBM paid off three domestic bond issuances as well as one Eurobond issue maturing in 2014.

In February 2014 CBM redeemed its domestic exchange bonds issue series BO-01, placed on 22 February 2011 in the amount of RUB 3 billion with a maturity of 3 years and annual coupon rate of 9.5%.

In April 2014 CBM redeemed its domestic exchange bonds issue series BO-04, placed on 15 April 2011 in the amount of RUB 5 billion with a maturity of 3 years and annual coupon rate of 10.25%.

In June 2014 CBM redeemed its domestic exchange bonds issue series BO-05, placed on 23 June 2011 in the amount of RUB 5 billion with a maturity of 3 years and annual coupon rate of 9.2%.

In August 2014 CBM redeemed its loan participation notes issue in the total amount of USD 200 million with a fixed coupon rate of 8.25% p.a. at par and maturity of 3 years.

In the context of the initial public offering which was being worked on until March 2014, but postponed for an indefinite term, CBM announced a decision to increase its share capital by a placement of 9,645,174,490 additional ordinary registered shares, applied to the Moscow Exchange for listing and got the permission from the CBR to place, and/or arrange for trading of, its securities outside of the Russian Federation at the London Stock Exchange plc.

In November 2014, CBM completed the issuance of the Notes for the purpose of making the Subordinated Loan to CBM. The CBR issued its final approval and conclusion for inclusion of the Subordinated Loan in CBM's Tier 2 capital on 13 January 2015.

In December 2014, CBM received a subordinated loan in the amount of RUB5 billion with a maturity of 10 years from its shareholder "ROSSIUM Concern", LLC, and later in December 2014 the CBR issued its approval of this loan for inclusion in CBM's Tier 2 capital.

Corporate governance

In March 2014 Nicholas Haag, Bernard Sucher and Brendan Walsh were appointed Members of the Supervisory Board.

In June 2014 Yulia Podobrazhnykh, previously Deputy Chairperson of the Management Board, and Evgeny Sandler, previously Deputy Chairman of the Management Board, left the Management Board.

In September 2014 Marina Nastashkina, previously Deputy Chairperson of the Management Board, left the Management Board.

In November 2014 Anton Avdeev, Richard Glasspool and Brendan Walsh, previously Members of the Supervisory Board, left the Supervisory Board. Alexey Stepanenko was appointed Member of the Supervisory Board.

Credit ratings

In June 2014 international rating agency Standard & Poor's affirmed the Bank's long-term credit rating at "BB-", Russia national scale rating at "ruAA-", and short-term credit rating at "B". Outlook was set at stable.

In November 2014, international rating agency Fitch affirmed the following credit ratings of CBM: long-term issuer default rating at 'BB', viability rating at 'bb', national long-term rating at 'AA-(rus)', senior unsecured debt rating at 'BB' and subordinated debt rating at 'BB-'. The rating agency also affirmed the short-term issuer default rating at 'B' and support rating at '5'. On 29 December 2014 Fitch revised CBM's ratings outlook from stable to negative, together with twenty other Russian banks, reflecting the overall Russian macroeconomic situation, while affirming CBM's current ratings.

Overview of the Notes and the Subordinated Loan Agreement

THE NOTES

<i>The Issuer</i>	CBOM Finance p.l.c.
<i>The Notes</i>	RUB5,000,000,000 16.50% Loan Participation Notes due 26 May 2025.
<i>Issue Price</i>	100% of the aggregate principal amount of the Notes.
<i>Issue Date</i>	26 November 2014.
<i>Maturity Date</i>	26 May 2025.
<i>Trustee</i>	Citibank, N.A., London Branch.
<i>Principal Paying Agent and Transfer Agent</i>	Citibank, N.A., London Branch.
<i>Registrar</i>	Citigroup Global Markets Deutschland AG.
<i>Yield</i>	16.50% per annum.
<i>Interest and Interest Payment Dates</i>	On each Interest Payment Date (being 26 May and 26 November in each year commencing on 26 May 2015 and ending on 26 May 2025), 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 Subordinated Loan Agreement, which interest under the Subordinated Loan Agreement is equal to 16.50% per annum.
<i>Form and Denomination of the Notes</i>	<p>Notes are represented by beneficial interests in the Global Note in registered form, without interest coupons attached, which are registered in the name of Citivic Nominees Limited as nominee for, and were deposited on the Issue Date with, Citibank Europe Plc as a common depositary for Euroclear and Clearstream, Luxembourg. The Notes are issued in minimum denominations of RUB10,000,000 and integral multiples of RUB100,000 in excess thereof. See “<i>Terms and Conditions of the Notes – 2 Form and Denomination</i>”.</p> <p>Interests in the Notes are subject to certain restrictions on transfer. See “<i>Form of the Notes</i>” and “<i>Transfer Restrictions</i>”.</p> <p>Beneficial interests in the Global Note are shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants.</p> <p>Except as described herein, certificates for the Notes will not be issued in exchange for beneficial interests in the Global Note.</p>
<i>Status of the Notes</i>	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 “ <i>Terms and Conditions of the Notes – 1 Status and Limited Recourse</i> ”.
<i>Limited Recourse</i>	The Notes constitute the obligation of the Issuer to apply the net proceeds from the issue of the Notes solely for the purpose of financing the Subordinated Loan to CBM pursuant to the terms of the Subordinated 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 Subordinated 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 the lender under the Subordinated 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 Subordinated 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 Subordinated Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Subordinated 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 Subordinated 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.

Final Redemption

Subject to receipt by the Issuer of amounts due under the Subordinated Loan Agreement and unless previously repaid or prepaid, the Notes will be redeemed at 100% of the principal amount on 26 May 2025.

Early Redemption

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time upon giving notice to the Noteholders following prepayment of the Subordinated Loan under Clause 7 (*Repayment and Prepayment*) of the Subordinated Loan Agreement and receipt by the Issuer of relevant funds, provided however that while the Subordinated Loan constitutes Tier 2 Capital for the purposes of the CBR Regulation

No. 395-P "On Methodology of Determination of the Amount and Assessment of Sufficiency of Own Funds (Capital) of Credit Organisations (Basel III)" dated 28 December 2012, as amended, supplemented or replaced from time to time (**Regulation 395-P**) (as such terms are defined in the Subordinated Loan Agreement), the Borrower shall not prepay the Subordinated Loan, in whole or in part, before the fifth anniversary of the inclusion of the Subordinated Loan into Tier 2 Capital (such period, the **Restricted Period**). See Condition 6(B) (*Early Redemption*) of the Terms and Conditions of the Notes and Clause 7 (*Repayment and Prepayment*) of the Subordinated Loan Agreement.

Write-down of the Notes following Write Down Event.....

The Notes may be cancelled and all claims in respect thereof written down, in whole or in part, in the event of a write-down of amounts due under the Subordinated Loan Agreement following a Write Down Event (as defined in the Subordinated Loan Agreement). Upon any such write down and cancellation of the Notes, (i) the Noteholders shall automatically be deemed to irrevocably waive their right to receive, and shall no longer have any rights against the Issuer with respect to, repayment of the aggregate principal amount of the Notes, accrued and unpaid interest and (if any) additional amounts, in each case so written down and cancelled; and (ii) all rights and claims of the Noteholders for payment of any amounts under or in respect of the Notes (including, without limitation, accrued and unpaid interest and any additional amounts) that are subject to write down and cancellation shall become null and void, irrespective of whether such amounts have become due and payable. See Condition 6(D) (*Write-down of the Notes following a Write Down Event*) of the Terms and Conditions of the Notes and Clause 8 (*Write Down*) of the Subordinated Loan Agreement.

Reclassification

In the event that the CBR fails to issue the Final Conclusion to the Borrower on or before the Approval Date (as defined in the Subordinated Loan Agreement) and the Subordinated Loan is treated as senior in priority to any subordinated debt or Capital Stock of the Borrower in accordance with the terms of the Subordinated Loan Agreement, the provisions of Condition 6(D) (*Write-down of the Notes following a Write Down Event*) shall not apply. See “Overview – Overview of the Notes and the Subordinated Loan Agreement – The Subordinated Loan Agreement – Reclassification” below, Condition 6(G) (*Disapplication of Certain Conditions*) of the Terms and Conditions of the Notes and Clause 4.4 (*Reclassification*) of the Subordinated Loan Agreement. The CBR issued its final approval and conclusion for inclusion of the Subordinated Loan in CBM’s Tier 2 capital on 31 December 2014.

Listing

Application will be 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 14 January 2015.

Clearing

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg.

Security Codes.....

ISIN: XS1143363940

Use of Proceeds

An amount equal to the gross proceeds of the issue of the Notes was used by the Issuer for the sole purpose of financing the Subordinated Loan to CBM. The proceeds of the Subordinated Loan are being used by CBM for

	general banking purposes. See “ <i>Use of Proceeds</i> ”.
<i>Governing Law</i>	The Notes, the Agency Agreement and the Trust Deed and any non-contractual obligations arising out of or in connection therewith are governed by, and construed in accordance with the laws of England.
<i>Ratings</i>	<p>The Notes have been rated BB- by Fitch. CBM's current long term global and local currency deposit 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 issuer default ratings by Standard & Poor's are BB- and B, respectively.</p> <p>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. The significance of each rating should be analysed independently from any other rating.</p> <p>While the Notes have been rated BB- by Fitch, neither Moody's nor Standard & Poor's will be assigning a rating to the Notes. Certain rating agencies that do not assign a rating to the Notes upon issuance may assign ratings of the Notes in the future, and to the extent any such rating is lower than the expectations of the market, this could adversely affect the trading price for the Notes. 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.</p>
<i>Selling Restrictions</i>	<p>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 pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.</p> <p>The Notes may be offered and sold in other jurisdictions only in compliance with applicable laws and regulations.</p>
<i>Further Issues</i>	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 Subordinated Loan will be correspondingly increased. See “ <i>Terms and Conditions of the Notes – 15 Further Issues</i> ”.
<i>Risk Factors</i>	An investment in the Notes involves a high degree of risk. See “ <i>Risk Factors</i> ”.

THE SUBORDINATED LOAN AGREEMENT

Lender	CBOM Finance p.l.c.
Borrower	CREDIT BANK OF MOSCOW (open joint-stock company), a commercial bank organised as 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.
Principal Amount of the Subordinated Loan	RUB5,000,000,000.
Interest on the Subordinated Loan	16.50% per annum, payable semi-annually in arrear on 26 May and 26 November in each year starting on 26 May 2015.
Status of the Subordinated Loan.....	The Subordinated Loan and all payment obligations expressed to be assumed by CBM thereunder constitute direct, general, unconditional, subordinated and unsecured obligations of CBM which will at all times rank at least <i>pari passu</i> with all its other subordinated indebtedness (whether actual or contingent) having a fixed maturity from time to time outstanding, save for such indebtedness as may be preferred by provisions of law that are both mandatory and of general application. The claims of the Issuer against CBM in respect of the principal of, and interest on the Subordinated Loan will be subordinated, in the event of the entry into force of the final decision of a competent Russian court finding CBM bankrupt, to the claims of the Senior Creditors (as defined in the Subordinated Loan Agreement) in accordance with the Federal Law No. 40-FZ “ <i>On Insolvency (Bankruptcy) of Credit Organisations</i> ” dated 25 February 1999 (as amended, replaced or superseded from time to time) (the Bank Insolvency Law).
Reclassification.....	If the CBR fails to issue the Final Conclusion to the Borrower on or before the Approval Date (as defined in the Subordinated Loan Agreement), the claims of the Lender against the Borrower in respect of principal of and interest on the Subordinated Loan will, upon the occurrence of a Bankruptcy Event, rank at least <i>pari passu</i> with the claims of the Senior Creditors and the Subordinated Loan shall be treated as senior in priority to any subordinated debt or Capital Stock of the Borrower. In addition, in the event that the Subordinated Loan is treated as senior in priority to any subordinated debt or Capital Stock of the Borrower in accordance with the terms of the Subordinated Loan Agreement, the provisions of Clause 8 (<i>Write Down</i>) of the Subordinated Loan Agreement shall also not apply. The CBR issued its final approval and conclusion for inclusion of the Subordinated Loan in CBM’s Tier 2 capital on 31 December 2014.
Acceleration Event.....	If an Acceleration Event (as defined in the Subordinated 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 Acceleration Event, require the Issuer to declare all amounts payable under the Subordinated Loan Agreement by CBM to be due and payable and do all such other acts in connection therewith as the Trustee may direct or (ii) in the case of a Relevant Event, enforce any rights under the security created in the Trust Deed in favour of the Noteholders.

Upon repayment of the Subordinated Loan following an Acceleration Event, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for such redemption and any additional amounts due and thereupon shall cease to be outstanding, all as more particularly described in the Conditions.

Withholding Tax

All payments in respect of interest and principal to be made by CBM under the Subordinated 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 Subordinated Loan may be prepaid by CBM, with (where applicable) the prior consent of the CBR, in whole, but not in part: (a) at the Outstanding Principal Amount (as defined in the Subordinated Loan Agreement) in the event that CBM elects to prepay the Subordinated Loan if, as a result of any amendment to, clarification of or change in (including a change in interpretation or application of), Regulation 395-P and/or any other applicable requirements of the CBR, the Subordinated Loan would fully cease to qualify in whole but not in part for inclusion as Tier 2 Capital (as such terms are defined in the Subordinated Loan Agreement), pursuant to Clause 7.2 (*Special Prepayment by Reason of Amendment to CBR Regulations*) (for the avoidance of doubt, the disapplication of the CBR Regulation No. 215-P “On the Method of Calculation of the Net Worth Capital of Credit Organisations”, dated 10 February 2003, as amended from time to time (**Regulation 215-P**) shall not be itself give grounds for prepayment under Clause 7.2 (*Special Prepayment by Reason of Amendment to CBR Regulations*)); (b) at the Outstanding Principal Amount (as defined in the Subordinated Loan Agreement) in the event that CBM elects to prepay the Subordinated Loan due to the Subordinated Loan not being approved for inclusion in Tier 2 Capital pursuant to Clause 7.3 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*); and (c) at the Outstanding Principal Amount (as defined in the Subordinated Loan Agreement) in the event that CBM elects to prepay the Subordinated Loan for tax reasons pursuant to Clause 7.4 (*Special Prepayment in the Event of Taxes or Increased Costs*), in each case together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof. See Clause 7 (*Repayment and Prepayment*) of the Subordinated Loan Agreement, provided however that, in each case, while the Subordinated Loan constitutes Tier 2 Capital for the purposes of the applicable requirements of the CBR, the Borrower may not elect to prepay the Subordinated Loan, in whole or in part, during the Restricted Period.

Write-Down of the Subordinated Loan following Write Down Event

If a Write Down Event (as defined in the Subordinated Loan Agreement) has occurred and is continuing on the Write Down Measure Effective Date, then: (i) any accrued and unpaid interest that was payable in respect of the Subordinated Loan shall not be repaid and shall not accrue interest, the result of which will be the full or partial termination of the Borrower’s obligations to repay the amounts of accrued and unpaid interest under the

Subordinated Loan; and/or (ii) the losses incurred by the Borrower shall be absorbed by way of full or partial termination of the Borrower's obligations to repay the principal amount of the Subordinated Loan, in each case such that the Write Down Event may be cured or, if such amounts would exceed the sum of all accrued and unpaid interest and principal, the Subordinated Loan would be reduced to zero. See Clause 8 (*Write Down*) of the Subordinated Loan Agreement.

Governing Law

The Subordinated Loan and any non-contractual obligations arising out of or in connection therewith are governed by, and construed in accordance with the laws of England.

RISK FACTORS

Investment in the Notes involves a high degree of risk. Investors may lose the value of their entire investment or part of it and should carefully review this Prospectus in its entirety. Investors should be aware that the value of the Notes may go down as well as up and that investors may not be able to realise their initial investment. These risk factors, individually or together, could have a material adverse effect on CBM, the Issuer, its business, results of operations, financial condition, liquidity, cash flows, prospects and/or the rights under the Notes of the holders of such Notes.

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

Risks Relating to CBM's Business and Industry

CBM's operations are concentrated in Moscow and the Moscow region of the Russian Federation, and CBM's business, financial condition and results of operations may be materially and adversely affected by fluctuations in the economic conditions of Moscow, the Moscow region and the Russian Federation more generally

Substantially all of CBM's business is with customers that have a significant presence in the Moscow Area in the Russian Federation. Accordingly, CBM's business is highly dependent on economic conditions in the Moscow Area, as well as the Russian Federation more generally. Economic growth in Russia has slowed during 2014, and some analysts have forecast further decreases in growth or a recession for 2015. A slowdown in growth or deterioration of general economic conditions, whether in the Moscow Area or in the Russian Federation more generally, may adversely affect the business of CBM's customers and their creditworthiness and, consequently, adversely impact CBM's business or potentially increase its impairment losses. See also "— A decline in the value of, or illiquidity of, the collateral securing CBM's loans may materially and adversely affect CBM's loan portfolio". Developments such as increased unemployment, rising inflation, reduced corporate liquidity or profitability, increased corporate or personal insolvencies and increased interest rates may adversely affect the ability of CBM's customers to repay loans. Moreover, a decline in the financial condition of CBM's customers may result in, among other things, decreased customer deposits and reduced demand for cash handling, trade finance and other services provided by CBM. Declining or negative growth, or other adverse economic developments, whether in the Moscow Area or the Russian Federation more generally, could have a material adverse impact on CBM's financial condition, results of operations and prospects.

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

Financial markets, both globally and in the Russian Federation, have experienced periods of significant volatility and disruption over the past several years, particularly in 2008 and 2009. Russian banks, including CBM, have from time to time experienced reductions in the availability of, and increased costs of, financing in both the interbank and short-term funding markets, as well as longer-term capital markets. Political unrest in a number of countries, including in Ukraine, the Middle East and North Africa, has contributed to volatility in financial markets, as well as to the price of certain commodities, such as oil. The credit ratings of a number of sovereigns have been downgraded, and, notwithstanding recent improvements, there have been continued concerns over the stability of the European monetary system and the stability of certain European economies. Political unrest in Ukraine starting in early 2014, the accession of Crimea to Russia in March 2014, the imposition of sanctions on a number of persons and entities (including a number of Russian banks) in Russia and Ukraine by the United States, European Union and certain other countries contributed to significant declines in Russian financial markets. The Russian economy is also highly dependent on oil prices, and significant declines in crude oil prices during 2014 have also contributed to expectations of reduced economic growth and possible recession in Russia, a significant depreciation of the Rouble against the U.S. dollar, euro and other major currencies, and significant volatility in Russian financial markets. In light of the state of the financial markets generally, the imposition of sanctions against certain Russian individuals and entities, reduced forecasts for economic growth and volatility on the exchange rate of the Rouble against other major currencies, many lenders and institutional

investors have reduced, and in some cases, ceased, to provide funding to borrowers, including other financial institutions. Further deterioration in the economic or political situation or turmoil in the global or Russian financial markets, restructuring of European sovereign debt, and/or the imposition of further sanctions on Russia or Russian persons or businesses could result in reduced access to funding and liquidity, and materially and adversely affect CBM's business, results of operations, financial condition and prospects.

The Russian banking market is highly competitive, and a failure to compete effectively could have a material and adverse effect on CBM's business, financial condition and results of operations

The Russian banking market is highly competitive. According to the Central Bank of Russia (the **CBR**), as at 5 December 2014, 850 banks and non-banking credit organisations were operating in the Russian Federation. Notwithstanding the large number of banks, the sector is also highly concentrated, with the 20 largest banks holding an aggregate of 73.7% of total banking sector assets as of 1 September 2014, and the strongest participants being large state-controlled banks, according to the CBR. Consolidation in the Russian banking industry, and particularly amongst the group of largest banks, may further increase competitive pressures. Furthermore many of the largest Russian banks are based or have significant operations in the Moscow Area, where CBM's business is focused.

CBM faces significant competition in substantially all of the business segments in which it operates. CBM competes for client business primarily on the basis of the quality of its service and the breadth of its product offerings, as well as the pricing of its loans and the interest rate it pays on deposits. In corporate banking CBM competes primarily with Sberbank, VTB Group (including the Bank of Moscow), Promsvyazbank, Alfa-Bank and the Otkritie Group (including Nomos Bank and Petrocommerce), and in retail banking CBM competes primarily with OTP Bank, Alfa-Bank, Raiffeisen Bank, UniCredit Bank and Rosbank, as well as Sberbank and VTB 24. CBM faces particularly intense and increasing competition from state-controlled banks such as Sberbank and VTB (including VTB 24 and the Bank of Moscow), which often have access to cheaper sources of funding, are often significant beneficiaries of government funding programmes and generally may be seen by depositors as less risky and, as such, able to pay relatively lower rates on deposits. Accordingly, these banks are often able to maintain or increase their market share by offering credit products at lower prices.

In light of the continuing economic, political and market uncertainties which have resulted in increased costs of funds on international capital markets and wholesale markets more generally, and in their efforts to attract more deposits as a source of funding, some Russian banks have increased the rates that they pay on deposits. Reduced rates earned by CBM on its loans and/or increased rates that it pays on deposits may result in a reduction in CBM's net interest margin. Competition may further intensify if the global or Russian economy deteriorates and demand for high quality assets increases among banks. See "*The instability of the Russian and global financial markets and banking sectors could have a material adverse effect on CBM's business, liquidity and financial condition*".

CBM also competes on the quality and awareness of its banking products and services, as well as its reputation. Any reduction in the quality or perceived quality of its products or services (or significant improvements or perceived improvements in those offered by its competitors) may negatively impact on CBM's ability to compete. Any failure by CBM to compete effectively in the corporate or retail banking sectors, or further compression of interest rate margins resulting from competitive pressures, could have a material and adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM may fail to manage its growth adequately

CBM's business has grown significantly in recent years, by way of organic growth, and currently its primary target is to maintain good asset quality and high margins. CBM's loans to customers (net of allowance for loan impairment) increased from RUB 159.0 billion as at 31 December 2011 to RUB 358.3 billion as at 30 September 2014. CBM's strategy includes expanding its overall business, including its loan portfolio, expansion of its customer base, and expansion of its distribution network in the Moscow Area.

While CBM's business strategy includes the continued growth of its corporate business, it is particularly focused on expanding its retail business, to approximately 40% of its total loan portfolio in the mid-term. As at 30 September 2014,

retail loans comprised 33.3% of CBM's total gross loans, as compared to 30.8% and 24.5% as at 31 December 2013 and 2012, respectively. The growth of CBM's retail banking business could result in a higher level of impaired loans and higher levels of provisioning as retail loans generally have a higher risk profile than corporate loans. As at 30 September 2014, NPLs to retail customers accounted for 6.1% of the gross retail loan portfolio, as compared to 0.8% of the gross corporate loan portfolio. Moreover, a recession or other negative developments in Russia's economy could affect retail borrowers more significantly than corporate borrowers, impacting their ability to service or repay loans and resulting in a deterioration in CBM's retail loan assets. In addition, retail customers are typically less financially transparent than larger corporate borrowers, as there is generally less financial information available for such customers. As a result, CBM may not be able to accurately assess the risks, including credit risks, associated with its retail borrowers.

In light of increasing concerns as to the scale of consumer lending growth in recent years and the adverse impact of such rapid growth on the creditworthiness of retail customers, the CBR has recently introduced measures to manage the growth of consumer lending, such as increases in risk-weighting coefficients to be applied to higher rate consumer loans for the purpose of calculating the relevant bank's risk-weighted assets under the CBR's mandatory economic ratios and increases in required provisioning levels for certain unsecured consumer loans. See *"Banking Regulation in Russia – Capital Requirements – Mandatory Economic Ratios"*.

As CBM continues to expand, it will require the maintenance of effective financial, IT and management control systems and hiring and retraining qualified personnel. The increase in volume of the loan portfolio may also further increase credit risk as well as put additional pressure on CBM's overall risk management procedures. CBM may not be able to achieve its growth objectives, expand its network, recruit qualified personnel or sufficiently train existing personnel to support business growth. Any failure by CBM to adequately manage its growth may have a material and adverse effect on CBM's business, financial condition, results of operations and prospects.

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

Credit risk assessment is generally more difficult for Russian banks than for banks operating in other jurisdictions due to a lack of reliable information in the Russian Federation about potential borrowers. In particular, it is difficult to make long-term forecasts with respect to a borrower's financial position as 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 potential corporate borrowers do not prepare audited accounts in accordance with International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles in the United States, and/or do not have extensive or externally verified credit histories. In extending retail loans, CBM relies primarily on information provided by the borrowers in making its credit decisions and information it possesses in respect of such borrowers, as a large part of CBM's retail borrowers are the clients and employees of its corporate customers or with which CBM has a prior customer relationship, such as through the use of its payment terminal network, and, to some extent, information provided by credit bureaus or obtained from other sources. Even where information on prospective borrowers is available, including from credit bureaus and/or third parties, it may not be independently verifiable. Although banks have access to credit bureau data, CBM and its competitors only share all their customer information on a bespoke basis and there is no single credit bureau with data on every corporate entity and individual in the Russian Federation. In addition, CBM's customers may take on loans and other obligations of which CBM is not aware, or may complete applications for credit incorrectly or fraudulently. As a result, CBM may be unable to evaluate correctly the current financial condition of each prospective borrower or independently assess information provided by credit applicants, and thus may be unable to determine the long-term economic outlook for each such borrower.

Notwithstanding the risk assessment procedures and systems that CBM has in place (see *"Risk Management"*), there is no assurance that such procedures and systems, provisions for impairment and supporting collateral will be sufficient to protect CBM against increased levels of defaults, losses or potential write-offs. Failure to properly assess the risk of potential borrowers or deterioration in the financial condition of a significant number of CBM's corporate or retail customers may have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

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

A substantial portion of CBM's corporate loans, as well as its mortgage and auto loans, are secured by collateral such as real estate, machinery and equipment, motor vehicles, inventories, receivables, securities, promissory notes and equity interests in certain businesses. As at 30 September 2014, 64.2% of CBM's net loans to legal entities was secured by collateral, and 35.8% was secured by guarantees and sureties. Downturns in the relevant markets and a general deterioration of economic conditions in the Russian Federation may result in declines in the value of collateral securing a number of loans. As collateral values decline, the value of the collateral may not be sufficient to cover the remaining loan balances. Moreover, in the past, CBM may have accepted collateral that is insufficient to cover the value of the loan. A decline in the value of collateral securing CBM's loans, or an inability to realise existing collateral or obtain additional collateral has in the past required, and may continue to require, CBM to reclassify the 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 prospects.

CBM may face difficulties in recruiting and retaining experienced personnel

CBM's ability to continue to attract, retain and motivate qualified and experienced personnel is key in implementing its strategy. Competition in the Russian banking industry for personnel with relevant expertise is intense due to the relatively small number of available qualified individuals. Further increases in competition may lead to difficulties in recruiting qualified and experienced employees, including increased costs of recruitment, and/or a greater length of time taken to identify and recruit such employees and difficulties in retaining qualified and experienced employees, including increased costs of salaries and bonuses. 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. Any inability by CBM to retain, manage and/or recruit qualified personnel in sufficient numbers could have a material adverse effect on CBM's business, financial condition, results of operations and prospects, and may impair CBM's ability to achieve its strategic objectives.

CBM's corporate loan and deposit portfolio are concentrated

As at 31 December 2013, the five largest economic sectors represented in CBM's corporate loan portfolio collectively accounted for 53.5% of CBM's total corporate loan portfolio, and the five largest economic sectors represented in CBM's corporate deposit portfolio collectively accounted for 81.6% of CBM's total corporate deposit portfolio. As at 30 September 2014 the five largest economic sectors represented in CBM's corporate loan portfolio collectively accounted for 47.3% of CBM's total corporate loan portfolio. For CBM's corporate loan portfolio, these sectors were residential and commercial construction and development, services, automotive, motorcycles and spare parts, oil and industrial chemicals and metallurgical. CBM has established exposure limits to any single sector of the economy at 15% of its gross corporate loan portfolio and believes that its provisioning levels and collateral arrangements are adequate. However, a downturn in these or other sectors could result in CBM's customers facing difficulties in servicing their loans and/or significant and unplanned withdrawals of funds on deposit and may have a material adverse effect on CBM's business and financial condition.

As at 31 December 2013, CBM's exposure to its 20 largest corporate borrowers or groups of related borrowers collectively was RUB 87.8 billion, or 27.6%, of CBM's total loan portfolio, and its exposure to its 10 largest borrowers collectively was RUB 53.2 billion, or 16.7%, of CBM's gross loan portfolio. The current accounts and term deposits of CBM's 20 largest depositors collectively represented 32.2% of CBM's total current accounts and term deposits by customers as at 31 December 2013, and its 10 largest depositors collectively accounted for 25.0% of CBM's total current accounts and term deposits by customers. As at 30 September 2014, CBM's exposure to its 20 largest corporate borrowers or groups of related borrowers collectively was RUB 106.6 billion, or 28.7%, of CBM's total loan portfolio, and its exposure to its 10 largest borrowers collectively was RUB 66.5 billion, or 17.9%, of CBM's gross loan portfolio. The current accounts and term deposits of CBM's 20 largest depositors collectively represented 33.5% of CBM's total current accounts and term deposits by customers as at 30 September 2014, and its 10 largest depositors collectively accounted for 26.9% of CBM's total current accounts and term deposits by customers. A decision by any of these

largest borrowers to withdraw their deposits from CBM, could have a material adverse effect on CBM's business, financial condition, results of operations and prospects. Furthermore, any deterioration in the sectors in which customers operate, or the financial position of such customers, may impair the ability of such customers to repay or service their loans or result in a reduction in the funds they hold on deposit in current accounts and on term deposits, which could have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

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

CBM's business is dependent on the uninterrupted, proper functioning of its IT systems and the ability to increase their capacity to support CBM's business expansion and to support new products and services to support CBM's growth and achievement of its strategy. CBM has invested in upgrading its technologies, centralising its information systems and controlling the operation of its hardware and software, taking into account international best practices. However, CBM cannot provide any assurance that its IT systems will continue to function in a manner that will not result in significant disruptions or temporary loss of functionality, and the possibility of a systems failure that may adversely affect its operational activities and lead to expenses that may adversely affect its financial performance cannot be eliminated. A failure of CBM's IT systems to adequately support its operations and enable it to monitor and manage its operations effectively could result in a material adverse effect on CBM's business, financial condition, results of operations and prospects.

A failure to comply with capital adequacy requirements, or a deterioration in CBM's capital position, may have a material and adverse effect on CBM's business, results of operations, financial condition and prospects

CBM's business depends on the availability of adequate capital, both for compliance with applicable capital adequacy requirements as well as for the effective conduct of its business. The Basel Committee on Banking Supervision (the **Basel Committee**) recommends a minimum risk-based total capital adequacy ratio of 8%, calculated in accordance with the International Convergence of Capital Measurement and Capital Standards of 1988 and amendment to incorporate market risks in November 2005 (**Basel I**). CBM's risk-based total capital adequacy ratio, calculated based on IFRS data, amounted to 14.8%, 16.0%, 15.8% and 14.4% as at 30 September 2014, 31 December 2013, 2012 and 2011, respectively, and CBM's Tier 1 capital adequacy ratio was 10.8%, 11.0%, 13.4% and 12.3% as at 30 September 2014, 31 December 2013, 2012 and 2011, respectively. These ratios are calculated in accordance with the requirements of Basel I, with the exception of the ratio as at 30 September 2014 which is calculated in accordance with the requirements of Basel III (as defined below).

As part of the implementation of the two prudential framework documents issued by the Basel Committee which contain the Basel III capital and liquidity reform package: "Basel III: A global regulatory framework for more resilient credit institutions and banking systems" and "Basel III: International framework for liquidity risk measurement, standards and monitoring" (**Basel III**) in the Russian Federation, the CBR introduced new capital definitions for Russian banks, which started to apply for prudential purposes from 1 January 2014. Accordingly, with effect from 1 January 2014, the rules for calculating mandatory ratios have been adjusted and new capital adequacy ratios have been introduced. See "*Banking Regulation in Russia – Capital Requirements – Mandatory Economic Ratios*". As of 1 October 2014, CBM's base capital adequacy ratio, core capital adequacy ratio and total capital adequacy (own funds) ratio calculated under new CBR regulations, based on Russian Accounting Standards, were 8.14%, 8.14% and 12.28%, respectively, as compared to the minimum CBR requirements of 5%, 5.5% and 10%, respectively. In addition, the new capital adequacy rules in accordance with Basel III result in accelerated amortisation of the capital treatment of certain subordinated debt, and other recent changes to CBR regulations have necessitated additional provisioning in respect of unsecured consumer loans. While CBM does not expect these changes to result in material requirements for additional capital or any failure to meet applicable requirements, and plans to obtain any additional capital that may be required from its profits or, failing which, by taking other measures such as reducing its risk-weighted assets, should additional capital be required any inability to do so could result in deterioration of CBM's capital position. Further measures to implement Basel III capital requirements in the Russian Federation are expected between 2014 and 2018 (see "*Banking Regulation in Russia – Capital Requirements – Basel Implementation in Russia*"), and there can be no assurance that these or other new CBR regulations will not have adverse effect on CBM's capital position. Were CBM's capital position to decline below the minimum levels of capital adequacy required by regulation, CBM would be exposed to

potential liability and other sanctions, including loss of its banking licenses, which would have a material and adverse effect on CBM's business, financial condition and results of operations.

In addition, covenants in certain of CBM's credit facilities (representing, in aggregate, RUB 2,336 million of borrowings as at 30 September 2014) 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. Should CBM's regulatory capital fall below these levels, and CBM not be able to obtain a timely waiver of such requirements, the lenders may require repayment of the loans or seek new terms or conditions as consideration for continuing the loans. The impact of such breaches and the actions taken by CBM to address the breach will depend on factors such as market conditions and the cost and availability of alternative sources of financing.

If CBM requires additional capital in the future to comply with the CBR's or its contractual requirements, whether as a result of changes in regulatory requirements, to support the growth of its business or to offset declines in its capital position, there can be no assurance that it would be able to obtain such capital on commercially acceptable terms or at all.

If CBM is unable to raise further capital when required 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 and adversely affected. CBM's ability to obtain additional capital may be restricted by a number of factors, including its future financial condition, results of operations and cash flows, shareholder approvals, any necessary government regulatory approvals, and general market conditions for capital raising activities by commercial banks and other financial institutions.

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

CBM is subject to strict regulation and supervision in the Russian Federation, particularly the CBR. The requirements, including capital adequacy requirements, imposed by CBM's regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties with whom CBM deals. These requirements are not designed to protect holders of the Notes and may limit CBM'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 licence and securities operations licence.

Banking operations and operations in securities in the Russian Federation require licences from the CBR. 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 licences. Although CBM has been successful in obtaining licences from the CBR 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. The CBR may, in its discretion, impose additional requirements or deny CBM's request for licences. The loss of or breach of the terms of, or the failure to obtain, a licence 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 likely have a material adverse effect on its business, financial condition, results of operations and prospects. The loss of CBM's general banking licence could result in an inability to perform any banking operations and the initiation of compulsory liquidation proceedings or, if bankruptcy criteria are met, winding-up.

Furthermore, in order to offer retail deposit services to its customers, CBM must maintain its membership in the mandatory Russian retail deposit insurance system (the **Retail Deposit Insurance System**). Maintaining such membership requires CBM to satisfy certain requirements, including those relating to financial stability, provision of financial statements and/or reports to the CBR, compliance with the CBR mandatory ratios, and the absence of enforcement actions (or grounds for such actions) being conducted by the CBR with respect to the bank. Discontinuation of its membership in the Retail Deposit Insurance System could result in CBM being unable to continue some or all of its banking activities. This could, in turn, affect CBM's ability to fulfil its payment obligations and could have a material adverse effect on CBM's business, results of operations, financial condition and prospects.

Russian regulatory authorities, including the CBR, conduct periodic inspections of CBM's operations and properties. Any such 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. For example, the CBR periodically inspects CBM for its compliance with anti-money laundering laws and other regulatory requirements. In recent years, the CBR has excluded several small banks from the Retail 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. CBM complies with applicable anti-money laundering and anti-terrorist financing laws and regulations, and has developed internal procedures based on relevant Russian legislation. 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, or that the measures described above will be completely effective. The CBR has also recently announced tightening control over Russian credit organisations as one of the key areas of its policy, and it has undertaken a number of regulatory measures, including revoking the licence, with respect to credit organisations that do not comply with certain legal requirements and/or do not meet certain financial requirements.

A failure by CBM to comply with existing or future laws and regulations or the findings of governmental inspections may result in the imposition of fines, 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 CBM's costs and materially adversely affect its business, financial condition, results of operations and prospects.

CBM is exposed to liquidity risk

CBM is exposed to liquidity risk arising from the mismatches between the maturities of CBM's assets and liabilities. CBM meets a significant portion of its funding requirements through customer deposits. The majority of CBM's customer deposits are from retail customers, accounting for 48.9% of CBM's total deposits by customers as at 31 December 2013. Under the Russian Civil Code (the **Civil Code**), retail depositors may 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, during periods when other sources of liquidity may be less available in the market, corporate customers may be more likely to withdraw their deposits and/or will not be in a position to place significant funds with CBM on a long-term basis. Unanticipated decreases in retail and/or corporate customer deposits and/or unexpected withdrawals of retail deposits may result in liquidity gaps that CBM may not be able to cover without incurring additional expenses, if at all, and could have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM also makes use of the domestic and international capital, syndicated loan and interbank markets for funding. As at 30 September 2014, 28.7% of CBM's funding came from domestic and international capital markets, syndicated loans and interbank markets. CBM may not be able to raise financing of sufficient terms to match its obligations, particularly during periods of adverse market conditions. 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 markets. In the event that funding, including that from the CBR, international capital markets, inter-bank lending markets or other sources is not available, or in the event of maturity mismatches between CBM's assets and liabilities, this could lead to a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

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

CBM faces interest rate risk resulting from mismatches in the amounts, interest rates and maturities of its assets and liabilities, as well as from extending loans at rates and in amounts and for periods that might differ from its funding sources. 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, financial condition, results of operations and prospects.

CBM also faces securities portfolio risk arising from its investment and trading in securities. 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. For the year ended 31 December 2013, CBM had a net gain on financial instruments at fair value through profit or loss of RUB 59.1 million, and had a net gain on available-for-sale assets of RUB 18.7 million. For the nine months ended 30 September 2014 CBM had a net loss on financial instruments at fair value through profit or loss of RUB 444.3 million, and a net loss on available-for-sale assets of RUB 52.9 million. 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. For example, the maximum maturity of promissory notes is one year, and CBM does not deal in equity in material amounts. 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 prospects. See also "*Risk Management – Market Risk*".

In addition, CBM is exposed to counterparty risk in its transactions with parties in the financial services industry, including brokers, dealers and commercial banks. A default by, or concerns about the stability of, one or more financial institutions could lead to a material and adverse effect on CBM's business, financial conditions, results of operations and/or prospects.

CBM is exposed to exchange rate risk resulting from fluctuations in the value of the rouble against other currencies

The exchange rate of the rouble fluctuates against other currencies, and may experience periods of significant volatility. Depreciation of the rouble against foreign currencies tends to increase the value of CBM's foreign currency obligations when expressed in rouble terms. In particular, CBM has raised funds on international capital markets and through loans denominated in U.S. dollars. In order to better balance the foreign currency structure of its assets and liabilities, CBM extends foreign currency loans to certain customers that are engaged in businesses with significant foreign currency components. As at 31 December 2013, 82.0% of CBM's loans to customers (net of allowance for impairment) were denominated in roubles, 16.5% in U.S. dollars and the remaining 1.5% in other currencies, and as at 30 September 2014 83.3% of CBM's loans to customers (net of allowance for impairment) were denominated in roubles, 14.8% in U.S. dollars and the remaining 1.9% in other currencies. In addition, CBM uses currency forward contracts to hedge its foreign currency exposure. CBM's foreign currency position is managed by CBM's Treasury, which reports to the Corporate Risk Management Division and the Assets and Liabilities Committee (**ALCO**); CBM has established an internal limit on its open foreign currency position to 3% of its capital. A failure of CBM's risk management procedures and limits adequately to mitigate the impact of exchange rate risk on CBM's operations, or unexpected fluctuations in exchange rates, particularly between the rouble and the U.S. dollar, could have a material adverse effect on CBM's business, results of operations, financial condition and prospects.

CBM's business entails operational risks

CBM is exposed to operational risk, including the risk of fraud by employees, customers or outsiders, mismanagement, unauthorised transactions by employees and operational errors. CBM's payment terminals may also be exposed to damage or interruption from, among other things, fire, flood, natural disaster, power loss, telecommunications failure, improper operation and computer viruses. Operational errors include 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 continuing improvement of IT systems, errors may be repeated or compounded before they are discovered and rectified. CBM maintains a system of controls designed to manage operational risks, 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*".

Furthermore, CBM stores and transmits sensitive customer data, such as credit or debit card numbers and mobile phone numbers, and it has ultimate liability to its consumers for its failure to protect this data. Although CBM has not experienced breaches of security in the past, breaches could occur in the future. Any future breach of CBM's security system, including through employee fraud, may subject it to material losses or liability and otherwise materially adversely affect its business, financial condition and results of operations, including fines and claims for unauthorized purchases with misappropriated card information, identity theft, impersonation or other similar fraud claims.

A decline in the use of cash as a means of payment and/or increased access to bank offices may result in a decline in the use of CBM's payment terminals

CBM's business is in the Russian Federation, where a substantial part of the population relies on cash payments, rather than credit and debit card payments or electronic banking. The Russian Federation remains a cash dominated society for retail consumer payments. In addition, some areas of the Moscow Area have limited access to bank offices. CBM believes that customers are most likely to use its payment terminal network when they make payments in cash, and/or where they have limited access to bank offices or online banking. There can be no assurance that over time, the use of CBM's payment terminals will not decline as the prevalence of cash payments could decline with a greater percentage of the population in the Russian Federation adopting credit and debit card payments and electronic banking, and as banks in the Moscow Area further develop their office networks. The shift from cash payments to credit and debit card payments and electronic banking and further developments in bank office networks could reduce CBM's revenue from, and the return on its investment in, its payment terminal network, negatively impact CBM's ability to use its payment terminals as a tool for assessing the credit soundness of its customers, and have a material adverse effect on CBM's business, financial condition and results of operations.

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 the EBRD, IFC and the Black Sea Trade and Development Bank (the **BSTDB**). CBM's insurance includes a bankers blanket bond (**BBB**) policy which contains coverage for valuables, property insurance and damage policies, a third-party liability policy, a general liability policy and bank card issuers insurance 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 bank notes. See "*Business – Insurance*". However, CBM's insurance does not cover all of CBM's assets and liabilities. The Russian insurance industry is less developed than that in more economically developed countries, with some insurance products being unavailable to CBM on the terms common in such economically developed 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. Any such losses or claims could have a material adverse effect on CBM's financial condition and results of operations.

The interests of CBM's controlling shareholder may conflict with those of holders of the Notes

CBM's principal beneficial owner is Mr. Roman Avdeev, who beneficially owns 85% of CBM's shares. See "*Shareholders*". Mr. Avdeev is also a member of CBM's Supervisory Board. See "*Management – Supervisory Board*". Notwithstanding the shareholders' agreement between Mr. Avdeev and other shareholders, in light of his significant shareholding, Mr. Avdeev has the ability to cause CBM to substantially change its business or management direction or operations generally, to pursue acquisitions or other transactions, to pay large dividends or make other distributions or payments to himself, or to otherwise act to his benefit, even though any such transactions may involve increased risk for holders of the Notes. 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 change. The interests of Mr. Avdeev as controlling shareholder may, therefore, in some circumstances, conflict with the interests of holders of the

Notes, 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.

Risks Relating to the Russian Federation

Deterioration in political and economic relations among Russia, the United States, the EU and other countries could have a material adverse effect on our business and results of operations.

Political and economic relations between Russia and other countries are complex. For example Russia continues to have complicated relationships with the United States, EU and other countries. Political, strategic, historical and other differences have, on occasion, given rise to tensions and, in certain cases, conflicts that can halt normal economic activity and disrupt the economies of neighbouring countries. The conflicts among Russia and its neighbouring countries have, in some instances, also strained its relationship with the United States and the EU which, at times, has negatively impacted its financial markets and businesses that operate or are based in Russia.

Since the start of March 2014, there have been heightened levels of tension between Russia and Ukraine, in particular relating to the Crimean peninsula and, more recently, eastern Ukraine. This has resulted in the accession of Crimea to Russia, unrest and armed conflict in eastern Ukraine, attempted secession from Ukraine by parts of eastern Ukraine, and allegations of Russian involvement in this Ukrainian domestic political unrest. These tensions also resulted in the imposition by the United States, the European Union and a number of other countries of sanctions, asset freezes, travel limitations, limitations on access to financing and certain other measures against specified Ukrainian and Russian individuals, banks and corporate entities. These events have resulted in significant volatility on Russian stock exchanges and declines in the prices of the securities of Russian issuers traded on foreign exchanges, capital outflows from Russia, and significant depreciation of the exchange rate of the rouble against the U.S. dollar and euro. Further conflicts or tensions between Russia and the United States, member states of the EU, Ukraine or other countries may cause further deterioration of economic conditions in Russia and adversely affect investments in Russian financial markets and the securities of Russian issuers.

The reaction of the US, the EU and certain other countries, as well as the imposition of economic sanctions (see “--*Non-compliance with OFAC, EU and other sanctions programmes, an expansion of these programmes or CBM's dealings with parties subject to sanctions could adversely impact CBM's business, financial condition or results of operations*”), have adversely affected the Russian economy and the Russian financial and banking markets, increased capital outflows as well as worsened the general business and investment climate in Russia. In March 2014, both Fitch and Standard & Poor's credit agencies revised their credit outlook on Russia to "negative" citing potential impact on Russia's slowing economy and business environment of the United States and EU sanctions. In April 2014 Standard & Poor's lowered its long- and short-term foreign currency sovereign ratings on Russia to "BBB-/A-3" from "BBB/A-2" with a negative outlook and in January 2015 Fitch downgraded its rating to “BBB-“ with negative outlook. Moreover, the continued impact of these events and any continuing or escalating military action, public protests, unrest, political instability or further sanctions could have a further adverse effect on the Ukrainian and Russian economies and consequently, a material adverse effect on CBM's business, financial condition, results of operations and prospects.

The emergence of new or escalated tensions among Russia and its neighbouring countries could further exacerbate tensions between Russia and the United States and the EU, which may have a negative effect on Russia's economy, on CBM's ability to obtain financing on commercially reasonable terms and the willingness of CBM's customers and counterparties to continue to deal with CBM. In addition, there can be no assurance that the existing or new sanctions will not be expanded so as to include or affect CBM's activity. Any of the foregoing circumstances could have a material adverse effect on CBM's business and results of operations.

Non-compliance with OFAC, EU and other sanctions programmes, an expansion of these programmes or CBM's dealings with parties subject to sanctions could adversely impact CBM's business, financial condition or results of operations

In response to the perceived role of the Russian Federation in events in Ukraine and Crimea, the U.S. and the EU, as well as a number of other countries, have imposed sanctions on certain Russian and Ukrainian persons and entities.

Starting in March 2014, a number of former Ukrainian governmental officials, Russian governmental officials and individuals, several Russian businessmen, several Russian companies and banks, as well as several non-Russian

companies holding assets in Russia, were designated as Specially Designated Nationals (SDNs) by the U.S. Department of the Treasury Office of Foreign Assets Control (OFAC). The first designations were made pursuant to two executive orders (Nos. 13660 and 13661) signed by the President of the United States on 6 and 16 March 2014, respectively, which targeted former Ukrainian officials and current Russian officials, as well as persons who operate in the arms or related sectors in the Russian Federation. The third executive order (No. 13662), signed by the President of the United States on 20 March 2014, significantly expanded the scope of the prior two executive orders by providing OFAC the authority to block the property of designated persons who operate in certain sectors of Russia's economy, including financial services, energy, metals and mining, engineering, defense and related sectors. Pursuant to these executive orders, OFAC may also block or designate persons that "have materially assisted, sponsored or provided financial, material or technological support for, or goods or services to or in support of" any targeted activity or any person who is blocked on designated thereunder. By operation of law, sanctions under these executive orders also extend to any entity 50% or more owned by blocked or designated persons, either individually or in the aggregate, even if that entity has not been separately designated as a blocked entity.

As a result of these designations, it is unlawful for any U.S. person (meaning any U.S. citizen, permanent resident alien, entity organized under the laws of the U.S. or any jurisdiction within the U.S. (including foreign branches), or any person in the U.S.) to do business with an SDN. In addition, all property and assets of Specially Designated Nationals in the U.S. or under the possession or control of a U.S. person are subject to blocking. This blocking also extends to any property that later comes into the U.S. or into the possession or control of a U.S. person, including any foreign branches of U.S. persons.

In addition to identifying certain persons and entities as SDNs, the United States has imposed prohibitions on transactions by U.S. persons or within the U.S. with respect to transacting in, providing financing for, or otherwise dealing in debt with a maturity of longer than 30 days (initially 90 days) or equity issued on or after the specified date by, or on behalf of, or for the benefit of, the specified date. In July, August and September 2014, such limitations have been applied to a number of Russian state-controlled banks, including VTB Bank, Vnesheconombank, Sberbank, Rosselkhozbank and Gazprombank, and companies in the oil and gas sector, including Gazpromneft, Lukoil, Surgutneftegas and Rosneft.

With effect from 12 September 2014, the United States has prohibited the provision, exportation, or re-exportation, directly or indirectly, of goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation and that involve any named person in the Russian energy sector, its property, or its interests in property. Moreover, on 1 August 2014 and later on 12 September 2014, the U.S. announced further export restrictions targeting Russia generally and the Russian oil and gas sector as well as Russian defence sector in particular. The named persons as of 12 September in the oil and gas sector include Gazprom, Gazpromneft, Lukoil, Surgutneftegas and Rosneft.

The Council of the EU introduced a similar list of persons that are subject to EU sanctions. The EU's sanctions generally have a similar effect to the sanctions administered by OFAC and involve travel restrictions and the freezing of funds and economic resources of the designated persons located in the EU or controlled by EU persons. The EU's sanctions are implemented in the member states of the EU, including Ireland. The EU has also imposed a ban on the direct or indirect purchase, sale, brokering or assistance in the issuance of, or other dealings with, transferable securities and money market instruments with a maturity of over 30 days (initially 90 days) issued by designated entities after the specified date. In addition, the EU has imposed a ban on making or being part of any arrangement to make new loans or credit with a maturity exceeding 30 days to specified persons or entities.

The EU has also imposed a general ban on EU imports of goods originating in Crimea and Sevastopol, imposed certain trade and investment restrictions, notably prohibiting (subject to limited exceptions) certain new investments relating to infrastructure in the sectors of transport, telecommunications and energy, as well as to the exploitation of oil, gas or mineral resources in Crimea or Sevastopol, and to the related provision of direct or indirect technical assistance or brokering services, and . Furthermore, the EU has imposed restrictions on the sale, supply, transfer or export, directly or indirectly, of certain listed technologies for the oil and gas industry in Russia, and prohibited the provision of certain goods and services for deep water, arctic or shale oil projects in Russia.

While CBM does not believe that there is any reason it may be specifically targeted by OFAC or EU sanctions, if sanctions targeting the Russian banking sector generally, or the Group specifically, are imposed, such sanctions will have a material adverse impact on the Group's business, financial condition, results of operations and prospects. Although neither CBM nor any of its subsidiaries is a U.S. person, the Issuer, as well as certain members of CBM's supervisory board, are EU persons and are therefore required to comply with the EU sanctions, including not conducting business with any sanctioned persons.

None of the proceeds of the issue of the Notes are being used to fund activities or persons that are subject to sanctions introduced by the U.S. and the EU. In addition, CBM itself is a Russian bank and is not a U.S. or EU person and the OFAC and EU sanctions regimes do not apply to it.

Furthermore, should either OFAC or the Council of the EU expand their respective sanctions programmes to include CBM's existing or future clients, suppliers or other counterparties, a large sector of the Russian economy or otherwise, such an expansion could result in financial difficulties for such persons, CBM's dealings with designated persons could become material or the suspension or potential curtailment of business operations between CBM and the designated persons could occur. The introduction of such large scale sanctions on Russian companies or sectors of the Russian economy, including the Russian financial services sector, may further negatively affect the Russian economy and investment climate and lead to further deterioration of the Russian financial markets. Any of the foregoing could result in a material adverse effect on CBM's business, financial condition, results of operations and prospects.

Although CBM has no reason to believe that it may be specifically targeted by OFAC or EU sanctions, the introduction of any large scale sanctions on CBM or further large scale sanctions the Russian financial services sector may negatively affect its business. For example, CBM's ability to use international settlement, clearing, payment and information exchange systems may be limited, CBM may be limited in its ability to or unable to transact in U.S. dollars or Euro with counterparties may be limited, raise funding in the international markets, particularly those involving investors from the US and the EU, and/or its funds held by US and EU financial institutions may be blocked. In such circumstances, while CBM would consider and, to the extent possible, take measures available to it to discharge its obligations under the Subordinated Loan, or facilitate the discharge of the Issuer's obligations under the Notes, as the case may be, the imposition of sanctions on the Russian financial services sector could negatively affect, among other things, the ability of Noteholders to receive payments under the Notes. Further, should CBM become subject to OFAC or EU related sanctions, there may be significant restrictions or bans imposed on dealings with CBM which may also restrict or prohibit dealings with the Issuer or the Notes, including their sale, purchase or transfer, which could negatively affect the Noteholders.

Emerging markets such as the Russian Federation 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 the Russian Federation

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. Emerging market governments and judiciaries often exercise broad, unchecked discretion and are susceptible to abuse and corruption. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Emerging markets such as the Russian Federation are subject to rapid change, and the information set out herein may become quickly outdated.

Moreover, financial turmoil in any emerging market country tends to adversely affect the value of investments in all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in the Russian Federation and adversely affect its economy. In addition, during such times, companies in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn.

Investments in the Russian Federation 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. The global financial crisis in 2008 and 2009 negatively affected gross domestic product (**GDP**) in the Russian Federation due to a decrease in world market prices of Russia's key export commodities, in particular oil, gas, iron ore, metals and other raw materials. Since the Russian Federation 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 down or disrupt the Russian economy.

Despite the Russian economy rebounding in 2009 and 2010, real GDP growth fell from 4.3% in 2011 to 3.4% in 2012 and 1.3% in 2013, according to Rosstat. In the first quarter of 2014 real GDP growth fell to 0.9%, in the second quarter of 2014 to 0.8% and in the third quarter of 2014 to 0.7%, and some analysts have forecast further decreases in growth or a recession for 2015. According to initial data from the Ministry of Economy and Development, GDP growth in Russia was 0.1% in October 2014, and GDP declined by 0.2% in November 2014, compared to the prior month, in each case excluding seasonal factors. According to initial data from the Ministry of Economy and Development, estimated GDP growth in Russia was 0.6% over the first 11 months of 2014. The lack of structural reforms is often cited as the reason for the recent economic slowdown, leading to concerns that the Russian Federation may be entering a period of stagnation and could potentially enter a recession. This has contributed to rouble depreciation against the U.S. dollar, euro and other major currencies and a decline in foreign currency and gold reserves.

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. In March 2014, both Fitch and Standard & Poor's downgraded the sovereign rating outlook for the Russian Federation from stable to negative, in light of the potential impacts of US and EU sanctions on the Russian economy, and Moody's took similar action in June 2014. 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.

A return to heavy and sustained inflation could adversely affect CBM's results of operations

The consumer price index in the Russian Federation as measured by Rosstat has gradually declined from 13.3% in 2008 to 6.5% in 2013, though it has increased to 8.9% through December 2014. 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 the Russian Federation

While the political situation in the Russian Federation has been relatively 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. In addition, any change in the Russian government or the Russian government's programme of reform in the Russian Federation or lack of consensus between the Russian President, the Prime Minister, the Russian 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 the Russian Federation, the independence of the judiciary in the Russian Federation 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.

The Russian Federation is a federative state consisting of 83 constituent entities, or "subjects" (excluding the Republic of Crimea and Sevastopol, which have acceded to the Russian Federation). 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. Such conflicting laws create uncertainties in the operating environment in the Russian Federation, which may prevent businesses from carrying out their strategy effectively.

Social risks could adversely affect the value of investments in the Russian Federation

Emerging markets such as the Russian Federation are prone to social risks and increased lawlessness. 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*". 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 have in some cases 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 prospects.

Banking activity risks could affect the value of investments in the Russian Federation

Russian companies may face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, 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.

In recent times, certain Russian banks have experienced difficulties that have caused them to become insolvent and have their licenses revoked, as in the case of Master 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 the Russian Federation 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 have a material adverse effect on 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 52.5% against the U.S. dollar (from RUB 23.42 per US\$1.00 to RUB 35.72 per US\$1.00, according to the CBR). The exchange rate has fluctuated

significantly over the past three years. The rouble depreciated significantly against the U.S. dollar and other currencies over the second half of 2014 in particular. On 10 November 2014, the CBR moved to a free floating exchange rate regime. The rouble has continued to depreciate significantly, to as low as RUB67.78 per US\$1.00 on 18 December 2014. On 16 December 2014 in response to the depreciation of the rouble the CBR announced the following measures: (i) that its key rate, which determines the borrowing cost for commercial banks, would be increased from 10.5% to 17%; (ii) an increase in the limits of foreign currency repo auctions for a term of 28 days from \$1.5 billion to \$5 billion and that similar auctions will be held for a term of 12 months every week; and (iii) it will provide loans against non-market assets for a term of 2 to 549 days at a floating rate comprising the key rate plus 1.75%.

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\$596.6 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\$533.2 billion by 1 May 2013, but had decreased to US\$416.2 billion by 1 December 2014. The CBR reportedly expended significant foreign currency reserves in seeking to prevent further depreciation of the rouble in March 2014. 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 materially adversely affect CBM's business, financial condition and results of operations and/or prospects.

Risks Relating to the Russian Legal System and Legislation

Legal risks could affect the value of investments in the Russian Federation

The Russian Federation is still developing the legal framework required by a market economy. Business activities are subject to the rules of federal laws and decrees, orders and regulations issued by the President, the Russian Government, the federal ministries and regulatory authorities, which are, in turn, complemented by regional and local rules and regulations. These legal norms at times overlap or contradict one another. Several fundamental Russian laws have only become effective within the past five to ten years, and many have recently been amended. The relatively recent nature of much of Russian law and the rapid evolution of the Russian legal system may result in ambiguities, inconsistencies and anomalies in the enactment of laws and regulations without a clear constitutional or legislative basis and ultimately may result in investment risks that do not exist in more developed legal systems.

Among the risks of the Russian legal system are: 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; substantial gaps in the regulatory structure due to the delay or absence of implementing legislation; 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. Many Russian laws and regulations are construed in a way that provides for significant administrative discretion in application and enforcement. All of these weaknesses could adversely affect the value of investments in the Russian Federation.

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. The Russian Federation 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 Russian government may attempt to invalidate court

decisions by retroactively applying relevant legislative changes. All of these factors make judicial decisions in the Russian Federation unpredictable and effective redress uncertain.

The uncertainties also extend to property rights. During its transition from a centrally planned to a market economy, the Russian Federation has enacted laws to protect private property against expropriation and nationalisation. However, due to lack of experience in enforcing these provisions and 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 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/or results of operations.

On 1 July 2014, the Federal Law No. 367-FZ of 21 December 2013 "On Amendments to Part I of the Civil Code of the Russian Federation and Termination of Certain Laws of the Russian Federation" as well as Federal Law No. 379-FZ of 21 December 2013 "On Amendments to Certain Laws of the Russian Federation" became effective. They, among other things, introduced procedures for registration of pledges of movable property, including property rights, however, the impact that these measures will have in practice is not currently clear. While these law amendments are generally positive for protecting the rights of secured lenders, their application and enforcement in practice is yet to be tested.

A substantial portion of CBM's loans to its corporate and retail customers is supported by sureties from individuals and other corporate customers. 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 with a Russian bank at any time), 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.

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 1990s and 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**), the Russian Federation has adopted and continues to develop new banking and financial market legislation. Significant recent changes in Russian banking regulation include the development by the CBR of regulations on bank capital and bringing them in line with international standards, including Basel III requirements, as well as tightening the rules on consumer protection in banking businesses. In addition, various measures have been introduced that are aimed at increasing the efficiency of banking supervision in line with international standards through, among other things, introducing supervision on a consolidated basis and improving response actions which may be taken by the CBR and procedures for their application. See "*Banking Regulation in Russia – General – The Central Bank of Russia*" and "*Banking Regulation in Russia – Capital Requirements*".

As part of the reform to Russian civil legislation, large-scale amendments to the Civil Code have been considered by the State Duma, a number of instalments of which have been adopted and are coming into effect in 2013 and 2014. These amendments significantly revise certain basic concepts and rules of Russian civil legislation. Although the amendments generally aim to clarify and streamline the existing rules and institutions, their implementation may create uncertainties in the Russian legal requirement for business activities and investments, and their potential interpretation by Russian state authorities, including courts, as well as their impact on CBM's activities, is currently unclear. In addition, if some of the proposed amendments are adopted in the current form, they may impose additional obligations on Russian banks. Further, on 1 July 2014, the Consumer Loan Law became effective, which introduced additional requirements and obligations on banks with respect to consumer lending to individual borrowers for non-commercial purposes. See *"Banking Regulation in Russia – Financial Consumer Protection"*.

The recent 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 increase CBM's expenses or 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.

Corporate governance standards, public reporting requirements and accounting regulation standards in the Russian Federation 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 the Russian Federation. See *"Banking Regulation in Russia"*. Standards of corporate governance are less developed in the Russian Federation 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 the Russian Federation. 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"*.

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. 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 the Russian Federation and to modify disclosure requirements for credit organisations to increase transparency of Russian credit institutions in line with international standards, there is still relatively less publicly available information about Russian banks 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 the Russian Federation 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, property tax, payroll related insurance payments and other taxes. 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 Russian tax climate and the quality of tax legislation have generally improved with the introduction of the Tax Code, the possibility exists that the Russian Federation may impose arbitrary and/or onerous taxes and penalties in the future. Russia's inefficient tax collection system increases the likelihood of such events, which could adversely affect CBM's business.

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 or similar circumstances may 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.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation (the **Supreme Arbitration Court**) issued Resolution No. 53, which formulated 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 is a growing practice on the interpretation of this concept by the Russian tax authorities and 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 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.

Recently, Russian tax policy has focused on curtailing Russian businesses from using foreign companies purely for tax reasons and Russia has introduced policies to allow Russian tax authorities to tax foreign income attributable to Russian companies.

In the framework of such policies the Federal Law N 376-FZ dated 24 November 2014 “On amending Parts I and II of the Tax code of the Russian Federation (in respect of taxation of profits of controlled foreign companies and income of foreign organizations)” (**Federal Law**) has been adopted by the Russian Parliament and signed by the President. The provisions stipulated by the Federal Law are the result of the joint work undertaken by the Ministry of Finance and the Russian government to implement measures previously announced under the Russian government’s action plan to counteract the offshorisation of the Russian economy.

The main provisions of the Federal Law cover rules governing the taxation of “controlled foreign corporations” (without establishing the exact list of jurisdictions to which this definition applies which residents may fall under), determination of the tax residency status of legal entities, definition of “beneficial owner” and taxation of capital gains derived from the sale of shares in real estate rich companies (more than 50% of the value of the assets of which directly or indirectly consists of real estate located in Russia).

Changes proposed by the Federal Law will come into force on 1 January 2015 and may complicate tax planning and related business decisions. These factors raise the risk of a sudden imposition of arbitrary or onerous taxes on operations in Russia and abroad, and the application of the abovementioned rules may result in the imposition of fines, penalties and enforcement measures, which could have a material adverse effect on the business, financial condition and results of operations of CBM.

It should be noted that the Federal Law provides for exemption of foreign companies which act as issuers of traded securities (as described in “*Taxation – Russian Taxation – Taxation of Interest on the Subordinated Loan*”) from recognition as Russian tax residents and imposition of Russian profits tax on their profits if they are recognized as controlled foreign companies, provided that interest income on the loan granted by the issuer of the securities in the framework of their issue comprises more than 90% of its total income for the relevant reporting period.

It is currently unclear what effect these provisions may have on CBM. The imposition of additional tax liabilities as a result of the application of introduced rules and concepts 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.

These changing conditions create tax risks in the Russian Federation 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. 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 taken. However, the fact that a year has been reviewed by the tax authorities does not prevent any tax returns relating to that year from being further reviewed by the tax authorities during the three-year limitation

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. Therefore, previous tax audits may not preclude from subsequent tax claims relating to the audited period.

In addition, 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 audit with obstruction by the taxpayer and use that as a basis to seek additional tax adjustments and penalties beyond the three-year limitation term. Therefore, the statute of limitations is not entirely effective.

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 has been effective from 1 January 2012. The rules are technically elaborate, detailed and, to a certain extent, aligned with the international transfer pricing principles developed by the Organisation for Economic Co-operation and Development (the **OECD**).

The rules allow the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of transactions which are considered "controlled" for Russian transfer pricing purposes. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. The rules have 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 and obliging the taxpayer to keep specific documentation. Furthermore, the taxpayers are obliged to notify the Russian tax authorities on "controlled" transactions. Although the transfer pricing rules are supposed to be in line with international transfer pricing principles developed by 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 difficult to evaluate what effect transfer pricing rules may have on CBM.

Accordingly, due to the uncertainties in the interpretation of Russian 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 rules 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 Subordinated 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 "Baa2" 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 counterparty default ratings by Fitch are BB and B, respectively. CBM's long term counterparty default and short term issuer default ratings by Standard & Poor's are BB- 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.

While the Notes have been rated BB- by Fitch, neither Moody's nor Standard & Poor's will be assigning a rating to the Notes. Certain rating agencies that do not assign a rating to the Notes upon issuance may assign ratings of the Notes in the future, and to the extent any such rating is lower than the expectations of the market, this could adversely affect the trading price for the Notes.

Russian regulatory capital rules and regulations are subject to development, as a result of which the Subordinated Loan may not qualify as Tier 2 capital

With respect to regulatory capital for banks and subordinated loans in particular, the concept of subordinated debt is relatively new in Russia, and the rules governing subordinated debt may be subject to further review, clarification and development. In particular, the regulatory capital rules and regulations of the CBR are subject to uncertainty and a lack of clarity in their interpretation and application. In this respect, Russian banks often rely on letters issued by the CBR in response to their individual requests and verbal explanations given by the CBR representatives. Such letters issued by the CBR, as well as such verbal explanations, are informal individual clarifications and do not have the effect of legislation, and as such they may, at any time, be revoked and/or disappplied.

Moreover, Regulation 395-P came into force on 1 March 2013 and as a result there is little clarification or explanation available as to how the rules set out therein should be interpreted. In particular, Regulation 395-P contains a provision stating that the interest rate on a subordinated loan may not exceed the mid-market interest rate for similar subordinated instruments. The CBR has indicated this provision of Regulation 395-P may be amended to allow a higher interest rate on a subordinated loan. While CBM's management believes that the interest rate on the Subordinated Loan will not be subject to the maximum level and that a higher interest rate on the Subordinated Loan will not preclude such Subordinated Loan from qualifying as Tier 2 capital, there can be no assurance that the CBR will not fail to approve the Subordinated Loan as Tier 2 capital on the basis of such requirement.

Following the CBR's preliminary approval (*podtverzhdenie*) on the regulatory capital treatment of a subordinated loan, the CBR usually delivers its final approval and conclusion (*podtverzhdenie*) on the eligibility of a subordinated loan for inclusion as Tier 2 capital between 30 and 60 days after the issue date of the Notes. The CBR issued its final approval and conclusion for inclusion of the Subordinated Loan in CBM's Tier 2 capital on 31 December 2014.

Notwithstanding that the final approval and conclusion was granted by the CBR, it is possible that the interpretation of the relevant capital treatment may change or that the regulatory capital rules are subsequently amended or clarified. As a result, CBM could lose the eligibility for inclusion as Tier 2 capital granted to the Subordinated Loan and, therefore, if the Subordinated Loan ceases fully to constitute Tier 2 capital could elect to exercise the right (described below) to prepay the Subordinated Loan (in whole but not in part) which would result in the early repayment of the Notes. See Clause 7.2 (*Special Prepayment by Reason of Amendment to CBR Regulations*) of the Subordinated Loan Agreement. There can be no assurance that Noteholders will be able to reinvest their funds in other investments at comparable rates following any redemption of the Notes. See “—If the CBR does not approve the Subordinated Loan as Tier 2 capital within 180 days after the date of Subordinated Loan Agreement, CBM will have the right to prepay the Subordinated Loan and the Notes will be subject to early redemption”.

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

The Issuer is a special purpose vehicle (SPV) with no business other than issuing notes and advancing loans under the Subordinated 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 Subordinated 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 Subordinated Loan Agreement in full or any such payment obligations are determined to be unenforceable in Russia, 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.

The Subordinated Loan Agreement contains restrictions on the ability to prepay, and prepayment and variation of the Subordinated Loan may require the consent of the CBR

Under the terms of the Subordinated Loan Agreement, CBM may elect to prepay the Subordinated Loan only in the following limited circumstances: (i) if the Subordinated Loan fully ceases to qualify in whole but not in part for inclusion as Tier 2 capital as a result of any amendment or clarification of, or change in (including a change in interpretation or application of) Regulation 395-P and/or any other applicable requirements of the CBR; (ii) due to the Subordinated Loan not being approved for inclusion in Tier 2 capital; and (iii) for tax reasons as a result of which it would be required to increase the amount payable or to pay additional amounts under the Subordinated Loan Agreement which obligation would not be able to be avoided by CBM taking reasonable measures available to it. Notwithstanding the preceding sentence, while the Subordinated Loan constitutes Tier 2 capital for the purposes of the applicable requirements of the CBR, the Borrower may in any event not elect to prepay the Subordinated Loan, in whole or in part, during the Restricted Period. The CBR issued its final approval and conclusion for inclusion of the Subordinated Loan in CBM's Tier 2 capital on 31 December 2014.

Most provisions of the Subordinated Loan Agreement providing for the prepayment of the Subordinated Loan and all provisions providing for the variation of its terms are subject to the prior written consent of the CBR, which is in line with the requirements of the applicable requirements of the CBR and Regulation 395-P. There can be no guarantee that the consent of the CBR will be received on time and that CBM will be able to prepay the Subordinated Loan in accordance with relevant provisions of the Subordinated Loan Agreement or that CBM will be able to amend the terms of the Subordinated Loan as envisaged by the Subordinated Loan Agreement. Any inability to be able to prepay the Subordinated Loan or failure to vary the Subordinated Loan Agreement may have a material adverse effect on CBM's capital structure, results of operations or financial condition.

Noteholders' claims in respect of the Subordinated Loan will be subordinated to those of unsubordinated creditors under Russian insolvency legislation, as a result of which payments due under the Subordinated Loan Agreement may not be paid in full or at all

CBM's obligations in respect of the principal of, and interest on, the Subordinated Loan will be subordinated in case of the insolvency, liquidation, dissolution, winding up or analogous events of CBM to the claims of all unsubordinated

creditors in accordance with the Bank Insolvency Law, will rank at least *pari passu* with the claims of other unsecured subordinated creditors of CBM (whether actual or contingent) having a fixed maturity from time to time outstanding and will be senior to the claims of holders of CBM's share capital (including preference shares) in their capacity as shareholders and all other obligations ranking junior pursuant to applicable law.

As a result, in case of the insolvency, liquidation, dissolution, winding up or analogous events of CBM, CBM's assets will be available to satisfy obligations in respect of the Subordinated Loan only after the claims of all unsubordinated creditors have been satisfied in full. Such remaining assets may not be sufficient to satisfy CBM's obligations under the Subordinated Loan Agreement, in which case Noteholders would receive less than the amount of principal and/or interest and/or other amounts (if any) payable on the Notes or receive no amounts payable on the Notes.

The Subordinated Loan Agreement does not prohibit or limit the incurrence by CBM of unsubordinated indebtedness, other subordinated indebtedness that ranks equally with the indebtedness under Subordinated Loan or other liabilities by CBM. The incurrence of such additional indebtedness or other liabilities could adversely affect CBM's ability to make payments under the Subordinated Loan. As at 31 December 2013, CBM had RUB 129.9 billion of long-term indebtedness. CBM anticipates that, from time to time, it will incur additional indebtedness, including unsubordinated indebtedness.

Interest incurred on the Subordinated Loan and Notes may be cancelled and non-cumulative and the Subordinated Loan and Notes may be subject to write down measures

Pursuant to Clause 8 (*Write Down*) of the Subordinated Loan Agreement if a Write Down Event (meaning either of the following: (i) the Borrower's Common Equity Tier 1 Capital Ratio is less than 2 per cent. as of a CBR Reporting Date, or (ii) the Borrower receives notice from the Deposit Insurance Agency that the Deposit Insurance Agency has taken a decision to implement in relation to the Borrower a bankruptcy prevention plan approved by the CBR which includes the implementation of any of the bankruptcy prevention measures set out in sub-paragraphs 3) and 4) of paragraph 1 of Article 2 of the Banking System Stability Law) has occurred and is continuing on the Write Down Measure Effective Date (as defined in the Subordinated Loan Agreement), CBM shall (irrespective of whether CBM has incurred any losses) on the Write Down Measure Effective Date firstly, irrevocably (without the need for the consent of the Issuer or the Trustee) cancel any interest accrued to (but excluding) the Write Down Measure Effective Date by the relevant Interest Cancellation Measure (as defined in the Subordinated Loan Agreement) and secondly, if the Interest Cancellation Measure (as defined in the Subordinated Loan Agreement), together with cancellation of accrued interest on Write Down Instruments (as defined in the Subordinated Loan Agreement) in full is insufficient to remedy the Write Down Event, irrevocably (without the need for the consent of the Issuer or the Trustee) reduce the then outstanding principal amount of the Subordinated Loan by the relevant amount.

Once the principal amount of the Subordinated Loan has been written down in accordance with Clause 8 (*Write Down*) of the Subordinated Loan Agreement, the principal amount so written down may not be restored under any circumstances, including where the relevant Write Down Event(s) is no longer continuing. Any interest payment that has been cancelled in accordance with Clause 8 (*Write Down*) of the Subordinated Loan Agreement, shall not accumulate or be payable at any time thereafter, including where the relevant Write Down Event(s) is no longer continuing. No interest shall accrue from the Write Down Measure Effective Date and as long as a Write Down Event(s) is continuing. The accrued interest may be cancelled and the Subordinated Loan may be written down in accordance with Clause 8 (*Write Down*) of the Subordinated Loan Agreement on more than one occasion. None of the Issuer, the Trustee or any Noteholder shall have any right to such cancelled or written down amounts whether in a bankruptcy or dissolution of CBM or otherwise, and such non-payment shall not constitute an event entitling the Issuer to accelerate the Subordinated Loan.

If a Write Down Event (as defined in the Subordinated Loan Agreement) occurs, the principal amount of the Notes and/or interest amount then due in respect of the Notes (as applicable) will be subject to write down and cancellation in an amount equal to the principal amount of the Subordinated Loan and/or interest amount then due in respect of the Subordinated Loan so written down and cancelled (as applicable) in accordance with Clause 8 (*Write Down*) of the Subordinated Loan Agreement upon the occurrence of a Write Down Event. Any such write down will result in the Noteholders losing the relevant interest or principal amount of the Notes so written-down. Accordingly, Noteholders

should be aware that they may lose their entire investment in the Notes. In the event that the entire principal amount of the Notes is written down, the Notes will be cancelled.

Consequently, investors may lose all or part of their investment following the occurrence of a Write Down Event. To the extent that part of the principal amount of the relevant Subordinated Loan has been written down, interest will continue to accrue only on the then outstanding principal amount (as so written down) of the Subordinated Loan. Consequently, the amount of interest payable (if any) on the Notes will be correspondingly smaller following implementation of the write down measures in respect of part only of the principal amount of the Subordinated Loan.

Neither the Trustee nor any Agent shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Write Down Event or any consequent cancellation of the Notes or write down of any claims in respect thereof, and neither the Trustee nor the Agents shall be responsible for any calculation or determination or the verification of any calculation or determination in connection with the same.

Noteholders will not have any rights against CBM, the Issuer, the Trustee or the Agents with respect to (i) the repayment of such principal amount of the Notes so written-down or (ii) the payment of interest amounts then due in respect of the Notes (as applicable) so written-down.

Furthermore, upon the occurrence of a Write Down Event and the Write Down Measure Effective Date, Noteholders will not (i) receive any shares or other participation rights in the Issuer or CBM or be entitled to any other participation in the upside potential of any equity or debt securities issued by the Issuer or CBM, or (ii) be entitled to any compensation in the event of any further change in Common Equity Tier 1 Capital Ratio or in the event that the bankruptcy prevention measures referred to above are withdrawn, otherwise halted or completed. A write down of a principal amount of the Notes may occur even if existing preference shares and ordinary shares of CBM or the Issuer remain outstanding.

Following the occurrence of an Acceleration Event, payments of principal, accrued interest and additional amounts, if any, due under the Subordinated Loan Agreement may not be paid in full or at all

Following the occurrence of certain Acceleration Events (as defined in the Subordinated Loan Agreement), amounts payable under the Subordinated Loan Agreement may be declared immediately due and payable. However, such action may not result in the payment of principal, accrued interest and additional amounts, if any, due under the Subordinated Loan Agreement being paid in full, as such payments may be made only after all unsubordinated obligations are satisfied in full. Such action could result in the Noteholders receiving less than the amount of principal and/or interest and/or other amounts (if any) payable on the Notes or receiving no amounts payable on the Notes.

There is no direct recourse of the Noteholders to CBM

At maturity, CBM may not have the funds to fulfil its obligations under the Subordinated Loan Agreement and it may not be able to arrange for additional financing. 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 Subordinated 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 Subordinated 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 Subordinated 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 Subordinated Loan Agreement unless it has been indemnified and/or secured and/or prefunded 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 and/or other amounts (if any) by CBM under the Subordinated 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:

- (a) 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;
- (b) 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;
- (c) 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;
- (d) understand thoroughly the terms of the Notes and be familiar with the behaviour of financial markets; and
- (e) 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.

The Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as standalone investments but as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial advisor) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

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. There can be no assurance that Noteholders will be able to sell their Notes or that such holders will be able to sell their Notes for a price that reflects their value.

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*”. Any such disruptions may harm Noteholders. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations that, if repeated in the future, could affect the market price of the Notes without regard to our results of operations, prospectus or financial condition.

Noteholders’ rights will be limited so long as the Notes are issued in book-entry interests

Owners of book-entry interests will not be considered owners or holders of Notes unless and until definitive notes are issued in exchange for book-entry interests. Instead, the Notes will be registered in the name of a nominee of Euroclear or Clearstream, Luxembourg, as common depository of the Notes.

Payments of principal, interest and other amounts owing on or in respect of the Notes in global form will be made as described in “*Terms and Conditions of the Notes*” and none of the Issuer, the Trustee or any paying agent will have any responsibility or liability for any aspect of the records relating to or payments of interest, principal or other amounts to Euroclear or Clearstream, Luxembourg, or to owners of book-entry interests.

Owners of book-entry interests will not have the direct right to act upon our solicitations for consents or requests for waivers or other actions from holders of the Notes, including enforcement of security for the Notes. Instead, Noteholders who own a book-entry interest will be reliant on the nominee for the common depository (as registered holder of the Notes) to act on their instructions and/or will be permitted to act directly only to the extent such holders have received appropriate proxies to do so from Euroclear or Clearstream, Luxembourg or, if applicable, from a participant. There can be no assurances that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any requested actions or to take any other action on a timely basis.

CBM will have the ability to incur more debt and this could increase the risks described above

CBM may decide to incur additional debt in the future that will be senior to the Subordinated Loan Agreement. The Subordinated Loan Agreement contains no limitations on CBM’s ability to incur additional debt. If new debt is added to CBM’s current debt levels, the magnitude of the related risk described herein could increase, and such factors could have an adverse effect on the ability of CBM to pay amounts due in respect of the Subordinated Loan Agreement and, therefore, ultimately CBM’s ability to pay amounts due in respect of the Notes.

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 Subordinated 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 Subordinated 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 Subordinated 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 tax 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, inter alia, 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 prior to the date of receiving the interest income.

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 abovementioned provisions of the Tax Code 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.

In circumstances where payments under the Subordinated 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 Subordinated 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 payments under the Subordinated 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 Subordinated 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 Subordinated 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 Subordinated 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*”.

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

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 may 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 rules could materially affect CBM, the Issuer and Noteholders

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. Although the U.S. Treasury Department has released final regulations clarifying the statutory language of FATCA, these regulations do not currently provide guidance on a number of issues. Accordingly, 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 if CBM or the Issuer (as the case may be) is not compliant with FATCA, (ii) beginning in 2017, payments to CBM and the Issuer of gross proceeds from the disposition of such securities if CBM or the Issuer (as the case may be) is not compliant with FATCA, 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. FATCA will not apply to the Notes, however, unless (i) they are treated as equity for U.S. federal income tax purposes or (ii) they are treated as Indebtedness of Issuer and the Issuer substitutes another entity as issuer of the Notes pursuant to Condition 10(C) after the date that is six months after the date on which the term “foreign pass-thru payment” is defined in regulations published in the U.S. Federal register.

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 Foreign Financial Institution. 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 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 Subordinated 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, 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 relevant 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 relevant 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 Subordinated Loan Agreement and sums held in the 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 Subordinated 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 Subordinated 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 the 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 RUB10,000,000 and integral multiples of RUB100,000 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”. In addition, in the event of a partial write down or multiple write downs of the Notes following the occurrence of a Write Down Event, Noteholders face an increased risk that their holding will fail to comply with the required minimum denomination specified in the “Terms and Conditions of the Notes”. If individual Note certificates (**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. Further, holders of beneficial interests in the Global Notes of less than the minimum denomination will not be permitted to sell, transfer or otherwise dispose of such interests to other prospective investors.

Noteholders may face foreign exchange risks by investing in the Notes

The Notes will be denominated and payable in roubles. For a Noteholder who measures its investment returns by reference to a currency other than the rouble, an investment in the Notes entails foreign exchange related risks due to, among other factors, possible significant changes in the value of the rouble relative to the currency by reference to which a Noteholder measures its investment returns because of economic, political and other factors over which we have no control. Depreciation of the rouble against the currency by reference to which a Noteholder measures its investment returns could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss when the return on the Notes is translated into the currency by reference to which a Noteholder measure its investment returns. There may be tax consequences for Noteholders as a result of any foreign exchange gains or losses from any investment in the Notes.

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.

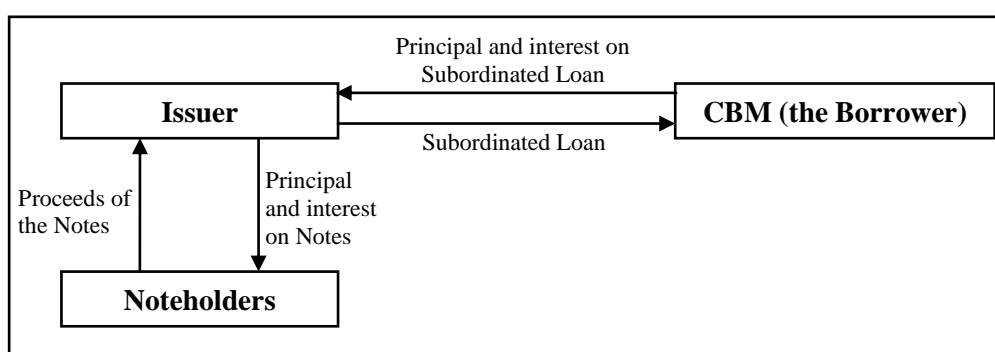
In addition, some of the information contained in this Prospectus has been derived from official data of Russian government agencies and the CBR. Some of the official data published by Russian federal, regional and local governments may not be complete or researched to the standard of Western countries. 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 the Russian Federation 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 Subordinated 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 Subordinated Loan Agreement” appearing elsewhere in this Prospectus.

The transaction is structured as a Subordinated Loan to CBM by the Issuer under the Subordinated Loan Agreement. The Issuer has issued the Notes, which are limited recourse loan participation notes issued for the sole purpose of funding the Subordinated Loan to CBM. The Subordinated Loan has been made on the terms of the Subordinated Loan Agreement and has characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. The Notes are constituted by, are subject to, and have the benefit of the Trust Deed. The obligations of the Issuer to make payments under the Notes 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 Subordinated 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 has charged 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 Subordinated 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 Subordinated 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 Subordinated Loan Agreement to the Trustee for the benefit of the Noteholders. CBM will be obliged to make payments under the Subordinated Loan to the Issuer in accordance with the terms of the Subordinated Loan Agreement to the Account or, following a Relevant Event, as otherwise instructed by the Trustee.

The Issuer has agreed in the Trust Deed not to make or consent to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Subordinated Loan Agreement unless the Trustee has given its prior written consent. The Issuer has further agreed to act at all times in accordance with any instructions of the Trustee from time to time with respect to the Subordinated Loan Agreement. 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 Subordinated Loan Agreement. The Subordinated Loan Agreement provides for CBM to pay such corresponding amounts in these circumstances. In addition, payments under the Subordinated 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 Subordinated Loan Agreement. See *“Risk Factors – Risks Relating to the Issuer, the Subordinated 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 the 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. The 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 the 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 the Noteholders may take no further action to recover such amounts.

CBM may prepay the Subordinated Loan only in the limited circumstances set out in Clause 7 (*Repayment and Prepayment*) of the Subordinated Loan Agreement. 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 Subordinated Loan Agreement – Clause 7 (Repayment and Prepayment)”* and *“Terms and Conditions of the Notes - 6 Redemption; Purchase; and Write-Down”*.

CBM may, following the occurrence of a Write Down Event, be required by the CBR to write down and cancel all or a portion of the Subordinated Loan pursuant to its obligations under the applicable requirements of the CBR and as set out in Clause 8 (*Write Down*) of the Subordinated Loan Agreement. Such write down measures may be implemented on more than one occasion and the Subordinated Loan may be written down on more than one occasion. In addition, no interest shall accrue on the Subordinated Loan during any period when a Write Down Event has occurred and is continuing and no amounts of interest or principal may be paid by the Borrower during such period. Any write down and cancellation of the Subordinated Loan will trigger a simultaneous and equal write-down and cancellation of the Notes in accordance with Condition 6(D) (*Write-down of the Notes following a Write Down Event*). See *“Form of the Subordinated Loan Agreement – Clause 8 (Write Down)”* and *“Terms and Conditions of the Notes – 6 Redemption; Purchase; and Write-Down”*.

The CBR issued its final approval and conclusion for inclusion of the Subordinated Loan in CBM's Tier 2 capital on 31 December 2014.

USE OF PROCEEDS

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

Total commissions and expenses relating to the issue of the Notes (represented by the facility fee and other costs) were approximately RUB 30.0 million. The net proceeds that CBM received from the issue of the Notes, after deducting commissions and expenses incurred in connection with the issuance (represented by the facility fee and other costs), were approximately RUB 4.97 billion.

CAPITALISATION AND INDEBTEDNESS OF CBM

The following table sets forth CBM's capitalisation as at 31 December 2013 and is extracted from the 2013 Annual Financial Statements. For further information regarding CBM's financial position, see "*Operating and Financial Review*" and the Financial Statements included elsewhere in this Prospectus.

	<i>As at 31 December 2013</i>
	<i>RUB millions</i>
Liabilities	
Deposits by the Central Bank of the Russian Federation	14,566
Deposits by credit institutions	24,398
Deposits by customers	274,872
Debt securities issued	84,554
Deferred tax liability	1,880
Current tax liability	197
Other liabilities	3,077
Total liabilities	403,544
Equity	
Share capital	15,330
Additional paid-in capital	9,769
Revaluation surplus for buildings	1,116
Revaluation reserve for available-for-securities	(38)
Retained earnings	24,481
Total equity	50,658
Total liabilities and equity	454,202

Except as set forth under "*Operating and Financial Review – Recent Developments – Financing*", since 31 December 2013 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 month periods ended 30 September 2014 and 30 September 2013 and for the years ended 31 December 2013, 2012 and 2011 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 "Operating and Financial Review".

Selected Statement of Comprehensive Income Information

	<i>Nine-month period ended 30 September</i>		<i>Year ended 31 December</i>		
	<i>2014</i>	<i>2013</i>	<i>2013</i>	<i>2012</i>	<i>2011</i>
	<i>RUB millions</i>				
Interest income	41,133	29,469	42,013	28,466	20,981
Interest expense	(23,513)	(17,654)	(24,633)	(16,225)	(12,257)
Net interest income	17, 620	11,815	17,380	12,241	8,724
Provision for impairment of loans	(7,014)	(4,444)	(5,499)	(1,865)	(1,284)
Net interest income after provision for impairment	10,606	7,371	11,881	10,377	7,440
Fee and commission income.....	6,319	5,090	7,205	4,283	2,937
Fee and commission expense.....	(1,144)	(449)	(780)	(428)	(192)
Net gain on financial instruments at fair value through profit or loss	(444)	78	59	354	(857)
Net realized gain on available-for-sale assets.....	(53)	47	19	15	40
Net foreign exchange gains (losses)	116	349	407	(385)	255
State deposit insurance scheme contributions	(415)	(358)	(491)	(370)	(270)
Other operating income, net	322	546	739	243	(17)
Non-interest income	4,700	5,302	7,159	3,711	1,896
Operating Income	15,306	12,673	19,040	14,088	9,336
Salaries and employment benefits	(4,094)	(3,269)	(4,468)	(3,514)	(2,126)
Administrative expenses	(2,445)	(2,033)	(2,723)	(2,630)	(1,863)
Depreciation of property and equipment	(392)	(350)	(471)	(408)	(242)
Other provisions	118	80	(184)	(289)	(247)
Operating Expense	(6,813)	(5,571)	(7,846)	(6,841)	(4,478)
Profit before income taxes.....	8,493	7,101	11,194	7,247	4,858
Income tax	(2,122)	(1,476)	(2,314)	(1,469)	(973)
Profit for the period.....	6,371	5,626	8,880	5,778	3,885
Total comprehensive income for the year	6,189	5,572	8,826	6,462	3,804

Selected Statement of Financial Position Information

	<i>As at 30 September</i>	<i>As at 31 December</i>		
	<i>2014</i>	<i>2013</i>	<i>2012</i>	<i>2011</i>
	<i>RUB millions</i>			
Cash and cash equivalents	55,697	67,065	47,459	34,433
Obligatory reserves with the Central Bank of the Russian Federation	3,242	2,799	2,546	2,259
Due from credit institutions	6,036	10,466	12,521	5,301
Financial instruments at fair value through profit or loss.....	44,806	37,412	31,685	22,784
Available-for-sale securities	15,338	18,534	5,447	2,031
Loans to customers	358,310	308,941	201,234	159,020
Property and equipment	7,487	6,079	6,080	4,970
Goodwill	301	301	-	-
Other assets.....	5,171	2,606	1,755	1,573
Total assets	496,388	454,202	308,727	232,371
Deposits by the Central Bank of the Russian Federation	8,100	14,566	-	-
Deposits by credit institutions	40,388	24,398	35,184	24,964
Deposits by customers	299,665	274,872	189,014	146,691
Debt securities issued	85,897	84,554	40,014	31,119
Deferred tax liability.....	2,762	1,880	2,608	2,074
Current tax liability.....	16	197	126	16
Other liabilities	2,712	3,077	2,489	1,899
Total Liabilities	439,540	403,544	269,435	206,763
Total equity	56,847	50,658	39,292	25,608
Total liabilities and equity.....	496,388	454,202	308,727	232,371

Selected Non-IFRS Financial Ratios and Other Non-IFRS Information

	As at or for the nine months ended 30 September	As at or for the year ended 31 December		
	2014	2013	2012	2011
			%	
Financial Performance				
Return on average assets ⁽¹⁾	1.8	2.4	2.2	2.0
Return on average equity ⁽²⁾	15.8	20.1	18.2	19.0
Cost-to-income ⁽³⁾	31.1	31.2	41.1	39.8
Net Interest Margin ⁽⁴⁾	5.4	5.2	5.2	4.9
Liquidity				
Loans to customers / current accounts and deposits from customers	119.6	112.4	106.5	108.4
Total liquid assets ⁽⁵⁾ / total assets	23.3	27.1	27.4	25.5
Capital Adequacy				
<i>Basel I ratio</i>				
Total capital ratio ⁽⁶⁾	-	16.0	15.8	14.4
Tier 1 capital ratio ⁽⁶⁾	-	11.0	13.4	12.3
<i>Basel III ratio⁽⁷⁾</i>				
Total capital ratio	14.8	14.7	-	-
Core Tier 1 capital ratio	10.8	10.2	-	-
Tier 1 capital ratio	10.8	10.2	-	-
CBR total capital adequacy ratio	12.3 ⁽⁸⁾	12.1	12.9	12.3
Credit Quality				
Non-performing loans as a proportion of total loans to customers ⁽⁹⁾	2.6	1.3	1.0	1.1
Total impairment allowance as a proportion of overdue loans	86.4	113.8	151.0	141.5
Provision for loan impairment as a proportion of average loan portfolio ⁽¹⁰⁾	2.7	2.1	1.0	0.9

Notes:

- (1) Calculated as net income for the year to the average total assets for the year.
- (2) Calculated as net income for the year to the average total equity for the year.
- (3) Operating expense less provision for impairment of other assets and credit-related commitments divided by operating income.
- (4) Calculated as the ratio of net interest income before provision for loan impairment to average interest-earning assets.
- (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.
- (6) 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 27 to the 2013 Annual Financial Statements and Note 27 to the 2012 Annual Financial Statements. See "Operating and Financial Review – Capital Adequacy".
- (7) Calculated in accordance with Basel III requirements as adopted in the Russian Federation, based on IFRS financial information, as described in Note 27 to the 2013 Annual Financial Statements and Note 21 to the Interim Financial Information. See "Operating and Financial Review – Capital Adequacy – Basel Capital Adequacy".
- (8) Calculated in accordance with CBR requirements under Regulation 395-P based on data prepared in accordance with Russian Accounting Standards. See "Operating and Financial Review – Capital Adequacy – CBR Capital Adequacy Ratio".
- (9) Non-performing loans are defined as loans with payments that are overdue for 90 days or more.
- (10) Calculated as the ratio of provision for loan impairment for the relevant period to the average balance of loans.

OPERATING AND FINANCIAL REVIEW

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 leading privately owned universal bank in Russia that focuses on providing banking products and services to corporate customers as well as individuals in Moscow and the Moscow region (collectively referred to as the **Moscow Area**). CBM offers a comprehensive range of banking services, including lending, deposit-taking, cash handling, international settlements, trade finance, letters of credit, guarantees and other products. CBM's corporate banking business is primarily focused on retail and wholesale trading corporate customers, enabling CBM to capitalize on the fast-growing Russian consumer market. CBM's rapidly growing retail business is focused on consumer loans to high quality retail customers, with a particular emphasis on cross-sales of retail products to the employees and clients of its corporate customers.

Through its multichannel distribution network, including offices, ATMs, payment terminals and online services, CBM is able to deliver superior services to its customers. CBM is focused on delivering customer-centred services, with quick and user friendly service and high levels of responsiveness. Through its leading cash handling platform and payment terminal network, CBM is able to monitor the cash flows and payment histories of its customers, supporting strong portfolio performance and asset quality.

As at 30 September 2014, CBM had 59 branches, 33 cash offices, over 800 ATMs and c. 6,000 payment terminals. CBM was the second largest provider of cash handling services in Moscow and the fourth largest in Russia for the first three-quarters of 2013, according to a survey conducted by Interfax, measured by total amount of collected funds. CBM's payment terminal network is one of the largest in Russia and was ranked second in Moscow, in each case based on the number of payment terminals as of 1 January 2013, according to RBC Rating. See "*Business – Business Operations – Distribution Network*".

Significant Factors Affecting Results of Operations and Financial Position

Economic Conditions in the Moscow Area and the Russian Federation

Substantially all of CBM's assets and customers are located in, or have businesses based in, the Moscow Area of the Russian Federation. Similarly, CBM's operations are focused in the Moscow Area. Accordingly, CBM's results of operations and financial condition are substantially affected by economic conditions in the Moscow Area. These conditions in turn are closely tied to the overall macroeconomic conditions in Russia. The Russian Federation's economy is also, to a significant degree, dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials. Nevertheless, CBM believes that its client base is relatively less subject to macroeconomic variations than some of its major competitors, reflecting in particular its consumer-focused corporate customer base that operates primarily in the domestic Russian market, and are thus not directly exposed to variations in commodity prices global factors.

A large portion of Russia's economic activity is concentrated in the Moscow Area. Moscow's GDP in 2012 was RUB 12,265 billion, accounting for more than a quarter of Russia's GDP, according to Rosstat, and Moscow's GDP per capita in 2012 was RUB 644,479, approximately 2.0 times greater than Russia's average GDP per capita, according to Rosstat. According to Rosstat, the Moscow Area had a population of approximately 19 million in 2013, approximately 13% of Russia's total population, and the population growth in the Moscow Area was 1.2% in 2013, as compared to 0.0% for Russia. The average monthly income in Moscow during 2013 was US\$ 1,131, more than twice the Russian average, according to Rosstat.

CBM believes that the nature of the economic environment in the Moscow Area results in it being relatively less exposed to adverse macroeconomic trends than banks that operate in other regions of the Russian Federation. Nevertheless, during periods of deteriorating economic activity, the ability of CBM's borrowers to repay amounts due, and the value of the collateral that secures loans, may decrease. In particular, developments such as increased unemployment, rising inflation, reduced corporate liquidity and profitability, increased corporate and personal insolvencies and increased interest rates may adversely affect the ability of CBM's customers to repay loans. Reduced creditworthiness amongst CBM's customers also may tend to increase CBM's provision charge for loan impairment during such periods, possibly significantly, resulting in a possible decrease in CBM's net interest income. Conversely, CBM tends to make relatively lower provisions for loan impairment during periods characterised by stronger economic conditions.

Stronger economic conditions tend to result in increased demand for CBM's banking products and services, including loans, deposits, cash handling and trade finance, though in recent years the banking sector in Russia, and in the Moscow Area in particular, has been growing at a rate in excess of that of the Russian economy overall. According to the CBR, total loans extended by Russian banks increased by 29.6% in 2011, 18.3% in 2012 and 19% in 2013, and total deposits of Russian banks increased by 23.7% in 2011, 15.5% in 2012 and 16% in 2013. From 2011 to 2013, CBM's total gross loans increased by 95.4%, and total deposits increased by 87.4%. During the same period, growth of real GDP in Russia was 4.3% in 2011, 3.4% in 2012 and 1.3% in 2013, according to Rosstat.

Expansion of Business

CBM's business has grown significantly in recent years, in excess of the rate of growth of the Russian banking market generally, as measured by assets and CBM expects its business to continue growing. CBM's total assets increased from RUB 232,371 million as of 31 December 2011 to RUB 454,202 million as of 31 December 2013 to 496,388 as of 30 September 2014, and its number of employees increased from 3,332 to 4,728 over the same period. This growth has had a significant impact on CBM's results of operations, in particular leading to increased net interest income as well as fee and commission income, reflecting the increased business volumes.

CBM's corporate business has historically constituted the largest part of its business, and has grown significantly in recent years. Total gross loans to corporate customers increased by 65.6%, from RUB 132,844 million as at 31 December 2011 to RUB 220,010 million as at 31 December 2013 and to RUB 247,884 million as at 30 September 2014. CBM expects its corporate lending to continue to increase significantly as its business continues to grow.

CBM's retail business has also expanded significantly during this period, and at a rate in excess of the overall expansion of CBM's business. CBM's total gross loans to retail customers increased by 227.7% from RUB 29,858 million as at 31 December 2011 to RUB 97,850 million as of 31 December 2013 and to RUB 123,796 million as of 30 September 2014, and from 18.4% of CBM's total gross loans to customers as of 31 December 2011 to 30.8% of total gross loans to customers as of 31 December 2013 and to 33.2% of total gross loans to customers as of 30 September 2014. CBM expects that its retail lending activities will continue to expand at a rate in excess of the growth at its overall loan portfolio, and intends to expand its retail business to reach 40% of total gross loans to customers in the medium term. Retail lending is generally characterized by higher interest rates than corporate lending, as well as higher levels of non-performing loans, leading to higher levels of provisions on loans to retail customers. For example, the ratio of non-performing loans as a proportion of gross loans to customers on CBM's retail loans was 3.9% as of 31 December 2013, as compared to 0.2% for corporate loans as of the same date. As its retail business continues to grow, CBM expects its levels of non-performing loans, and its provisions for loan impairment, to demonstrate a certain controllable increase.

Loan Portfolio and Asset Quality

CBM seeks to manage the quality of its loan portfolio through its client selection and monitoring processes. In its corporate business, in addition to close monitoring of client relationships and liquidity, CBM's cash handling business gives it insights into client liquidity and economic condition. In addition, many of CBM's loans have a shorter tenor, which CBM believes reduces the risk of default: 53% of CBM's corporate loans as at 31 December 2013 falling due within six months, 15% falling due within six months to one year and 32% falling due after one year. In its retail business, CBM obtains significant information prior to extending loans, for example through providing payroll and

other services through a corporate customer relationship with the potential borrower's employer, thereby giving CBM visibility over real earnings and payroll accounts of the potential borrower, or by monitoring the potential borrower's use of its payment terminal network. CBM also offers its loans primarily to targeted, pre-assessed clients based on CBM's access to client liquidity and credit data, with a relatively small proportion of its loans extended to customers with whom CBM has no pre-existing client relationship, or "walk-in" customers.

Reflecting CBM's credit risk management procedures as well as its exposure to the relatively strong economic environment in Moscow and the Moscow region (see "*Economic Conditions in the Moscow Area and the Russian Federation*"), the level of non-performing loans as a percentage of CBM's gross loans to customers remained relatively constant during the period under review, at 1.3% as at 31 December 2013, 1.0% as at 31 December 2012 and 1.1% as at 31 December 2011. Similarly, CBM's ratio of allowance for loan impairment to gross loans to customers was 2.8%, 2.3% and 2.3% as at 31 December 2013, 2012 and 2011, respectively; the slight increase as of 31 December 2013 reflects the increasing share of retail loans in CBM's loan portfolio. CBM's provision for impairment losses on loans to customers increased from RUB 3,682 million as of 31 December 2011 to RUB 4,699 million as of 31 December 2012 and 8,919 million as of 31 December 2013, while CBM's gross loans to customers increased from RUB 162,702 million as at 31 December 2011 to RUB 205,933 million as at 31 December 2012 and RUB 317,860 million as at 31 December 2013.

During 2013, CBM revised the methodology it uses to estimate the impairment allowance for loans to individuals, in order to provide a more precise estimate of the impairment allowance by using historical data specific to the individual portfolios; as a result of applying this new methodology, the impairment allowance for loans to individuals is RUB 420.1 million lower than it would have been if the previous methodology had been applied. CBM also revised the methodology used to estimate the impairment allowance for the finance lease portfolio, which is included within the impairment allowance for loans to corporate customers, in order to provide a more accurate estimate of the impairment allowance by using historical data specific to the finance lease portfolio; as a result of applying this new methodology, the impairment allowance for the finance lease portfolio, which is included within the impairment allowance on loans to corporate customers, is approximately RUB 165.7 million higher as of 31 December 2013 than it would have been if the previous methodology had been applied.

Interest Rate Environment and Funding Costs

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. The interest rate environment in the Russian Federation reflects factors such as expectations regarding inflation, changes in interest rates set by the CBR, and conditions in international financial markets. Increased inflation and competition for customers – particularly during periods when banks operating in Russia may have reduced access to wholesale funding markets – tend to raise interest rates payable on new customer deposits for banks operating in the Russian market, while competitive pressures, concerns about customer defaults and fixed rates on existing loan commitments and facilities may restrict CBM's ability to increase interest rates on loans to customers. During the period under review, CBM has generally been able to offset higher interest rates payable on deposits with increased interest rates on loans. This was achieved as a result of short-term nature of the loan book as well as the ability to change interest rates for corporate clients. In addition, CBM has been able to manage its funding costs through increased access to wholesale funding, including the benefits of improvements in its credit ratings, an increased share of retail deposits in its total deposits, and an increasing focus on lower-cost retail demand deposits instead of term deposits. Accordingly, notwithstanding fluctuations in financial markets, even while competition for both retail deposits and loans in the Russian banking market that has tended to reduce margins overall in the industry, CBM's Net Interest Margin has remained relatively stable, at 5.2%, 5.2% and 4.9% for the years ended 31 December 2013, 2012 and 2011, respectively.

Fee and Commission Income

CBM generates significant, and increasing, amounts of fee and commission income, accounting for 29.3%, 25.9% and 25.2% of combined net interest and fee and commission income in the years ended 31 December 2013, 2012 and 2011, respectively. CBM expects its fee and commission income to increase in future periods, both in value and as a share of

total income. Fee and commission income is a significant and stable source of income for CBM, and is independent of market fluctuations in interest rates.

CBM's fee and commission income arises from activities such as fees from cash handling and related services, wire transfers, processing of insurance contracts, guarantees, letters of credit, and issuance of plastic cards. These are core services for many of CBM's clients, and leveraging these services, particularly the cash handling business, is a key component of CBM's business, and growth strategy. In particular, these activities generate income for CBM without the associated capital and funding requirements of lending activities, while granting CBM access to key client information and enhancing its client relationships. See "*Business – Competitive Strengths*".

Segmentation

CBM organizes its business into corporate and retail operations. Within these divisions, for accounting and reporting purposes CBM's business is divided into five business segments, reflecting the relevant managerial and reporting structures. CBM monitors the performance of each segment based on segment profit before tax, calculated based on management information prepared in accordance with IFRS.

Corporate Business

CBM conducts its corporate banking activities through the following segments.

- Corporate banking, which comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guaranties, corporate deposit taking, settlements and money transfer and currency conversion.
- 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 handling services as well as other cash operations performed by CBM. 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.

Retail Business

CBM conducts its retail banking operations through its retail banking segment, 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; and settlement, money transfer and currency conversion for individuals. Retail operations also include fee and commission income arising in connection with CBM's payment terminal network.

Comparative Information

In preparing the 2013 Annual Financial Statements, CBM changed the presentation of certain line items relating to fee and commission income, foreign exchange gains (losses), net other operating income and administrative expenses for the year ended 31 December 2013 as compared to the year ended 31 December 2012, to better present the nature of the underlying transactions. The comparative information as at and for the year ended 31 December 2012 as presented in the 2013 Annual Financial Statements was reclassified to conform to changes in presentation in connection with preparation of the 2013 Annual Financial Statements, and thus differs from information in respect of the same period as presented in the 2012 Annual Financial Statements. The effect of this change in presentation is as follows:

	For the year ended 31 December 2012, as previously reported	Reclassification amounts	For the year ended 31 December 2012, as currently reported
	<i>RUB millions</i>		
Reclassification of foreign exchange transaction related fees from “Foreign exchange gains (losses), net” to “Fee and commission income”			
Fee and commission income	4,106.2	176.9	4,283.1
Net foreign exchange gains (losses)	(208.2)	(176.9)	(385.1)
Reclassification of write-off of low-value fixed assets from “Other operating expenses” to “Administrative expenses” and presentation of other operating income and expense in one line “Other operating income, net”			
Other operating expenses.....	(366.5)	366.5	-
Other operating income	467.2	(467.2)	-
Other operating income, net	-	243.0	243.0
Administrative expenses	(2,487.7)	(142.3)	(2,630.0)

In preparing the 2012 Annual Financial Statements, CBM changed the presentation of certain line items relating to derivative financial instruments, fee and commission income and foreign exchange gains (losses) for the year ended 31 December 2012 in comparison with the year ended 31 December 2011 to better present the nature of the underlying transactions. The comparative information as at and for the year ended 31 December 2011 as presented in the 2012 Annual Financial Statements was reclassified to conform to changes in presentation in connection with preparation of the 2012 Annual Financial Statements, and thus differs from information in respect of the same period as presented in the 2011 Annual Financial Statements. The effect of this change in presentation is as follows:

	As at or for the year ended 31 December 2011, as previously reported	As at or for the year ended 31 December 2011
	<i>RUB millions</i>	
Reclassification of derivative financial instruments from statement of financial position caption “Other assets” to “Financial instruments at fair value through profit or loss”		
Financial instruments at fair value through profit or loss	22,783.8	22,868.3
Other assets	1,572.6	1,488.1
Reclassification of foreign exchange operations related fees from statement of comprehensive income caption “Foreign exchange (losses) gains, net” to “Fee and commission income”		
Fee and commission	2,718.6	2,936.9
Foreign exchange (losses) gains, net	473.4	255.0

Unless otherwise indicated, financial information presented herein as at or for the year ended 31 December 2012 is on the same basis as included in the 2013 Annual Financial Statements, and financial information as at or for the year ended 31 December 2011 is on the same basis as included in the 2012 Annual Financial Statements.

Recent Developments

On 4 December 2014 CBM released the Interim Financial Information for the nine-month period ended 30 September 2014.

Net income

IFRS net income for the nine-month period ended 30 September 2014 rose by 13.2% as compared to the nine-month period ended 30 September 2013 to RUB 6.4 billion. This was due mainly to the growth of net interest income by 49.1% to RUB 17.6 billion, and to an increase of net fee and commission income by 11.5% to RUB 5.2 billion. In accordance with CBM's strategy, fee income grew considerably in the cards and payments sector of CBM's operations.

Operating expense

Operating expense increased by 22.3% to RUB 6.8 billion as a result of CBM's business expansion. In particular, staff costs grew by 25.2% to RUB 4.1 billion and administrative costs grew by 20.3% to RUB 2.4 billion. Operational efficiency has continued to improve with CBM's cost-to-income ratio decreasing to 31.1%.

Gross loan portfolio

CBM's gross loan portfolio (before provisions) stands at RUB 371.7 billion, representing an increase of 16.9% compared to the year ended 31 December 2013. CBM's corporate loan book grew by 12.7% to RUB 247.9 billion, and CBM's retail loan book grew by 26.5% to RUB 123.8 billion. The proportion of CBM's gross loan portfolio made up of retail loans continued to expand and reached 33.3% as of 30 September 2014. During the nine-month period ended 30 September 2014, the share of NPLs in CBM's gross loan portfolio rose to 2.6% due to the expanding share of retail business and, with regard to corporate loans, mainly due to the deteriorated financial condition of a significant borrower in the metallurgic sector. Loan impairment provisions also grew and reached 3.6% of CBM's gross loan portfolio owing to the economic slow-down, worsening macro environment, and CBM's conservative approach to provisioning.

Customer accounts and deposits

Customer accounts and deposits increased by 9.0% compared to the year ended 31 December 2013 to RUB 299.7 billion, accounting for 68.2% of total liabilities. Corporate deposits grew by 7.5% to RUB 150.9 billion, while retail deposits grew by 10.7% to RUB 148.8 billion. The ratio of net loans to deposits grew slightly from 112.4% as at the year ended 31 December 2013 to 119.6%.

Capital adequacy ratio

CBM's capital adequacy ratio calculated in accordance with Basel III was 14.8% as at the nine-month period ended 30 September 2014. Total capital calculated in accordance with Basel III standards increased by 7.7% to RUB 76.5 billion. CBM's Tier 1 capital ratio increased from 10.2% to 10.8% over the course of the nine-month period ended 30 September 2014.

Infrastructure development

By the end of the nine-month period ended 30 September 2014, CBM's network comprised 59 offices and 33 operational cash desks in Moscow and the surrounding region. CBM's branch network was recognised by Renaissance Credit as the most efficient in the Russian banking sector in 2013.

As at 30 September 2014 CBM had more than 800 ATMs, an increase from 710 as at 31 December 2013 and approximately 6,000 payment terminals, an increase from approximately 5,200 as at 31 December 2013.

Financing

In March 2014 CBM signed a syndicated loan facility agreement for up to USD 500 million with a pool of lenders from across Europe, North America and Asia. The USD/EUR facility has tenors of 364 days and 18 months, and carries interest rates of LIBOR/EURIBOR + 1.75% p.a. (364-day tenor) and LIBOR/EURIBOR + 1.95% p.a. (18-month tenor). This loan facility is the largest syndicated loan in the history of CBM's presence in the syndicated loans market and was at lower rates and longer maturities.

In June 2014 CBM transferred certain retail mortgage loans to the special purpose entity Mortgage Agent MKB (the **SPE**). The SPE issued bonds that are collateralized by the purchased assets. When CBM sells the assets to the consolidated SPE the transfer is in the form of CBM assuming an obligation to pass cash flows from the underlying assets to investors in the bonds. Although CBM does not own more than half of the voting power, CBM controls the SPE because it is exposed to the majority of risks and rewards of the SPE and therefore this SPE is consolidated. The investors in the bonds have recourse only to the cash flows from the transferred assets.

In July 2014 CBM placed two 5-year exchange-traded bond issues series BO-10 and BO-11, with a face value of RUB 5 billion each. The pre-buyback coupon rate was fixed at 10.5% p.a. for series BO-10 and at 10.9% p.a. for series BO-11. The buyback for the bonds series BO-10 and BO-11 will take place at the end of the second and third coupon periods respectively.

CBM paid off three domestic bond issuances as well as one Eurobond issue maturing in 2014.

In February 2014 CBM redeemed its domestic exchange bonds issue series BO-01, placed on 22 February 2011 in the amount of RUB 3 billion with a maturity of 3 years and annual coupon rate of 9.5%.

In April 2014 CBM redeemed its domestic exchange bonds issue series BO-04, placed on 15 April 2011 in the amount of RUB 5 billion with a maturity of 3 years and annual coupon rate of 10.25%.

In June 2014 CBM redeemed its domestic exchange bonds issue series BO-05, placed on 23 June 2011 in the amount of RUB 5 billion with a maturity of 3 years and annual coupon rate of 9.2%.

In August 2014 CBM redeemed its loan participation notes issue in the total amount of USD 200 million with a fixed coupon rate of 8.25% p.a. at par and maturity of 3 years.

In the context of the initial public offer transaction which was being worked on until March 2014, but postponed for an indefinite term, CBM announced a decision to increase its share capital by a placement of 9,645,174,490 additional ordinary registered shares, applied to the Moscow Exchange (the **MOEX**) for listing and got the permission from the CBR to place, and/or arrange for trading of, its securities outside of the Russian Federation at the London Stock Exchange plc.

In November 2014, CBM completed the issuance of the Notes for the purpose of making the Subordinated Loan to CBM. The CBR issued its final approval and conclusion for inclusion of the Subordinated Loan in CBM's Tier 2 capital on 13 January 2015.

In December 2014, CBM received a subordinated loan in the amount of RUB5 billion with a maturity of 10 years from its shareholder "ROSSIUM Concern", LLC, and later in December 2014 the CBR issued its approval of this loan for inclusion in CBM's Tier 2 capital.

Operating environment

Russia has experienced slowing economic growth in 2014, with real GDP growth of 0.9% in the first quarter, 0.8% in the second quarter and 0.7% in the third quarter, according to Rosstat. According to initial data from the Ministry of Economy and Development, GDP growth in Russia was 0.1% in October 2014, and GDP declined by 0.2% in November 2014, compared to the prior month, in each case excluding seasonal factors. According to initial data from the Ministry of Economy and Development, estimated GDP growth in Russia was 0.6% over the first 11 months of 2014.

Ratings

In June 2014, Standard & Poor's affirmed the CBM's long-term credit rating at "BB-", its Russia national scale rating at "ruAA-", and its short-term credit rating at "B", with an outlook of stable. In November 2014, Fitch affirmed the CBM's long-term issuer default rating at "BB", its viability rating at "bb", its national long-term rating at "AA (rus)",

its senior unsecured debt rating at “BB” and its subordinated debt rating at “BB ”. Fitch also affirmed the short-term issuer default rating at “B” and support rating at “5”. On 29 December 2014 Fitch revised CBM’s ratings outlook from stable to negative, together with twenty other Russian banks, reflecting the overall Russian macroeconomic situation, while affirming CBM’s current ratings.

Awards

In the second half 2014 the Bank received the following international awards from leading industry experts:

In July 2014 CBM was named the “Best Bank in Russia” for achievements in the financial sector at the Euromoney’s Awards for Excellence 2014 annual ceremony.

In November 2014 CBM was named the “Bank of the Year in Russia” at the Bank of the Year Awards annual ceremony held by The Banker (Financial Times Group) in London .

Results of Operations for the Years Ended 31 December 2013, 2012 and 2011

CBM generated net income of RUB 8,880 million during the year ended 31 December 2013, an increase of RUB 3,102 million, or 53.7%, from RUB 5,778 million for the year ended 31 December 2012, which in turn was an increase of 48.7%, or RUB 1,892 million from RUB 3,886 million for the year ended 31 December 2011. The increase during the period under review was due primarily to the increased volume of CBM’s business.

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

	<i>Year ended 31 December</i>		
	<i>2013</i>	<i>2012</i>	<i>2011</i>
		<i>RUB millions</i>	
Interest income	42,013	28,466	20,981
Interest expense	(24,633)	(16,225)	(12,257)
Net interest income	17,380	12,241	8,724
Provision for impairment of loans	(5,499)	(1,865)	(1,284)
Net interest income after provision for impairment	11,881	10,377	7,440
Fee and commission income.....	7,205	4,283	2,937
Fee and commission expense.....	(780)	(428)	(192)
Net gain on financial instruments at fair value through profit or loss.....	59	354	(857)
Net realized gain on available-for-sale assets	19	15	40
Net foreign exchange gains (losses)	407	(385)	255
State deposit insurance scheme contributions.....	(491)	(370)	(270)
Other operating income, net	739	243	(17)
Non interest income	7,159	3,711	1,896
Operating Income	19,040	14,088	9,336
Salaries and employment benefits	(4,468)	(3,514)	(2,126)
Administrative expenses	(2,723)	(2,630)	(1,863)
Depreciation of property and equipment	(471)	(408)	(242)
Other provisions	(184)	(289)	(247)
Operating Expense	(7,846)	(6,841)	(4,478)
Profit before income taxes.....	11,194	7,247	4,858
Income tax	(2,314)	(1,469)	(973)
Profit for the period.....	8,880	5,778	3,885
Total comprehensive income for the year.....	8,826	6,462	3,804

Interest Income

CBM's interest income for the year ended 31 December 2013 was RUB 42,013 million, an increase of RUB 13,547 million or 47.6%, from RUB 28,466 million for the year ended 31 December 2012, which in turn was an increase of RUB 7,485 million, or 35.7%, from RUB 20,981 million from the year ended 31 December 2011. The following table sets forth the principal components of CBM's interest income for the years indicated:

	Year ended 31 December					
	2013		2012		2011	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Interest income						
Loans to customers, <i>of which</i>	37,055	88.2	24,743	86.9	17,791	84.8
Corporate	25,180	59.9	17,891	62.9	13,382	63.8
Retail	11,875	28.3	6,852	24.1	4,409	21.0
Debt securities ⁽¹⁾	3,838	9.1	2,968	10.4	2,892	13.8
Due from credit institutions and the CBR	1,120	2.7	755	2.7	298	1.4
Total interest income	42,013	100.0	28,466	100.0	20,981	100.0
Average yield on interest-earning assets (%)⁽²⁾	12.6%		12.1%		11.9%	

Note:

(1) Consists of Financial instruments at fair value through profit or loss and available-for-sale securities.

(2) Calculated as the ratio of total interest income to average interest-earning assets.

The increases in CBM's interest income during the period under review resulted primarily from an increase in interest income from loans to customers, reflecting the growth of CBM's loan portfolio in connection with the overall growth of CBM's business. The average interest rate on interest-earning assets increased to 12.6% for the year ended 31 December 2013 from 12.1% for the year ended 31 December 2012, and from 11.9% for the year ended 31 December 2011.

Interest Income on Loans to Customers

The majority of CBM's interest income received in the period under review was attributable to interest income on loans to customers.

Interest income on loans to customers represented 88.2%, 86.9% and 84.8% of total interest income for the years ended 31 December 2013, 2012 and 2011, respectively. Interest income on loans to customers increased to RUB 37,055 million for the year ended 31 December 2013, an increase of RUB 12,312 million, or 49.8%, from RUB 24,743 million for the year ended 31 December 2012, which was an increase of RUB 6,952 million, or 39.1%, from RUB 17,791 million for the year ended 31 December 2011. This increase was primarily attributable to increased lending volumes. Interest income on loans to corporate customers accounted for 59.9%, 62.9% and 64.2% of total interest income on loans to customers for the years ended 31 December 2013, 2012 and 2011, respectively, and interest income on loans to retail customers accounted for 28.3%, 24.1% and 20.6% of total interest income on loans to customers for the years ended 31 December 2013, 2012 and 2011 respectively.

Interest Income on Debt Securities

Interest income on CBM's debt securities, including financial instruments at fair value through profit or loss as well as available-for-sale securities, was the second largest component of total interest income in the period under review, accounting for 9.1%, 10.4% and 13.8% of total interest income in the years ended 31 December 2013, 2012 and 2011, respectively.

Interest income on debt securities increased to RUB 3,838 million for the year ended 31 December 2013, an increase of RUB 870 million, or 29.3%, from RUB 2,968 million for the year ended 31 December 2012, reflecting increased average balances of debt securities. While the share in total interest income decreased, as an absolute amount interest income on CBM's debt securities portfolio remained relatively constant at RUB 2,968 million and RUB 2,892 million in the years ended 31 December 2012 and 2011, reflecting slight increases in the volume of debt securities, partially offset by reduced interest rates during the period under review.

Interest Income on Amounts Due From Credit Institutions and the CBR

Interest income on amounts due from credit institutions and the CBR represented 2.7%, 2.7% and 1.4% of total interest income in the years ended 31 December 2013, 2012 and 2011, respectively. Interest income on amounts due from credit institutions and the CBR increased by RUB 365 million, or 48.3% to RUB 1,120 million in the year ended 31 December 2013 from RUB 755 million in the year ended 31 December 2012, which was an increase of RUB 457 million, or 153.4%, from RUB 298 million in the year ended 31 December 2011. These increases were primarily due to CBM extending a larger amount of longer-term interbank loans, at higher interest rates.

Interest Expense

CBM's total interest expense for the year ended 31 December 2013 was RUB 24,633 million, an increase of RUB 8,408 million, or 51.8% from RUB 16,225 million for the year ended 31 December 2012, which in turn was an increase of RUB 3,968 million, or 32.4%, from RUB 12,257 million for the year ended 31 December 2011. The following table sets forth the principal components of CBM's interest expense for the years indicated:

	<i>Year ended 31 December</i>					
	<i>2013</i>		<i>2012</i>		<i>2011</i>	
	<i>RUB</i>		<i>RUB</i>		<i>RUB</i>	
	<i>millions</i>	<i>% of total</i>	<i>millions</i>	<i>% of total</i>	<i>millions</i>	<i>% of total</i>
Deposits by customers	16,810	68.2	11,600	71.5	8,249	67.3
Debt securities issued	6,116	24.9	2,971	18.3	2,717	22.2
Deposits by credit institutions and the CBR	1,706	6.9	1,654	10.2	1,291	10.5
Total interest expense	24,632	100.0	16,225	100.0	12,257	100.0
Average rate on interest-bearing liabilities(%)⁽¹⁾	7.7%		7.1%		7.0%	

Note:

(1) Calculated as the ratio of total interest expense to average interest-bearing liabilities.

The increase in CBM's interest expense in the period under review mainly resulted from an increase in interest expense on deposits by customers, reflecting the continued growth of CBM's corporate and retail deposit base. The average rate on CBM's interest-bearing liabilities was 7.7%, 7.1% and 7.0% in the years ended 31 December 2013, 2012 and 2011, respectively.

Interest Expense on Deposits by Customers

Interest expense on deposits by customers was the largest component of CBM's total interest expense in the period under review, representing 68.2% 71.5% and 67.3% of total interest expense in the years ended 31 December 2013, 2012 and 2011, respectively. Interest expense on deposits by customers increased by RUB 5,210 million, or 44.9%, to RUB 16,810 million for the year ended 31 December 2013 from RUB 11,600 million for the year ended 31 December 2012, which in turn was an increase of RUB 3,351 million, or 40.6%, from RUB 8,249 million average balances of both corporate and retail deposits for the year ended 31 December 2011. This increase in interest expense is primarily the result of increased interest rates paid on bank deposits in the deposit market in the period under review.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued represented 24.8%, 18.3% and 22.2% of total interest expense in the years ended 31 December 2013, 2012 and 2011, respectively.

Interest expense on debt securities issued increased by RUB 3,146 million, or 106%, to RUB 6,116 million in the year ended 31 December 2013 from RUB 2,970 million in the year ended 31 December 2012, which was an increase of RUB 253 million, or 9.3%, from RUB 2,717 million in the year ended 31 December 2011. The average volume of debt securities in issue increased to RUB 62,284 million in 31 December 2013 from RUB 35,566 million as at 31 December 2012 and RUB 29,185 million as at 31 December 2011. The increase in average volumes of debt securities in issue during the period under review reflected the issuance of domestic bonds in April 2012, September 2012, December 2012, February 2013 and October 2013 (two series, one of which was subordinated), and Eurobond issuance in July 2011, February 2013 and May 2013, partially offset by the repayment by CBM in 2012 of two series of domestic bonds.

Interest Expense on Deposits by Credit Institutions and the CBR

Interest expense on deposits by credit institutions and the CBR represented 6.9%, 10.2% and 10.5% of total interest expense in the years ended 31 December 2013, 2012 and 2011, respectively. Interest expense on deposits by credit institutions and the CBR increased by RUB 52 million, or 3.1%, to RUB 1,706 million in the year ended 31 December 2013 from RUB 1,654 million in the year ended 31 December 2012, which was an increase of RUB 364 million, or 28.2%, from RUB 1,290 million for the year ended 31 December 2011. These increases resulted primarily from an increase in the average amount of deposits from credit institutions and the CBR, which reflected CBM's increased funding needs in line with the growth of its business.

Net Interest Income

Net interest income is 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.

	<i>Year ended 31 December</i>		
	<i>2013</i>	<i>2012</i>	<i>2011</i>
	<i>RUB millions, except percentages</i>		
Interest income	42,013	28,466	20,981
Interest expense	(24,633)	(16,225)	(12,257)
Net interest income before provision charge for loan impairment	17,380	12,241	8,724
Net Interest Margin ⁽¹⁾	5.2%	5.2%	4.9%

Note:

(1) Calculated as the ratio of net interest income before provision to average interest-earning assets.

For the year ended 31 December 2013, net interest income before provision for loan impairment increased by RUB 5,139 million, or 42.0%, to RUB 17,380 million, from RUB 12,241 million for the year ended 31 December 2012, which was an increase of RUB 3,517 million, or 40.3%, from RUB 8,724 million for the year ended 31 December 2011. The increase in net interest income during the period under review reflected the continued growth in CBM's

business. CBM's Net Interest Margin was 5.2%, 5.2% and 4.9% in the years ended 31 December 2013, 2012 and 2011 respectively, primarily reflecting the increased 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 years indicated.

	<i>Year ended 31 December</i>		
	<i>2013</i>	<i>2012</i>	<i>2011</i>
	<i>RUB millions</i>		
Provision / (recovery of provision) for impairment on:			
Loans to corporate customers.....	1,805	643	867
Auto loans.....	99	46	(32)
Mortgage loans	(33)	(42)	(169)
Consumer loans	3,628	1,217	618
Total loans to individuals	3,694	1,222	417
Total provision for impairment of loans	5,499	1,865	1,284

CBM recognised provision for loan impairment of RUB 5,499 million in the year ended 31 December 2013, an increase of RUB 3,634 million, or 94.9%, from RUB 1,865 million in the year ended 31 December 2012, which in turn was an increase of RUB 581 million, or 45.2%, from RUB 1,284 million on the year ended 31 December 2011. The increases primarily reflected increased loan volumes as well as, particularly in 2013, an increase in provision for impairment on total loans to individuals in connection with an increased volume of loans to individuals. In addition, in 2013 CBM adopted a more conservative approach to provision for loan impairment on loans to corporate customers, particularly for financial leasing activities, resulting in an increased provision for loan impairment. Allowance for loan impairment as a percentage of CBM's NPLs as at 31 December 2013, 2012 and 2011 amounted to 212.6%, 238.9% and 208.6% respectively, of NPLs.

See "– *Financial Position – Past Due Loans – Allowance for Loan Impairment*" for further information on CBM's allowance for impairment of loans.

Non-interest Income

The largest source of CBM's non-interest income is its fee and commission income. The table below sets forth the components of CBM's non-interest income for the periods indicated.

	<i>Year ended 31 December</i>		
	<i>2013</i>	<i>2012</i>	<i>2011</i>
	<i>RUB millions, except percentages</i>		
Fee and commission income.....	7,205	4,283	2,937
Fee and commission expense.....	(779)	(428)	(192)
Net gain (loss) on financial instruments at fair value through profit or loss.....	59	354	(857)
Net realised gain on available-for-sale assets	19	15	40
Foreign exchange gains/ (losses), net	407	(385)	255
State deposit insurance contribution	(491)	(370)	(270)
Other operating income, net	739	243	(17)
Non-interest income	7,159	3,711	1,896
Non-interest income as % of total revenue	29.2	23.3	17.9

Fee and Commission Income

Fee and commission income is the largest component of CBM's non-interest income. CBM's fee and commission income is primarily comprised of commissions generated by CBM's cash handling, settlements and wire transfers, guarantees and letters of credit, insurance contracts processing, other cash operations and the issuance and processing of plastic cards.

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

	<i>Year ended 31 December</i>					
	<i>2013</i>		<i>2012</i>		<i>2011</i>	
	<i>RUB</i>		<i>RUB</i>		<i>RUB</i>	
	<i>millions</i>	<i>% of total</i>	<i>millions</i>	<i>% of total</i>	<i>millions</i>	<i>% of total</i>
Cash handling ⁽¹⁾	1,184	16.4	1,004	24.5	751	27.6
Settlements and wire transfers	1,212	16.8	852	20.8	764	28.1
Guarantees and letters of credit	1,154	16.0	740	18.0	534	19.6
Insurance contracts processing	2,320	32.2	770	18.8	213	7.8
Plastic cards	671	9.3	354	8.6	274	10.1
Currency exchange commission	219	3.0	177	4.3	218	8.0
Other cash operations ⁽²⁾	229	3.2	133	3.2	105	3.9
Other fee and commission income.....	217	3.0	253	1.8	78	2.9
Total fee and commission income	7,205	100.0	4,283	100.0	2,937	100.0

Notes:

- (1) Includes fees from cash handling 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.

CBM's total fee and commission income increased by RUB 2,922 million, or 68.2%, to RUB 7,205 million for the year ended 31 December 2013, from RUB 4,283 million for the year ended 31 December 2012, which in turn was an increase of RUB 1,346 million, or 45.8%, from RUB 2,937 million for the year ended 31 December 2011. This increase was primarily attributable to the continued expansion of business volumes in CBM's settlements, wire transfers, letters of credit and agent commissions on sales of insurance contracts, as well as CBM's development of its plastic cards operations. The increase in fee and commission income from guarantees and letters of credit was also partially attributable to the increase in CBM's credit rating from Fitch in June 2012, which increased the market appeal of CBM's guarantees and, as a result, resulted in increased demand for CBM's guarantee products.

CBM started receiving fees for processing insurance policies subscribed for by its retail loan customers pursuant to collective insurance contracts offered by a number of leading Russian insurance companies starting from the second quarter of 2011. The significant increase in income from processing of insurance contracts reflects these sales, as well as the increased volume of retail loans. See "*Business – Business Operations – Retail Business – Products and Services – General Purpose Consumer Loans*".

Fee and Commission Expense

Fee and commission expense is principally comprised of fees for plastic card acquiring services, which are fees paid to plastic card issuing companies when CBM processes card payments for a merchant, property insurance fees, payment systems commissions and commissions for settlement services provided by the CBR. In the year ended 31 December 2013, fee and commission expense increased by RUB 352 million, or 82.2%, to RUB 780 million, from RUB 428 million in the year ended 31 December 2012, which in turn was an increase of RUB 236 million, or 122.5%, from RUB 192 million for the year ended 31 December 2011. These increases were 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.

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

CBM's financial instruments at fair value through profit or loss consist of government, municipal and corporate bonds, promissory notes and equity securities. In the year ended 31 December 2013, CBM had a net gain on financial instruments at fair value through profit or loss of RUB 59 million, as compared to a net gain of RUB 354 million for the year ended 31 December 2012 and net loss of RUB 857 million in the year ended 31 December 2011. The net gains in 2012 and 2013 were primarily attributable to recovery in the Russian financial markets following turmoil in prior years. The net loss in the year ended 31 December 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 assets

CBM's available-for-sale securities are government, municipal and corporate bonds. CBM had net gains on available-for-sale securities of RUB 19 million, RUB 15 million and RUB 40 million for the years ended 31 December 2013, 2012 and 2011, respectively. These fluctuations reflect changes in the market valuation of the securities.

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, net gains or losses on open foreign currency positions and the purchasing and selling by CBM of currency derivatives for hedging the currency risks of its clients. CBM generates income from net foreign exchange transactions where CBM's price for a particular instrument is higher than its purchase price, and typically incurs losses on its derivative transactions, which are hedging expenses incurred in order to limit CBM's foreign currency exposure and to manage its liquidity position. CBM does not engage in derivative transactions for speculative purposes.

CBM had a net foreign exchange gain of RUB 407 million for the year ended 31 December 2013, as compared to a net foreign exchange loss of RUB 385 million for the year ended 31 December 2012 and net foreign exchange gain of RUB 255 million for the year ended 31 December 2011. The foreign exchange gain in 2013 was mainly due to income generated from swap contracts, as well as gains in currency operations for customers. In 2012, due to more difficult currency market conditions, currency operations for customers resulted in losses for CBM. See "*Risk Management – Market Risk – Currency Risk*".

State Deposit Insurance Contributions

State deposit insurance contributions consist of amounts that CBM pays for membership in the state deposit insurance system, and are assessed in proportion to the volume of deposits. Such contributions increased by RUB 121 million, or 32.7%, to RUB 491 million for the year ended 31 December 2013, from RUB 370 million for the year ended 31 December 2012, and which in turn was an increase of RUB 100 million, or 37.0%, from RUB 270 million for the year ended 31 December 2011. The increased deposit insurance contribution during the period under review reflected CBM's increased volume of deposits.

Other Operating Income, Net

Other operating income primarily represents revenues arising from late payment by retail customers and on sales of bad debts to external collection agencies. Other operating income increased to RUB 739 million for the year ended 31 December 2013, from an income of RUB 243 million for the year ended 31 December 2012 and an expense of RUB 17 million in the year ended 31 December 2011. The higher revenue for the year ended 31 December 2013 reflected increased collection of late fees on account of the expansion of CBM's retail business, as well as a profit on a sale of a portfolio of nonperforming loans in late 2013. Moreover, in 2011, net other operating income included write-offs of low value fixed assets, while in 2012 and 2013 such write-offs were accounted for under administrative expense. See "*Comparative Information*".

Operating Expense

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

	<i>Year ended 31 December</i>					
	<i>2013</i>		<i>2012</i>		<i>2011</i>	
	<i>RUB</i>		<i>RUB</i>		<i>RUB</i>	
	<i>millions</i>	<i>% of total</i>	<i>millions</i>	<i>% of total</i>	<i>millions</i>	<i>% of total</i>
Salaries and employment benefits	4,468	56.9	3,514	51.4	2,126	47.5
Administrative expenses	2,723	34.7	2,630	38.4	1,863	41.6
Depreciation of property and equipment	471	6.0	408	6.0	242	5.4
Other provisions	184	2.3	289	4.2	247	5.5
Total operating expense	7,846	100.0	6,841	100.0	4,478	100.0
Cost-to-income ratio (%)		31.2		41.1		39.8

CBM's operating expense increased by RUB 1,005 million, or 14.7% to RUB 7,846 million in the year ended 31 December 2013 from RUB 6,841 million for the year ended 31 December 2012, which in turn was an increase of RUB 2,363 million, or 52.7%, from RUB 4,478 million for the year ended 31 December 2011. These increases reflected primarily the expansion of CBM's business.

CBM's cost-to-income ratio, which is calculated as operating expense divided by operating income, excluding net provision charge for loan impairment, was 31.2%, 41.1% and 39.8% for the years ended 31 December 2013, 2012 and 2011 respectively. The improvement in the ratio for the year ended 31 December 2013 reflected CBM's increased focus on the efficiency of its operations.

Salaries and Employment Benefits

	Year ended 31 December					
	2013		2012		2011	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Salaries	3,531	79.0	2,844	80.9	1,701	80.0
Social security costs.....	844	18.9	636	18.1	403	19.0
Other	94	2.1	34	1.0	22	1.0
Total salaries and employment benefits.....	4,468	100.0	3,514	100.0	2,126	100.0

Salaries and employment benefits include employee salaries, social security costs and other related expenses, and constitute the largest component of CBM's operating expense. Salaries and employment benefits increased by RUB 954 million, or 27.1%, to RUB 4,468 million in the year ended 31 December 2013, from RUB 3,514 million in the year ended 31 December 2012, which in turn was an increase of 65.3% from RUB 2,126 million in the year ended 31 December 2011. These increases were primarily due to an increase in the number of employees as a result of the expansion of CBM's business. Salaries also increased during the period, reflecting competition in the market for qualified personnel.

CBM does not have pension arrangements other than the state pension of the Russian Federation, which requires contributions from CBM in respect of its employees, calculated as a percentage of current gross salary payments and accounted for as social security costs.

Administrative Expenses

	Year ended 31 December					
	2013		2012		2011	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Occupancy	755	27.7	848	32.3	581	31.2
Advertising and business development...	571	21.0	507	19.3	413	22.2
Operating taxes	352	12.9	454	7.3	369	19.8
Security	262	9.6	211	8.0	159	8.6
Property maintenance	245	9.0	200	7.6	148	7.9
Write-off of low value fixed assets	214	7.9	142	5.4	—	—
Transport.....	64	2.4	59	2.2	42	2.3
Communications	57	2.1	54	2.1	49	2.6
Computer maintenance and software expenses.....	72	2.6	44	1.6	43	2.3
Other	131	4.8	111	4.2	58	3.1
Administrative expenses.....	2,723	100.0	2,630	100.0	1,863	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.

CBM's administrative expenses for the year ended 31 December 2013 increased by RUB 94 million, or 3.6%, to RUB 2,723 million from RUB 2,630 million in the year ended 31 December 2012, which in turn was an increase of RUB 766 million, or 41.1%, from RUB 1,863 million in the year ended 31 December 2011. This increase was attributable to 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 handling services provided to CBM's customers.

Occupancy expense is the largest component of CBM's administrative expenses, and consists of costs CBM incurs in connection with its facilities, primarily modernisation and rent for the substantial majority of its branch offices, properties for its back office facilities and space where its payment terminals and ATMs are located. See "*Business – Business Operations - Distribution Network*". CBM's occupancy expenses for the year ended 31 December 2013 decreased by RUB 93 million, or 11.0% to RUB 755 million from RUB 848 million in the year ended 31 December 2012, which in turn was an increase of 46.0%, or RUB 267 million, from RUB 581 million in the year ended 31 December 2011. The decrease from 2012 to 2013 was primarily attributable to significant building repair works that were conducted in 2012. The increase from 2011 to 2012 reflected infrastructure development and an increase in the cost of renting offices, as well as the expansion of CBM's ATM and payment terminal networks.

CBM's advertising and business development expenses for the year ended 31 December 2013 increased by RUB 64 million, or 12.6% to RUB 571 million from RUB 507 million in the year ended 31 December 2012, which in turn was an increase of 22.8%, or RUB 94 million, from RUB 413 million in the year ended 31 December 2011, primarily reflecting the increased use of advertising by CBM through a variety of promotional channels between these years.

Operating taxes include value added tax (VAT), property tax, transportation tax and legal expenses. Operating taxes for the year ended 31 December 2013 decreased by RUB 102 million, or 22.5%, to RUB 352 million from RUB 454 million in the year ended 31 December 2012, which in turn was an increase of 23.0% from RUB 369 million in the year ended 31 December 2011. The higher operating taxes for the year ended 31 December 2012 primarily reflected VAT associated with the building repair works, accounted for under occupancy expenses, as well as VAT levied on the purchases by CBM of services rendered by advertising, transportation and repair companies.

Security expenses for the year ended 31 December 2013 increased by RUB 51 million, or 24.2%, to RUB 262 million from RUB 211 million in the year ended 31 December 2012, which in turn was an increase of RUB 52 million, or 32.7%, from RUB 159 million in the year ended 31 December 2011. These increases primarily reflect the growth of CBM's cash handling business, particularly the increase in the number of CBM's cash handling customers, which resulted in an increase in payments for security services.

Property maintenance expenses for the year ended 31 December 2013 increased by RUB 45 million, or 22.5% to RUB 245 million, from RUB 200 million in the year ended 31 December 2012, which in turn was an increase of RUB 52 million, or 35.1%, from RUB 148 million in the year ended 31 December 2011. These increases reflected the expansion of CBM's branch network and the increase in its number of ATMs and payment terminals. Expenses accounted for as write-off of low value fixed assets for the years ended 31 December 2013 and 2012 were included in other operating income, net, for the year ended 31 December 2011. See "*Comparative Information*".

Expense for write-off of low-value fixed assets represents expense associated with the acquisition of assets with a purchase value less than the minimum amount necessary to be classified as fixed assets and amortised, and that are accordingly reflected as expenses, such as small items of computer equipment and other furniture. Expense for write-off of low-value fixed assets increased by RUB 72 million, or 50.7%, to RUB 214 million for the year ended 31 December 2013, from RUB 142 million for the year ended 31 December 2012, reflecting CBM's growth and the increased amount of low-value equipment purchases. For the year ended 31 December 2011, corresponding expenses were accounted for within property maintenance expenses.

Depreciation of Property and Equipment

Depreciation of property and equipment for the year ended 31 December 2013 increased by RUB 63 million, or 15.4% to RUB 471 million, from RUB 408 million in the year ended 31 December 2012, which in turn was an increase of 68.6%, or RUB 166 million from RUB 242 million in the year ended 31 December 2011. These increases were largely attributable to an increase in fixed assets associated with the expansion of CBM's business, and particularly the acquisition of buildings for retail banking activities.

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 years indicated.

	<i>Year ended 31 December</i>		
	<i>2013</i>	<i>2012</i>	<i>2011</i>
		<i>RUB millions</i>	
Current tax charge	1,780	1,471	256
Deferred taxation	534	(2)	717
Income tax expense	2,314	1,469	973

CBM's income tax expense was RUB 2,314 million, RUB 1,469 million and RUB 973 million in the year, ended 31 December 2013, 2012 and 2011, respectively. These increases were primarily attributable to increased profit before tax, reflecting the overall growth of CBM's business. CBM's effective tax rate, calculated as the ratio of income tax to profit before income tax, was 20.7%, 20.3% and 20.0% in the years ended 31 December 2013, 2012 and 2011, respectively. The Russian statutory tax rate was 20% in each of these periods; the difference between CBM's effective tax rate and the statutory tax rate reflects primarily certain costs that are not deductible for tax purposes.

Profit for the Period

CBM's profit for the period was RUB 8,880 million, RUB 5,778 million and RUB 3,885 million for the years ended 31 December 2013, 2012 and 2011, respectively. The increases in CBM's profit for the period were attributable to the factors discussed above.

Other Comprehensive Income

Other comprehensive income consists of revaluation reserve on available for sale securities and revaluation reserve for buildings. CBM's other comprehensive income was a loss of RUB 54 million, a gain of RUB 685 million and a loss of RUB 81 million for the years ended 31 December 2013, 2012 and 2011, respectively. These changes reflected primarily the one-time effect of a revaluation of the market value of the buildings owned by CBM in 2012, based on an independent expert report.

Financial Position

Total Assets

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

	As at 31 December					
	2013		2012		2011	
	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>
Cash and cash equivalents	67,065	14.8	47,459	15.4	34,433	14.8
Obligatory reserves with the Central Bank of the Russian Federation.....	2,799	0.6	2,546	0.8	2,259	1.0
Due from credit institutions	10,466	2.3	12,521	4.1	5,301	2.3
Financial instruments at fair value through profit or loss	37,412	8.2	31,685	10.3	22,868	9.8
Available-for-sale securities	18,534	4.1	5,448	1.8	2,031	0.9
Loans to customers	308,941	68.0	201,235	65.2	159,020	68.4
Property and equipment.....	6,079	1.3	6,080	2.0	4,970	2.1
Goodwill.....	301	0.1	-	-	-	-
Other assets	2,606	0.6	1,755	0.6	1,488	0.7
Total assets	454,202	100.0	308,727	100.0	232,371	100.0

Loans to Customers

Loans to customers, net of allowance for loan impairment, are the largest component of CBM's total assets, accounting for 68.0%, 65.2% and 68.4% of total assets as at 31 December 2013, 2012 and 2011, respectively.

As at 31 December 2013, loans to customers (net of allowance for loan impairment) amounted to RUB 308,941 million, representing a 53.5% increase from RUB 201,235 million as at 31 December 2012, which in turn was a 26.5% increase from RUB 159,020 million as at 31 December 2011. Growth in the loan portfolio was attributable to the expansion of CBM's volumes at corporate and, in particular, retail lending activities.

The majority of CBM's loan portfolio consists of loans to corporate clients, accounting for 69.2%, 75.5% and 81.6% of CBM's gross loans to customers as at 31 December 2013, 2012 and 2011, respectively. Loans to individuals increased to 30.8% of the gross loan portfolio as at 31 December 2013 from 24.5% of the gross loan portfolio as at 31 December 2012 and 18.4% as at 31 December 2011, primarily due to the addition of new retail borrowers in connection with CBM's strategy to expand its retail banking business.

Distribution of Loans by Economic Sectors

The following table sets out the distribution of CBM's total loans to customers as at the dates indicated:

	As at 31 December					
	2013		2012		2011	
	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>
Loans to individuals	97,850	30.8	50,392	24.5	29,858	18.4
Loans to Corporate Customers						
Food and farm products.....	28,148	8.9	17,920	8.7	20,956	12.9
Consumer electronics, appliances and computers.....	26,902	8.5	25,738	12.5	18,459	11.3
Residential and commercial construction and development	23,347	7.3	17,412	8.5	12,119	7.4
Metallurgical	20,133	6.3	8,071	3.9	3,681	2.3
Automotive, motorcycles and spare parts	19,114	6.0	5,264	2.6	5,396	3.3
Oil and industrial chemicals	14,936	4.7	4,084	2.0	3,182	2.0

	As at 31 December					
	2013		2012		2011	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Services	12,590	4.0	9,708	4.7	4,810	3.0
Pharmaceutical and medical products	11,774	3.7	6,859	3.3	6,100	3.7
Clothing, shoes, textiles and sporting goods.....	11,121	3.5	10,189	4.9	9,149	5.6
Industrial and infrastructure construction	8,343	2.6	2,661	1.3	1,511	0.9
Paper, stationery and packaging products.....	7,692	2.4	5,234	2.5	4,002	2.5
Construction and decorative materials, furniture.....	6,581	2.1	10,608	5.2	10,813	6.6
Industrial equipment and machinery	6,342	2.0	9,714	4.7	8,319	5.1
Financial	6,245	2.0	2,947	1.4	1,424	0.9
Property rental	5,546	1.7	5,622	2.7	8,164	5.0
Consumer chemicals, perfumes and hygiene products	2,236	0.7	4,250	2.1	4,024	2.5
.....						
Equipment leasing	1,749	0.6	2,649	1.3	4,444	2.7
Other.....	7,210	2.3	6,609	3.2	6,289	3.9
Total loans to corporate customers	220,009	69.2	155,541	75.5	132,844	81.6
Total loans to customers	317,860	100.0	205,933	100.0	162,702	100.0

CBM operates primarily in the Moscow Area, and accordingly the substantial majority of its loans are extended to customers in Russia, accounting for 95.3%, 97.6% and 96.6% of total loans to customers as of 31 December 2013, 2012 and 2011, respectively.

Distribution of Loans by Status

NPLs represent loans with payments of principal and/or interest overdue by more than 90 days. CBM had gross NPLs in the amount of RUB 4,194 million, RUB 1,967 million and RUB 1,765 million as at 31 December 2013, 2012 and 2011, respectively. The increase from 31 December 2012 to 31 December 2013 was primarily attributable to an increase in CBM's loan portfolio, as well as the increased share of retail loans in CBM's loan portfolio. The increase from 31 December 2011 to 31 December 2012 was primarily attributable to an increase in NPLs in respect of consumer and other loans to individuals, which increase was offset in part by a decrease in NPLs in respect of loans to corporate customers, which was in turn primarily due to the sale by CBM of a RUB 403.1 million corporate NPL at approximately its carrying value in 2012.

The level of CBM's NPLs as a percentage of total gross loans to customers was 1.3%, 1.0% and 1.1% as at 31 December 2013, 2012 and 2011. NPLs in CBM's corporate loan portfolio accounted for 0.2% of gross loans to corporate customers as at 31 December 2013, as compared to 0.2% as at 31 December 2012 and 0.4% as at 31 December 2011. NPLs in CBM's retail loan portfolio accounted for 3.9% of gross loans to retail customers as at 31 December 2013, as compared to 3.2% as at 31 December 2012 and 4.3% as at 31 December 2011.

Past Due Loans

CBM classifies loans and advances to customers that are past due based on the number of days of delay in repayment. The ageing analysis (by days of delay in repayment) of past due loans and advances to customers (gross) by class as of 31 December 2013 is presented in the table below.

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 360 days	More than 360 days	Total
	(RUB millions)						
Loans to corporate clients	120	24	30	239	97	23	533
Loans to individuals, of which	2,018	807	643	1,337	1,669	830	7,304

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 360 days	More than 360 days	Total
<i>(RUB millions)</i>							
Auto loans	64	23	28	45	97	44	301
Mortgage loans	115	35	32	19	46	334	581
Credit card loans	620	93	55	141	111	23	1,043
Consumer loans	1,219	656	528	1,132	1,415	429	5,379
Total loans and advances to customers past due	2,138	832	673	1,577	1,766	852	7,837

Ageing analysis (by days of delay in repayment) of past due loans and advances to customers as of 31 December 2012 is presented in the table below.

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 360 days	More than 360 days	Total
<i>(RUB millions)</i>							
Loans to corporate clients	8	4	38	92	125	136	403
Loans to individuals, of which	675	257	162	436	555	624	2,709
Auto loans	60	20	19	23	27	12	161
Mortgage loans	35	9	4	53	64	383	548
Credit card loans	-	19	9	21	34	17	100
Consumer loans	580	209	130	339	430	212	1,900
Total loans and advances to customers past due	683	261	201	528	679	760	3,112

Ageing analysis of past due loans and advances to customers as of 31 December 2011 is presented in the table below.

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 360 days	More than 360 days	Total
<i>(RUB millions)</i>							
Loans to corporate clients	49	131	3	405	23	47	658
Loans to individuals, of which	306	220	130	507	285	498	1,946
Auto loans	30	9	10	11	10	7	77
Mortgage loans	46	94	4	118	16	407	685
Consumer loans ⁽¹⁾	230	117	116	378	259	84	1,184
Total loans and advances to customers past due	355	350	132	912	308	545	2,604

(1) Includes credit card loans.

CBM's loan portfolio includes loans that have been restructured and would otherwise be included in NPLs or impaired. CBM's restructured loans amounted to RUB 761 million, RUB 225 million and RUB 905 million as at 31 December 2013, 2012 and 2011. Loan restructuring and renegotiation 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. Restructured loans are included in loans not past due unless the borrower is unable to comply with the renegotiated terms. NPLs together with restructured loans amounted to RUB 4,955 million, RUB 2,192 million and RUB 2,670 million as at 31 December 2013, 2012 and 2011, respectively, or 1.6%, 1.1% and 1.6% of the gross loan portfolio, as at 31 December 2013, 2012 and 2011, respectively.

Allowance for Loan Impairment

An allowance 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. The following table sets forth an analysis of the changes in CBM's allowance for loan impairment for the years indicated:

	Year ended 31 December					
	2013		2012		2011	
	RUB millions	% of gross loans to customers	RUB millions	% of gross loans to customers	RUB millions	% of gross loans to customers
Balance at the beginning of the period, of which	4,700	52.7	3,682	78.4	2,793	75.9
Auto loans to individuals.....	57	0.6	24	0.5	88	2.4
Mortgage loans to individuals	220	2.5	261	5.6	430	11.7
Credit card loans to individuals	82	0.9	64	1.4	-	-
Other loans to individuals	1,282	14.4	709	15.1	285	7.7
Corporate clients	3,059	34.3	2,624	55.8	1,990	54.0
Net charge (recovery), of which	5,499	61.7	1,864	39.7	1,284	34.9
Auto loans to individuals.....	99	1.1	46	1.0	(32)	(0.9)
Mortgage loans to individuals	(33)	(0.4)	(42)	(0.9)	(169)	(4.6)
Credit card loans to individuals	281	3.2	72	1.5	-	-
Other loans to individuals	3,347	37.5	1,145	24.4	618	16.8
Corporate clients	1,805	20.2	643	13.7	867	23.5
Net write-offs, of which	(1,279)	(14.3)	(848)	(18.0)	(395)	(10.7)
Auto loans to individuals.....	(45)	(0.5)	(13)	(0.3)	(32)	(0.9)
Mortgage loans to individuals	-	-	-	-	-	-
Credit card loans to individuals	(54)	(0.6)	(54)	(1.1)	-	-
Other loans to individuals	(770)	(8.6)	(572)	(12.2)	(130)	(3.5)
Corporate clients	(410)	(4.6)	(209)	(4.4)	(233)	(6.3)
Balance at the end of the period	8,919	100.0	4,699	100.0	3,682	100.0

CBM's allowance for loan impairment increased by 89.8% to RUB 8,919 million as at 31 December 2013, from RUB 4,699 million as at 31 December 2012, and from RUB 3,682 million as at 31 December 2011. The significant increase in allowance for loan impairment during this period was primarily due to the significant growth in CBM's retail loan portfolio, in connection with which CBM makes relatively greater provision for loan impairment. During 2013, CBM revised the methodology it uses to estimate the impairment allowance for loans to individuals, in order to provide a more precise estimate of the impairment allowance by using historical data specific to the individual portfolios; as a result of applying this new methodology, the impairment allowance for loans to individuals is RUB 420.1 million lower than it would have been if the previous methodology had been applied. CBM also revised the methodology used to estimate the impairment allowance for the finance lease portfolio, which is included within the impairment allowance for loans to corporate customers, in order to provide a more accurate estimate of the impairment allowance by using historical data specific to the finance lease portfolio; as a result of applying this new methodology, the impairment allowance for the finance lease portfolio, which is included within the impairment allowance on loans to corporate customers, is approximately RUB 165.7 million higher as of 31 December 2013 than it would have been if the previous methodology had been applied.

Assets

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. CBM had cash and cash equivalents of RUB 67,065 million, RUB 47,459 million and RUB 34,433 million as at 31 December 2013, 2012 and 2011, respectively. The increase in cash and cash equivalents during the period resulted from CBM's decision to adopt a more conservative approach to liquidity management and from the growth of CBM's balance sheet.

See also "Risk Management – Liquidity Risk".

CBM had obligatory reserves with the CBR of RUB 2,799 million, RUB 2,546 million and RUB 2,259 million as at 31 December 2013, 2012 and 2011, respectively. This increase was primarily attributable to the growth of CBM's business, including deposits. See "Banking Regulation in Russia" for a description of applicable reserve requirements.

CBM had amounts due from other credit institutions of RUB 10,466 million, RUB 12,521 million and RUB 5,301 million as at 31 December 2013, 2012 and 2011, respectively. The decrease in such amounts from 2012 to 2013 reflected a decision to reduce activity in this area, following an increase from 2011 to 2012 resulting largely from the development of CBM's activities in the interbank borrowing and repo markets.

CBM's securities portfolio consists primarily of Russian government and municipal securities, corporate bonds and promissory notes of Russian banks. As part of its liquidity management activities, CBM engages in the trading of Russian debt securities. CBM aims to invest in liquid debt securities available to repo agreements with the CBR for these purposes. CBM's securities portfolio comprised 12.3%, 12.0% and 10.7% of CBM's total assets as at 31 December 2013, 2012 and 2011, respectively. As at 31 December 2013, 100% of CBM's securities portfolio consisted of securities of Russian issuers, as compared to 99.6% and 100% as at 31 December 2012 and 2011, respectively. CBM classifies its securities portfolio into securities designated at fair value through profit or loss, and investment securities available-for-sale.

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 31 December					
	2013		2012		2011	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Notes designated at fair value through profit or loss .	37,412	66.9	31,685	85.3	22,868	91.8
Notes available-for-sale.....	18,534	33.1	5,448	14.7	2,031	8.2
Total securities portfolio	55,946	100.0	37,132	100.0	24,899	100.0

Notes 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. Notes designated at fair value through profit or loss constitute the largest component of CBM's total securities portfolio, representing 66.9%, 85.3% and 91.8% of the total securities portfolio as at 31 December 2013, 2012 and 2011, respectively. CBM maintains securities designated at fair value through profit or loss as a liquidity management tool, and as at 31 December 2013, 68% 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. These securities are eligible for repo transactions, giving CBM the flexibility to seek liquidity from the CBR if required, and may also relatively easily be exchanged for cash in the relevant market.

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 31 December					
	2013		2012		2011	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Federal loan bonds (OFZ bonds)	698	1.9	3,575	11.3	9,287	40.6
Moscow government bonds.....	529	1.4	384	1.2	927	4.1

<i>As at 31 December</i>						
	<i>2013</i>		<i>2012</i>		<i>2011</i>	
	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>
Corporate bonds	21,550	57.6	23,936	75.6	10,408	45.5
Russian government Eurobonds	-	-	0.1	0.0	1,789	7.8
Regional authorities and municipal bonds.....	6,884	18.4	3,770	11.9	373	1.6
Equity investments	-	-	0.0	0.0	0.0	0.0
Pledged under sale and repurchase agreements	7,554	20.2	-	-	-	-
Regional authorities and municipal bonds	2,228	6.0	-	-	-	-
Corporate bonds	5,325	14.2	-	-	-	-
Derivative financial instruments	197	0.5	19	0.0	84	0.4
Total securities designated at fair value through profit or loss	37,412	100.0	31,685	100.0	22,868	100.0

Available-for-sale Notes

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 categorized as available-for-sale as at the dates indicated:

<i>As at 31 December</i>						
	<i>2013</i>		<i>2012</i>		<i>2011</i>	
	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>
Corporate bonds	3,276	17.7	3,116	57.2	1,993	98.2
Promissory notes	7,277	39.3	1,865	34.2	10	0.5
Pledged under sale and repurchase agreements	7,507	40.5	-	-	-	-
Pledged as collateral for interbank and other loans ..	468	2.5	440	8.0	-	-
Total debt securities available-for-sale	18,529	99.9	5,421	99.5	2,004	98.7
Equity investments	5	0.01	26	0.5	27	1.3
Total available-for-sale securities.....	18,534	100.0	5,448	100.0	2,031	100.0

The increased amount of available-for-sale securities generally reflects CBM's decision to place its excess liquidity in such securities and the increase in the value of such securities during the period under review. The increase in available-for-sale securities from RUB 5,448 million as at 31 December 2012 to RUB 18,534 million as at December 2013 reflects an increase in CBM's portfolio of promissory notes and the use of corporate bonds in repo agreements to manage CBM's liquidity position.

Property and Equipment

CBM's property and equipment consists of buildings, vehicles (including armoured cash handling vehicles), ATMs, payment terminals, computers and office equipment, furniture and other property and construction in progress. CBM's net value for property and equipment after accumulated depreciation was RUB 6,079 million, RUB 6,080 million and RUB 4,970 million as at 31 December 2013, 2012 and 2011. The increases in the value of CBM's property and equipment from 2011 to 2012 was primarily attributable to development of CBM's network and, to a lesser extent, investments in information technology; property and equipment remained relatively unchanged from 2012 to 2013, as investments during 2013 were offset by amortisation of property and equipment.

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 31 December					
	2013		2012		2011	
	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>
Deposits by customers	274,872	68.1	189,014	70.1	146,691	70.9
Debt securities issued	84,554	21.0	40,014	14.9	31,119	15.1
Deposits by credit institutions	24,398	6.0	35,184	13.1	24,964	12.1
Deposits by the CBR	14,566	3.6	—	—	—	—
Deferred tax liability	1,880	0.5	2,609	1.0	2,074	1.0
Current tax liability	197	0.0	126	0.0	16	0.0
Other liabilities	3,077	0.8	2,489	0.9	1,899	0.9
Total liabilities	403,544	100.0	269,435	100.0	206,763	100.0

As at 31 December 2013, CBM had total liabilities of RUB 403,544 million, an increase of RUB 134,109 million, or 49.8%, from RUB 269,435 million as at 31 December 2012, which in turn was an increase of RUB 62,672 million, or 30.3% from RUB 206,763 million as at 31 December 2011. The increase in total liabilities during the period under review reflected the continued expansion of CBM's business.

Deposits by Customers

The largest component of CBM's liabilities, and thus its 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 31 December					
	2013		2012		2011	
	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>
Individuals						
Demand accounts	9,682	3.5	7,286	3.8	4,842	3.3
Term deposits	124,784	45.4	99,726	52.8	80,527	54.9
Total due to individuals.....	134,467	48.9	107,012	56.6	85,369	58.2
Corporate customers						
Demand accounts	42,456	15.4	24,213	12.8	17,839	12.2
Term deposits	96,342	35.0	52,345	27.7	34,843	23.8
Subordinated.....	--	—	2,219	1.2	2,745	1.9
Term notes.....	1,607	0.6	3,225	1.7	5,894	4.0
Total due to corporate customers..	140,405	51	82,002	43.4	61,322	41.8
Total deposits by customers.....	274,872	100.0	189,014	100.0	146,691	100.0

Deposits by customers increased by RUB 85,858 million, or 45.4% to RUB 274,872 million as at 31 December 2013 from RUB 189,014 million as at 31 December 2012, which in turn was an increase of RUB 42,323 million, or 28.9% to

RUB 189,014 million as at 31 December 2012 from RUB 146,691 million as at 31 December 2011. These increases were primarily attributable to CBM's focus on increasing volumes of deposits in line with the growth of its business.

Deposits from individuals represent a significant share of CBM's total deposits by customers, accounting for 48.9%, 56.6% and 58.2% of CBM's total deposits by customers as at 31 December 2013, 2012 and 2011, respectively. Corporate deposits represented 51%, 43.4% and 41.8% of CBM's total deposits by customers as at 31 December 2013, 2012 and 2011, respectively. The increasing share of deposits from corporate customers during the period under review reflects CBM's success in attracting deposits from Russian businesses and is in line with the strategy of CBM.

The following table sets forth the breakdown of CBM's total deposits by economic sectors as of the dates indicated.

	<i>As at 31 December</i>			
	<i>2013</i>		<i>2012</i>	
	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>
Deposits from Individuals.....	134,467	48.9	107,012	56.6
Deposits from Corporate Customers				
Financial	58,349	21.2	32,031	16.9
Oil and industrial chemicals	23,458	8.5	1,173	0.6
Residential and commercial construction and development	14,805	5.4	2,202	1.2
Metallurgical	9,872	3.6	8,800	4.7
Services	8,019	2.9	7,008	3.7
Food and farm products	4,042	1.5	1,691	0.9
Consumer electronics, appliances and computers	3,933	1.4	8,435	4.5
Clothing, shoes, textiles and sporting goods	2,092	0.8	3,186	1.7
Electric utility	1,797	0.7	1,888	1.0
Industrial equipment and machinery	1,451	0.5	1,046	0.6
Industrial and infrastructure construction	1,125	0.4	864	0.5
Telecommunications	765	0.3	80	0.0
Construction and decorative materials, furniture	592	0.2	527	0.3
Automotive, motorcycles and spare parts	577	0.2	263	0.1
Pharmaceutical and medical products	558	0.2	974	0.5
Property rental	550	0.2	214	0.1
Consumer chemicals, perfumes and hygiene products	514	0.2	303	0.2
Products for home, gifts, jewellery and business accessories	271	0.1	365	0.2
Books, video, print and copy	88	0.0	96	0.1
Equipment leasing	85	0.0	88	0.0
Gardening and pet products	24	0.0	65	0.0
Paper, stationery and packaging products	23	0.0	404	0.2
Other	7,412	2.7	10,301	5.4
Total deposits from corporate customers.....	140,402	51.1	82,004	43.4
Total deposits from customers	274, 872	100.0	189,014	100.0

The following table presents the distribution of CBM's deposit concentrations amongst its five, ten and twenty largest depositors as of the dates indicated.

	As at 31 December			
	2013		2012	
	RUB millions	% of total deposits	RUB millions	% of total deposits
Five largest depositors	50,277	18.3	21 551	11.4
Ten largest depositors	68,684	25.0	32,894	17.4
Twenty largest depositors	88,475	32.2	46,080	24.4

As of 31 December 2013 and 2012, CBM did not have any demand or term deposits from customers that individually exceeded 10% of total customer accounts. See also "Risk Factors – Risks Relating to CBM's Business and Industry – CBM's corporate loan and deposit portfolio are concentrated".

CBM operates primarily in the Moscow Area, and accordingly the substantial majority of its deposits are from customers in Russia, accounting for 98.7%, 98.2% and 95.9% of total deposits to customers as of 31 December 2013, 2012 and 2011, respectively.

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 21.0%, 14.9% and 15.1% of CBM's total liabilities as at 31 December 2013, 2012 and 2011, respectively. As at 31 December 2013, 54.2% of CBM's debt securities in issue were denominated in Roubles, with the balance 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 31 December					
	2013		2012		2011	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Promissory notes after accrued interest and unamortised discount	6,659	7.9	8,156	20.4	6,517	20.9
Bonds issued	56,333	66.6	28,843	72.1	24,602	79.1
Total bonds issued, of which: ⁽¹⁾	77,895	92.1	31,858	79.6	24,602	79.1
Eurobonds	38,607	45.7	6,042	15.1	6,416	20.6
Other bonds	39,288	46.4	25,816	64.5	18,185	58.5
Total debt securities in issue	84,554	100.0	40,014	100.0	31,119	100.0

(1) Includes RUB 21,562, RUB 3,015 and RUB nil in subordinated bonds as of 31 December 2013, 2012 and 2011, respectively.

Promissory Notes

As at 31 December 2013, CBM had promissory notes outstanding, after adding accrued interest and unamortised discount, of RUB 6,659 million as compared to RUB 8,156 million and RUB 6,517 million as at 31 December 2012 and 2011, respectively. These promissory notes were issued as an additional source of funding for CBM's banking activities. The fluctuation in the volume of promissory notes resulted primarily from CBM's efforts to optimize its funding structure, as well as fluctuations in demand in the market for promissory notes.

Deposits by Credit Institutions

Deposits by credit institutions include demand and term deposits, syndicated loans, subordinated loans and payables under repurchase agreements. Deposits by credit institutions represented 6.0%, 13.1% and 12.1% of total liabilities as

at 31 December 2013, 2012 and 2011, respectively. The following table provides a breakdown of CBM's deposits by credit institutions as at the dates indicated:

	<i>As at 31 December</i>					
	<i>2013</i>		<i>2012</i>		<i>2011</i>	
	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>
Demand deposits	336	1.4	949	2.7	64	0.3
Term deposits	22,742	93.2	23,378	66.4	18,169	72.8
Syndicated loans.....	651	2.7	10,232	29.1	5,421	21.7
Subordinated debt.....	670	2.7	625	1.8	1,309	5.2
Total deposits by credit institutions	24,398	100.0	35,184	100.0	24,964	100.0

Total deposits by credit institutions were RUB 24,398 million, RUB 35,184 million and RUB 24,964 million as at 31 December 2011. In 2013, CBM issued significant amounts of debt securities, and as a consequence decreased the amount of deposits from credit institutions.

As at 31 December 2013, CBM had two counterparties whose balances exceeded 10.0% of CBM's total deposits by credit institutions, as compared to one such institutions as of 31 December 2012 and two such institutions as of 31 December 2011. The aggregate value of the facilities of the counterparties whose balances exceeded 10.0% of CBM's total deposits by credit institutions as at 31 December 2013 was RUB 7,036 million, as compared with RUB 6,483 million as at 31 December 2012 and RUB 8,901 million as at 31 December 2011.

CBM's term deposits include trade finance, bilateral loans from international financial institutions and development banks, principally the IFC, EBRD and Black Sea Trade and Development Bank and interbank loans. CBM's term deposits from credit institutions were RUB 22,742 million, RUB 23,378 million and RUB 18,169 million as at 31 December 2013, 2012 and 2011, respectively.

Deferred Tax Liability

Deferred tax liability was RUB 1,880 million, RUB 2,609 million and RUB 2,100 million as at 31 December 2013, 2012 and 2011 respectively. The decrease in deferred tax liability as at 31 December 2013 reflected repayment of a subordinated loan from Wellcreek Corporation in 2013, which had been granted at a discounted interest rate, resulting in a deferred tax liability, and which was released on repayment of the loan. Deferred tax liability primarily arises from differences in loan loss provision levels in Russian tax accounting and IFRS tax accounting.

Current Tax Liability

Current tax liability was RUB 197 million, RUB 126 million and RUB 16 million as at 31 December 2013, 2012 and 2011, respectively. Current tax liability is calculated as the difference between the amount of income tax paid in advance and the amount of income tax calculated at the end of each quarter on the basis of actual income.

Other Liabilities

Other liabilities amount to RUB 3,077 million, RUB 2,489 million and RUB 1,899 million as at 31 December 2013, 2012 and 2011 respectively. Other liabilities consist primarily of payables to suppliers and allowances on issued guarantees. Other liabilities increased during the period under review primarily due to an increase in payables to suppliers in connection with the overall growth of CBM's business.

Equity

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

	<i>As at 31 December</i>		
	<i>2013</i>	<i>2012</i>	<i>2011</i>
	<i>RUB millions</i>		
Share capital	15,330	13,540	11,638
Additional paid-in capital	9,769	9,019	3,699
Revaluation surplus for buildings	1,116	1,116	500
Revaluation reserve for available-for-sale securities	(38)	16	(53)
Retained earnings	24,481	15,601	9,823
Total equity	50,658	39,292	25,608

CBM's total equity increased by 28.9% to RUB 50,658 million as at 31 December 2013 from RUB 39,292 million as at 31 December 2012, which was an increase of 53.4% from RUB 25,608 million as at 31 December 2011.

CBM's controlling beneficial shareholder, Mr. Roman Avdeev, has from early 2010 to 31 December 2013 made six capital contributions to CBM in the form of subordinated loans in an aggregate amount of RUB 8.3 billion . These subordinated loans have subsequently been repaid or converted into equity. In September 2013, CBM's shareholders subscribed pro rata for newly issued shares, either for cash or against the cancellation of subordinated loans, resulting in the issuance of 1,789,928,783 additional ordinary shares. See "– *Capital Adequacy*".

Analysis by Segment

CBM's business segments are defined on the basis of the organisational structure of CBM. As discussed above under "– *Segmentation*", CBM operates its business around its corporate and retail banking operations, and its other segments operate primarily in support of three operations; expenses not allocated to a particular segment consist primarily of expenses related to administrative and support functions.

Corporate banking accounts for the largest share of CBM's revenues, accounting for 35.5% of CBM's revenues for the year ended 31 December 2013, as compared to 39.1% and 43.0% for 2012 and 2011, respectively. Retail banking represented 41.7% of CBM's revenues for the year ended 31 December 2013, as compared to 38.2% and 40.0% for 2012 and 2011, respectively.

The following tables set forth certain data for each of CBM's operating segments as at the dates and for the years indicated. Segment revenue includes inter-segment revenue. Intersegment pricing is determined on an arm's length basis.

	<i>For the year ended 31 December</i>					
	<i>2013</i>		<i>2012</i>		<i>2011</i>	
	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>
Segment revenue						
Corporate banking	17,912	35.5	12,886	39.1	10,126	43.0
Retail banking	21,056	41.7	12,586	38.2	9,415	40.0
Treasury	6,539	13.0	4,473	13.6	2,051	8.7
International business	3,359	6.7	1,797	5.4	1,136	4.9
Cash operations	1,577	3.1	1,233	3.7	811	3.4
Unallocated	–	–	–	–	–	–
Total segment revenue	50,442	100.0	32,976	100.0	23,538	100.0
Segment expenses						

For the year ended 31 December

	2013		2012		2011	
	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>
Corporate banking	8,826	22.5	4,795	18.6	(3,693)	19.8
Retail banking	18,700	47.6	11,901	46.3	(8,908)	47.7
Treasury	5,099	13.0	3,615	14.1	(3,399)	18.2
International business	2,902	7.4	1,127	4.4	(636)	3.4
Cash operations	1,241	3.2	983	3.8	(713)	3.8
Unallocated	2,480	6.3	3,308	12.9	(1,331)	7.1
Total segment expenses	39,248	100.0	25,729	100.0	(18,680)	100.0
Segment result						
Corporate banking	9,086	81.2	8,091	111.6	6,433	132.4
Retail banking	2,357	21.1	685	9.5	507	10.4
Treasury	1,440	12.9	858	11.8	(1,348)	(27.7)
International business	456	4.1	671	9.3	500	10.3
Cash operations	335	3.0	250	3.4	98	2.0
Unallocated	(2,480)	(22.2)	(3,308)	(45.6)	(1,331)	(27.4)
Total segment result	11,194	100.0	7,247	100.0	4,858	100.0

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:

	<i>As at 31 December</i>					
	<i>2013</i>		<i>2012</i>		<i>2011</i>	
	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>	<i>RUB millions</i>	<i>% of total</i>
Guarantees and letters of credit	70,165	92.1	40,587	94.9	29,869	95.8
Undrawn loan commitments.....	5,745	7.6	1,968	4.6	1,080	3.5
Other contingent liabilities	226	0.3	216	0.5	215	0.7
Total credit-related commitments..	76,136	100.0	42,771	100.0	31,164	100.0

Principal unrecognised commitments of CBM are comprised of undrawn loan commitments and letters of credit and guarantees. The increases in guarantees and letters of credit during the period under review reflect increases of volumes in line with the general growth in CBM's business, particularly the increase on CBM's activities in providing these services to its customers. The increase in guarantees and letters of credit from 31 December 2011 to 31 December 2012 was also partly attributable to the upgrade of CBM's credit rating from Fitch in June 2012.

Capital Adequacy

Basel Capital Adequacy

The following table sets forth certain capital ratios of CBM as at the dates indicated, 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. See Note 27 to the 2013 Annual Financial Statements and Note 21 to the Interim Financial Information.

	<i>As at 31 December</i>		
	<i>2013</i>	<i>2012</i>	<i>2011</i>
Tier 1 capital	<i>RUB millions</i>		
Share capital and additional paid-in capital	25,098	22,559	15,337
Retained earnings	24,481	15,601	9,823
Goodwill	(301)	—	—
Total Tier 1 capital	49,279	38,160	25,160
Tier 2 capital			
Revaluation surplus for buildings	1,116	1,116	500
Revaluation reserve for investments available-for-sale	(38)	16	(53)
Subordinated loans			
Subordinated loan from EBRD	—	—	483
Subordinated loan from Black Sea Trade and Development Bank	393	486	644
Subordinated shareholder loans from Wellcreek Corporation	—	2,218	2,745
Subordinated bonds	21,156	3,000	--
Total Tier 2 capital	22,627	6,836	4,320
Total capital	71,906	44,996	29,480
Risk-weighted assets			
Banking book	383,956	245,565	184,090
Trading book	65,310	40,068	21,013
Total risk weighted assets	449,266	285,633	205,103
Total capital expressed as a percentage of risk-weighted assets (total capital adequacy ratio)	16.0	15.8	14.4

	<i>As at 31 December</i>		
	<i>2013</i>	<i>2012</i>	<i>2011</i>
Total Tier 1 capital expressed as a percentage of risk-weighted assets (Tier 1 capital adequacy ratio)	11.0	13.4	12.3

The following table sets forth certain capital ratios of CBM as at the dates indicated, calculated in accordance with Basel III requirements as adopted in the Russian Federation.

	<i>As at 30 September 2014</i>	<i>As at 31 December 2013</i>
	<i>RUB millions</i>	
Tier 1 capital		
Share capital and additional paid-in capital	25,098	25,098
Retained earnings	30,852	24,481
Goodwill	(301)	(301)
Intangible assets	(120)	(151)
Total core Tier 1 capital	55,529	49,128
Additional capital	-	-
Total Tier 1 capital	55,529	49,128
Tier 2 capital		
Revaluation surplus for buildings	1,116	1,116
Revaluation reserve for investments available-for-sale	(219)	(38)
Subordinated loans		
Subordinated loans from Black Sea Trade and Development Bank	284	353
Subordinated bonds	19,819	20,505
Total Tier 2 capital	21,000	21,936
Total capital	76,529	71,064
Risk-weighted assets		
Banking book	418,245	383,956
Trading book	64,391	65,310
Operational risk	32,943	32,943
Total risk weighted assets	515,579	482,210
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	14.8	14.7
Total Tier 1 capital expressed as a percentage of risk-weighted assets (Core Tier 1 capital ratio)	10.8	10.2
Total tier 1 capital expressed as a percentage of risk-weighted assets (Tier 1 capital ratio)	10.8	10.2

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

During the period under review, CBM's Tier 1 capital has been supported by retained earnings, 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, and an issuance of shares to CBM's existing shareholders in September 2013.

During the period under review, CBM's Tier 2 capital has been supported by an issuance of subordinated domestic bonds in December 2012 and February 2013 and an issuance of subordinated Eurobonds in May 2013.

CBR Capital Adequacy Ratio

CBM is required to report capital ratios to the CBR on a monthly basis. See "*Banking Regulation in Russia – Capital Requirements – Mandatory Economic Ratios*". Regulation 395-P, which applies for prudential purposes from 1 January 2014, distinguishes between core capital (**Tier 1 capital**) and supplemental capital (**Tier 2 capital**). Tier 1 capital is further divided into base capital (**CET 1**) and additional Tier 1 capital.

CBM's capital adequacy ratios under Regulation 395-P are calculated by CBM's management. The underlying components of such ratios are calculated in accordance with Russian Accounting Standards (**RAS**), and are derived from CBM's standalone financial statements prepared in accordance with RAS. Financial information calculated under RAS differs materially from, and is not comparable to, financial information calculated under IFRS.

As at 1 October 2014, CBM had CET 1 of 8.14 %, core capital of 8.14%, and total capital of 12.28%.

Accounting Policies

Significant Accounting Policies and New Accounting Standards

The accounting policies applied by CBM in the preparation of the Interim Financial Information are consistent with those applied by CBM in the 2013 Annual Financial Statements.

Certain amendments to IFRS became effective from 1 January 2014 and have been adopted by CBM. These changes do not have a significant effect on the Interim Financial Information.

The following changes to accounting standards are effective for annual periods beginning on or after 1 January 2014:

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 will be effective for annual periods beginning on or after 1 January 2018. 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 the classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The standard is expected to be finalized in 2014. CBM recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the Financial Statements. The impact of these changes will be analysed during the course of the project, as further phases of the standard are issued. CBM does not intend to adopt this standard early.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities, but rather clarify the offsetting criteria to address inconsistencies in their application. The amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

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 are discussed below.

Impairment of financial assets

CBM assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, CBM determines the amount of any impairment loss. A financial asset or a group of financial assets 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 financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets 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 financial asset or group of financial assets 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 related 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. In addition, 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.

For periods starting prior to 1 January 2014, CBM estimated 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, CBM generally relies on market prices and professional judgment of internal appraisers, applying discount where appropriate. 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 1%, the impairment allowance for loans to corporate clients as at 31 December 2013 would increase or decrease by RUB 2,155.6 million.

CBM estimates loan impairment for loans to retail clients based on historical loss experience for these types of loans using historical loss migration patterns for the past twenty four months and the fair value of collateral. The significant assumptions used in determining the impairment losses for loans to individuals include that loss migration rates and recovery rates are stable and can be estimated based on the historic loss migration pattern for the past 24 months, and a decrease of 50% in mortgage loan loss migration rates and recovery rates is applied as these loans are collateralised with real estate for which the fair value of collateral is estimated on a regular basis.

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 1%, the impairment allowance as at 31 December 2013 would increase or decrease by RUB 933.8 million.

Commission income from insurance

CBM acts as an agent for insurance providers offering their insurance products to consumer loan borrowers, and commission income from insurance represents commissions for such agency services received by the Bank from such partners. Such income is determined and recognized based on the Bank's contractual arrangements with the insurance provider rather than with the borrower, and is thus not integral to the profitability of a particular loan. CBM does not participate in the insurance risk, which is entirely borne by the partner; commission income from insurance is recognized in profit or loss when the Bank provides the agency service to the insurance company. The borrowers have a choice whether to purchase the insurance policy, and a consumer loan customer's decision whether or not to purchase an insurance policy does not affect the stated interest rate offered to that customer.

Fair value of financial instruments

CBM estimates the fair value of financial assets based on an approximation of the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the group determines fair values using other valuation techniques, including net present value and discounted cash flow models and comparison to similar instruments for which market-observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates used in estimating discount rates and foreign currency exchange rates. CBM uses widely recognised valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter derivatives such as interest rate swaps.

BUSINESS

Overview

CBM is a leading privately owned universal bank in Russia that focuses on providing banking products and services to corporate customers as well as individuals in Moscow and the Moscow region (collectively referred to as the **Moscow Area**). CBM offers a comprehensive range of banking services, including lending, deposit-taking, cash handling, international settlements, trade finance, letters of credit, guarantees and other products. CBM's corporate banking business is primarily focused on retail and wholesale trading corporate customers, enabling CBM to capitalize on the fast-growing Russian consumer market. CBM's rapidly growing retail business is focused on consumer loans to high quality retail customers, with a particular emphasis on cross-sales of retail products to the employees and clients of its corporate customers.

Through its multichannel distribution network, including offices, ATMs, payment terminals and online services, CBM is able to deliver superior services to its customers. CBM is focused on delivering customer-centred services, with quick and user friendly service and high levels of responsiveness. Through its leading cash handling platform and payment terminal network, CBM is able to monitor the cash flows and payment histories of its customers, supporting strong portfolio performance and asset quality.

As of 30 September 2014, CBM had total gross loans to customers of RUB 371.7 billion, with corporate banking accounting for 66.7% of total gross loans to customers, and retail banking accounting for 33.3% of total gross loans to customers, and as of 31 December 2013 CBM had total gross loans to customers of RUB 317.9 billion, with corporate banking accounting for 69.2% of total gross loans to customers, and retail banking accounting for 30.8% of total gross loans to customers. CBM's total assets were RUB 496.4 billion as of 30 September 2014 and RUB 454.2 billion as of 31 December 2013. CBM's total equity was RUB 56.8 billion as of 30 September 2014 and RUB 50.7 billion as of 31 December 2013. CBM's net profit was RUB 6.4 billion as of 30 September 2014 and RUB 5.6 million for the nine-month period ended 30 September 2013.

As at 30 September 2014, CBM had 59 branches, 33 cash offices, over 800 ATMs and c.6,000 payment terminals. CBM was the second largest provider of cash handling services in Moscow and the fourth largest in Russia for the first three-quarters of 2013, according to a survey conducted by Interfax, measured by total amount of collected funds. CBM's payment terminal network is one of the largest in Russia and was ranked second in Moscow, in each case based on the number of payment terminals as of 1 January 2013, according to RBC Rating. See "*Business Operations – Distribution Network*".

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 believes that its competitive strengths are as follows.

Significant potential for further economic development of the Moscow Area banking market

CBM's business is focused on the Moscow Area, which is the economic and financial centre of Russia and the most economically developed, wealthiest and most populous area in Russia. The Moscow Area has significant potential for further economic development, supported by the large population and high income and consumer spending, as well as recent geographic expansion and associated investment activities. These attributes contribute to significant demand for high-quality banking products and services in the Moscow Area, which CBM believes will increase for the foreseeable future.

Moscow Area's gross domestic product (**GDP**) in 2012 was RUB 12,265 billion, accounting for more than a quarter of Russia's GDP, according to Rosstat, and Moscow Area's GDP per capita in 2012 was RUB 644,479, approximately 2.0

times greater than Russia's average GDP per capita, according to Rosstat. According to Rosstat, the Moscow Area had a population of approximately 19 million in 2013, approximately 13% of Russia's total population, and the population growth in Moscow was 1.2% in 2013, as compared to 0.0% for Russia. The average monthly income in Moscow in 2013 was US\$ 1,131, more than twice the Russian average, according to Rosstat, with the average Muscovite spending approximately 77% of his or her monthly income on consumer products. Moscow also has a skilled and well-qualified workforce, with approximately 48% of the population in 2012 having undertaken higher education studies according to the Moscow City Government. According to Rosstat, unemployment in Moscow was approximately 1.7% in 2013. Moscow also has a diversified economy, with the retail and wholesale trading sector, which is the focus of CBM's business, accounting for approximately 36% of Moscow's GDP in 2012, according to Rosstat.

According to the PricewaterhouseCoopers report "From Moscow to Sao Paulo: Emerging 7 Cities 2013", Moscow is one of the most economically attractive and upcoming cities globally. The GDP and per capita GDP of Moscow are the highest of the seven emerging cities considered, with others being Beijing, Sao Paulo, Mexico City, Istanbul, Jakarta and Mumbai. PricewaterhouseCoopers estimates that Moscow's GDP will reach US\$ 547 billion by 2025.

Between 2009 and 2013 banking assets in the Moscow Area grew by 19% to RUB 38,898 billion (representing approximately 63% of total banking assets in Russia), loans grew by 20% to RUB 23,672 billion (representing approximately 58% of total loans in Russia) and deposits grew by 18% to RUB 20,742 billion (representing approximately 61% of total deposits in Russia), according to the CBR. At the same time, consolidation amongst Russian banks, in particular amongst privately owned banks, is being driven by tightening banking regulation and benefits derived from economies of scale and diversification.

CBM's management believes that CBM is strongly positioned in the highly competitive market for banking services in the Moscow Area, as customers increasingly shift their business towards strongly-capitalized, stable market participants that offer high-quality services. CBM's focus on the Moscow Area also gives it significant knowledge of and expertise in the requirements of its customers in this area, enabling CBM to provide tailored products and services through a targeted network of offices and cash offices as well as its payment terminal network without the costs and complexity of an extensive network of regional offices or supplementary offices. In addition, a number of CBM's corporate customers have operations throughout Russia, and CBM is able to leverage its relationships with these customers to provide banking services for their corporate activities in other parts of Russia.

Universal bank focused on fast growing Russian consumer market

CBM is focused on servicing the attractive high-growth and resilient consumer sector through multiproduct relationships with retail and wholesale trading companies and high quality retail customers.

Retail and wholesale trading is one of the largest and fastest growing segments of the Russian economy. In 2012, it accounted for approximately 19% of Russia's GDP and approximately 36% of Moscow's GDP, according to Rosstat, with retail and wholesale trade turnover in Russia having grown on average 7.3% between 2003 and 2013 and expected to grow on average 9.9% between 2012 and 2016, according to the Moscow Government's projections. Loans to retail and wholesale trading companies accounted for about 50% of CBM's corporate loan portfolio as at 30 September 2014 and its customers include many of the largest Russian retailers. CBM has built a deep knowledge of and longstanding relationships with its corporate customers by leveraging off its leading cash handling services, which are an important product for retail and wholesale trading customers, and their use of these services aids CBM in monitoring the financial and liquidity positions of these customers. Retail and wholesale trading companies are also active users of trade finance (being direct importers of goods), acquiring and other commission products. CBM also targets corporate customers in other industries, such as production, agriculture and forestry, real estate and services, in order to maintain and grow a balanced and diversified loan portfolio.

CBM also has a well-established and growing retail business, accounting for approximately 33.3% of CBM's total gross loans as of 30 September 2014 and with a stable retail deposit funding base accounting for approximately 49.7% of CBM's total customer deposits as of the same date. CBM offers a full range of retail banking products with a focus on consumer loans and credit card loans, accounting for 77.4% of CBM's total retail loans as at 30 September 2014. CBM focuses its customer acquisition efforts on high quality customers, in particular customers with a verifiable positive credit profile such as employees and clients of its corporate customers, customers with positive credit histories with their existing banks and public sector employees.

Efficient multichannel distribution and service platform

CBM sees offering high levels of customer service as key to attracting and retaining customers. A key component of its customer service offering is its widespread and multichannel distribution platform of, as at 30 September 2014, 59 branches, 33 cash offices, more than 800 ATMs and c.6,000 payment terminals, and remote banking provided through the internet and a call centre. This platform serves as an effective physical platform supported by remote service channels for offering CBM's products to existing and potential retail customers.

As at 1 January 2013, CBM's payment terminal network was the second largest in Moscow by number of terminals, according to RBC Rating. The payment terminals are cost effective, moveable points-of-sale that serve as both customer service and customer acquisition channels. Through payment terminals, CBM's customers may pay their bills, open deposit accounts, deposit money into bank accounts, make wire transfers, apply for loans and repay loans. The customers of other banks may use CBM's payment terminals to make bill payments and loan repayments.

CBM's offices are located in areas that are easily accessible by customers, and have extended opening hours to meet customer needs. CBM maintains the high quality and efficiency of its services by rigorously monitoring key performance indicators of each branch, and promoting fast and effective decision-making processes, particularly on loan applications, and enabling access to a wide range of products in a single visit to a branch.

CBM enhances its business efficiency by increasingly relying on remote channels for distribution of its products and services. CBM utilises advanced information technology to provide its customers with quick, user-friendly remote access to CBM's products and services. CBM provides electronic payment systems for corporate customers and an online banking system and mobile banking application for retail customers. In 2014, CBM's internet banking system was recognised as one of the top five in Russia by Markswebb Rank & Report, based on its service characteristics. Remote channels of distribution such as internet banking and physical distribution networks such as payment terminals together enable CBM's customers to have seven-day-per-week access to CBM's banking services.

Disciplined risk management driving strong portfolio performance

CBM's strong balance sheet, liquidity and capital positions are driven by its profitability (retained earnings) and disciplined risk management. CBM's NPL ratio has remained stable and low since 2008 with a high of 3% in 2009 and a low of 1% in 2012, although it has recently deteriorated slightly. As at 31 December 2013, CBM's NPL ratio was 1.3%, its NPL coverage 212.6% and its cost of risk 2.1%. As of 30 September 2014, CBM's NPL ratio was 2.6%, its NPL coverage was 139.6% and its cost of risk 2.7%.

CBM focuses on quality of assets (measured by cost of risk and level of NPLs) as key indicators of the performance of its loan portfolio, and relationship managers are incentivised to meet risk management targets. In line with its strategy to focus on asset quality, CBM emphasises customer selection and credit approval as a key element of its risk management. In its corporate business, each corporate customer has a dedicated credit officer and credit decisions are based on a comprehensive assessment of the customer's financial condition, industry prospects, competitive positioning, business reputation and available collateral.

CBM believes that its consumer-focused corporate customers tend to be more resilient to economic volatility and have lower business cyclicality than customers in other sectors of the Russian economy. In particular, CBM is able to use information obtained from providing cash handling services, which are particularly important to many of its retail and wholesale trading customers, to pre-assess and monitor the ongoing financial condition of such customers. In addition,

many of CBM's corporate loans have a shorter tenor, which CBM believes reduces the risk of default. As of 31 December 2013, 53% of CBM's corporate loans fell due within six months and 15% fell due within six months to one year. CBM also seeks to maintain a diversified customer base, and the top 10 corporate borrowers as at 31 December 2013 accounted for 16.7% of the gross corporate loan portfolio.

With respect to retail customers, CBM deploys a sophisticated and highly automated credit risk management system which uses internal scoring models and is supported by CBM's database of customer information. In its retail business, CBM has a targeted customer strategy focused on existing customers and new customers with verifiable positive credit profiles, such as on employees and clients of its corporate customers, customers with positive credit histories with their existing banks and public sector employees. CBM seeks to obtain significant information on existing and new retail customers prior to extending loans, for example through providing payroll and other services to corporate customers of whom the retail customers are employees or clients and from the potential retail customers use of its payment terminal network. CBM also maintains a centralised underwriting process with well-established and well-executed scoring procedures, which bases the scoring on the customer's reliability, credit history, stability of income, assets and liabilities and liquidity, supporting CBM's customer selection processes and risk management.

Operational excellence with further upside potential

CBM sees significant potential for capitalizing on further growth in the Moscow Area banking market. CBM has a modern, efficient and scalable banking platform, and believes that further growth in the Moscow Area banking market will enable it to capture economies of scale. For example, CBM's "unified product" enables an approved customer remotely to obtain and access products and services without having to revisit a branch, thus reducing branch network traffic and improving efficiency and the customer experience. The introduction of an integrated customer relationship management IT system has streamlined business processes and strengthened risk management capability through improved information sharing.

CBM's geographical focus in the Moscow Area also enables CBM to maintain a centrally focused management and to centralise many of its operations, and to avoid costs involved in operating and managing a more extensive regional branch network. CBM's strong balance sheet, regulatory capital position and diversified funding base also provide CBM with a solid platform from which to grow its business and benefit from the opportunities created by the growing banking market in the Moscow Area.

Strong management team with proven ability to execute and best-in-class corporate governance

CBM has a strong, entrepreneurial management team with a proven track record of achieving growth and meeting financial performance targets. CBM's management team has extensive experience with the Russian banking market with an average of over ten years' experience in the financial sector. The management team has to a large extent grown with CBM, with an average tenure of more than six years, and has been strengthened with complementary expertise in 2011 and 2013.

The controlling beneficial shareholder, Mr. Roman Avdeev, has emphasized the importance of strong corporate governance. In 2012, CBM's governance was enhanced by the participation of the EBRD and IFC through the purchase of minority equity stakes and the appointment of EBRD and IFC representatives to CBM's Supervisory Board. CBM's Supervisory Board currently consists of ten members, of whom four are independent non-executive directors within the meaning of the U.K. Corporate Governance Code and two are representatives of the EBRD and IFC. Independent non-executive directors have been present on CBM's Supervisory Board since 2008.

Delivering sustainable profitable growth

CBM has a strong track record of organic growth with a 95.5% growth in total assets from 2011 to 2013, while maintaining an average return on average equity (**RoAE**) of 20.1%, an average return on average assets (**ROAA**) of 2.4% during the same period.

Strategy

CBM's objective is to be one of the leading private universal commercial banks in Russia and become the bank of first choice for its customers. It aims to provide high-quality corporate and retail banking products and services based on best international and Russian practices while achieving strong and sustainable performance.

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

Further capitalise on growth prospects of the Moscow Area banking market

CBM believes that the banking market within the Moscow Area will continue to offer growth potential and prospects. By combining its business and market expertise in the Moscow Area, its modern, efficient and scalable banking platform, and its strong balance sheet, regulatory capital position, diversified funding base and the strength of its management team, CBM intends to capitalize on this growth potential.

Expand corporate customer base in its core customer segments

CBM seeks to further develop its core consumer-focused customer base, particularly in the retail and wholesale trading sectors. In order to facilitate the acquisition of new customers, and to enhance the loyalty of existing customers, CBM plans to focus on offering high quality services and innovative product lines, with a particular emphasis on fee and commission products to facilitate customer acquisition and deepen customer relationships. In addition, in many cases, retail and wholesale trading companies are also direct importers of goods, making them the main customers for CBM's trade finance services, generating further opportunities for CBM to expand its customer relationships as it services the Moscow base of businesses that operate throughout Russia and internationally.

Moreover, CBM aims to expand its corporate banking relationships with large companies with publicly listed securities, as well as develop banking relationships with medium-sized companies operating in the Moscow Area. CBM will continue to leverage its leading cash handling business as an entry point for new corporate customers, as well as a core part of its services to existing corporate customers.

Continue developing a rapidly growing retail banking platform

Whilst continuing to grow its corporate business, CBM aims to gradually increase the proportion of retail banking in its overall business to approximately 40% of its total loan portfolio in the long term, with a particular focus on consumer loans and mortgage loans.

CBM intends to deepen its relationships with existing customers, through strong customer services, strengthening of its brand and cross selling of its products, and will seek opportunities to leverage its existing corporate customer base to cost-effectively acquire new retail customers, for example through targeting employees of its corporate customers. In growing its retail customer base, CBM will maintain its focus on attracting high quality customers with verifiable positive credit profiles. CBM plans to continue to develop customer acquisition and distribution channels as part of its plan to expand its retail banking business.

Leverage strong customer service

CBM intends to maintain its status as a leader in customer service and quality through continuing to provide fast and flexible decision making, further improving its IT systems and delivering leading online and mobile banking services. CBM also plans to actively promote the CBM brand in order to improve awareness of the brand among its retail customer base. Management believes that developing high brand awareness will facilitate the retention of, and enhance the relationship with existing corporate and retail customers, as well as help attract new customers. Since 2010, CBM has been marketing its retail banking products and services in the Moscow Area through advertising on billboards, in public transportation, over the radio as well as in lotteries and competitions. CBM's cash handling vehicles and payment terminals provide further advertising space and serve to promote the CBM brand. CBM has also undertaken an

extensive federal-wide advertising campaign during the Sochi 2014 Olympic Games and is the official sponsor of the Russian national football team.

Maintain disciplined approach to risk management

CBM aims to maintain its focus on a conservative and disciplined risk management, including by targeting high credit quality customers and applying different credit approval processes to different customer categories. CBM also aims to keep its customer base diversified, and more balanced between corporate and retail customers. In addition, CBM plans to maintain its conservative policy with respect to its securities portfolio, trading securities on a proprietary basis solely for the purpose of managing its liquidity.

Leverage efficiency to drive strong financial results

CBM plans to maintain its financial performance through continuing to focus on productivity and efficiency while maintaining a strong balance sheet. CBM is targeting a cost-to-income ratio of below 40%.

To increase productivity and deliver reliable performance, CBM uses advanced technological solutions and increasingly relies on remote access channels to serve its customers. CBM also seeks to reduce its customer acquisition costs by cross-selling its retail products and services to the employees of its corporate customers and through distance sales channels. For example, CBM seeks to reduce maintenance costs of its ATM and payment terminal network by installing them along its cash handling routes.

Retain top management and employees

CBM aims to continue to attract and retain top management and skilled employees that have experience and expertise in the Russian banking market and the financial sector in general. CBM seeks to foster a high performance and strong risk management culture, including through the use of appropriate incentive schemes, regular training and the quality of working environment as well as by offering opportunities for internal advancement and promotion.

History

CBM was founded in 1992 and acquired by Mr. Roman Avdeev in 1994. 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.

CBM has grown organically, and has historically primarily focused its corporate banking business on retail and wholesale trading corporate customers. In order to diversify and further expand its business, over the past several years CBM has increasingly emphasised the growth of its retail business. CBM has operated primarily in Moscow and, increasingly, the Moscow region, leveraging its market-leading cash handling network.

Business Operations

CBM's business can be largely categorised into corporate banking and retail banking. Cash handling is another important component of CBM's business, and it is mainly operated in connection with CBM's corporate banking business.

Corporate Business

CBM offers its corporate customers a range of banking products and services, including corporate loans; deposits; fee- and commission-based products and services such as trade finance, guarantees and letters of credit; and other products and services such as payments, leasing, factoring and cash handling. As part of its emphasis on customer service, CBM also tailors certain products and services to its customers' needs. Moreover, CBM is one of the market leaders in providing cash handling services in the Moscow Area.

A large portion of CBM's customer base is focused on the consumer sector, and particularly comprised of large and cash-intensive Moscow-based retail and wholesale trading companies. Many of CBM's corporate customers make use of CBM's cash handling services.

CBM is focused on developing multi-product relationships with its corporate banking customers. CBM seeks to cross-sell a range of products and services, including cash handling, guarantees, trade finance and other fee- and commission-based products, to its existing corporate customers and to market retail products to their employees and customers.

As at 31 December 2013, CBM had over 15,000 active corporate customers. CBM categorises its corporate customers as companies that have annual revenues up to RUB 10 billion, companies with annual revenues over RUB 10 billion, and companies that have annual revenues over RUB 10 billion and also have publicly listed debt or equity securities. Core products for medium-sized companies, which CBM considers to be companies with annual revenues from RUB 1 billion to RUB 10 billion, include overdrafts, loans against collected cash, traditional loans and guarantees. Core products for large companies with publicly listed securities include deposits and short-term loans. Regardless of the category in which a potential corporate customer falls, CBM applies a uniform risk management approach to all of its corporate customers.

CBM has five corporate banking business centres, located in different parts of Moscow and specialising in fee-based services for corporate customers only. At its corporate banking business centres, CBM offers individual services to its corporate customers by assigning a personal manager to each corporate customer and providing on-going advisory services. CBM's corporate customers are also able to conduct banking business at any of CBM's offices.

CBM seeks to compete primarily on the basis of the quality of its products and services and customer relationships. Its key competitors in providing corporate banking services include Sberbank, VTB Group (including Bank of Moscow), Promsvyazbank, Alfa-Bank and the Otkritie Group (including Nomos Bank). CBM aims to provide additional value-added and complimentary services alongside the services provided by 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 larger market share.

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. When extending loans, CBM generally takes collateral, either in the form of a pledge of assets or a corporate guarantee, while overdrafts are unsecured. Many of CBM's corporate loans have a short tenor, which CBM believes reduces the risk of default, with 68% of its corporate loans falling due within one year and 32% falling due within from one year to five years as at 31 December 2013.

As at 31 December 2013, corporate loans represented 69.2% of CBM's total loan portfolio. The largest part of CBM's corporate customer base has traditionally been large retail and wholesale trading companies. As at 31 December 2013, 12.8% of CBM's corporate loans were to companies in the food and farm products sector, 12.2% were to companies in the electronics sector, 10.6% were to companies in the construction and development sector and 9.1% were to companies in the metallurgy sector. While CBM has several strategic corporate customers, it aims to maintain a diverse corporate loan portfolio by industry to minimise the risk of any major impact on the overall business. CBM has established exposure limits to any single sector of the economy at 15% of its gross corporate loan portfolio. As at 31 December 2013, NPLs accounted for 0.2% of CBM's gross corporate loan portfolio.

As at 31 December 2013, loans to CBM's 10 and 20 largest corporate borrowers comprised 16.7% and 27.6% of its corporate loan portfolio respectively. CBM seeks to further diversify its loan portfolio by borrowers, including by attracting large, highly liquid borrowers with publicly traded debt or equity securities. See "*Operating and Financial Review – Financial Position – Total Assets – Loans to Customers*" and "*Risk Management – Credit Risk*" for a further discussion of CBM's loan portfolio.

Corporate Deposits

CBM provides a range of current and term accounts to its corporate customers, and seeks to develop and offer new products to meet customer needs. CBM offers competitive interest rates on its corporate deposits and seeks to support margins through operational efficiencies, including by simplifying the execution of transactions, such as by facilitating paperless account opening and deposit procedures, and centralising operations and through its IT platform (particularly through its focus on the Moscow Area). In addition to its current and term accounts deposit services, CBM offers its corporate customers the possibility of acquiring promissory notes issued by CBM, which are liquid financial instruments that can be further traded or pledged.

As at 31 December 2013, CBM had nearly 23,000 corporate depositors and the total volume of deposits by corporate customers amounted to RUB 140.4 billion, representing 51.1% of CBM's total customer deposits. CBM's 20 largest corporate deposits comprised 32.2% of its deposits as at 31 December 2013, and its ten largest corporate deposits comprised 25.0% of its deposits. See “*Operating and Financial Review –Financial Position –Total Liabilities – Deposits by Customers*” for a further discussion of CBM's customer deposits.

Trade Finance and Letters of Credit

CBM's trade finance products include letters of credit, stand-by letters of credit, international guarantees and export-import financing. These products are internationally accepted instruments that aid in mitigating commercial and other risks. CBM transacts with more than 60 foreign banks in trade finance and is one of the leaders in this market segment among medium-sized Russian banks. In the year ended 31 December 2013, CBM completed 423 trade finance transactions, amounting to a volume of US\$ 1,665 million.

CBM co-operates with a number of export credit agencies (ECAs) to provide long-term ECA-backed financings of equipment purchases of its corporate customers. CBM was one of the first Russian banks to engage in ECA-backed financings after the 1998 Russian financial crisis. CBM also works with ECAs on short-term deals. Its payment guarantees for short-term transactions are accepted by Hermes (Germany), Ex-Im Bank (USA), SACE (Italy), COFACE (France), EKN (Sweden), OeKB (Austria), EDC (Canada), KUKE (Poland) and FINNVERA (Finland), thereby enabling CBM to provide financing of capital goods for its customers. CBM has access to more than US\$1.4 billion of trade finance facilities with financial institutions globally. CBM has also recently started to work with the Russian ECA EXIAR to support exports of Russian companies, which is a positive addition to CBM's export trade finance operations.

Fee- and commission-focused products

Fees and commissions generate a substantial part of CBM's operating income, with fee and commission income comprising 29.3% of combined net interest and fee and commission income for the year ended 31 December 2013. Products that are fee- and commission- focused within CBM's corporate banking business are: domestic guarantees, payments, leasing and factoring.

- **Domestic Guarantees:** Domestic bank guarantees represent an increasingly important source of fee income for CBM. They are particularly used by CBM's larger corporate customers with publicly listed securities in connection with various tender and payment requirements. CBM offers tender or contract guarantees; performance bonds; payment and advance payment guarantees; and tax guarantees, all with a term of less than one year. Guarantees represented 8.2% of CBM's total fee and commission income in the year ended 31 December 2013. Guarantees 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 large, including state-controlled, banks in this area.
- **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 payments to various parts of the world in a timely and cost-efficient manner.

- **Leasing:** CBM provides leasing services to customers for financing assets such as machinery, vehicles and other specialist equipment.
- **Factoring:** CBM has offered its customers factoring services since 2005. 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. In July 2011, CBM launched a new factoring service, which provides non-recourse factoring services for the creditors of medium-sized companies. CBM plans to grow its factoring business in the future, including outside the Moscow Area. CBM's key competitors in the factoring market are VTB Factoring, Promsvyazbank, Alfa-Bank, Rosbank, Nomos Bank and others.

Cash Handling Services

CBM offers cash handling services for businesses, and is one of the market leaders in providing cash handling services to businesses in the Moscow Area. Customers of CBM's cash handling business include CBM's corporate customers as well as other banks. According to an Interfax survey, measured by total amount of collected cash, CBM was the second largest cash handling service provider in Moscow, the fourth largest in Russia and the largest private bank providing cash handling services in Moscow for the first three-quarters of 2013. Cash handling services are in high demand in Russia, where cash payments account for 85% of all payment transactions, according to the CBR portion of all payment transactions. CBM's cash handling business is important in acquiring new corporate customers and helps it to monitor the liquidity and cash flows of its customers and, consequently, to monitor credit risks. CBM also uses its cash handling services more efficiently to collect and deliver cash from and to its ATMs and payment terminals, which tend to be located along its cash handling collection routes. CBM believes its cash handling business has significant synergies with its corporate banking business, such as cross-selling of corporate banking services, and is a key contributor to developing long-term multi-product relationships with its corporate customers. CBM believes that the provision of cash handling services helps to differentiate CBM from its competitors, thereby assisting CBM to attract and retain corporate customers. CBM's cash handling fleet also serves as moving advertisements for its services and brand. CBM's main competitors in cash handling services are Sberbank, Rosinkas, Inkakhran and Alfa-Bank. CBM is developing and expanding its cash handling business by introducing new automated systems, acquiring new technological equipment and optimising internal operations.

Customers of CBM's cash handling services include large Moscow-based retail and wholesale trading companies that have cash-intensive businesses as well as other banks that outsource their cash handling services. CBM can credit collected cash to its customers' accounts, which provides convenience to customers and a source of cash to CBM's banking business. CBM is able to use the insight gained through its cash handling services to better understand the financial condition of its corporate customers and more effectively mitigate and manage risks associated with such customers. For example, in the course of its lending to corporate customers, CBM may identify "early warning" signs of potential credit difficulties; it may be notified of increased refusals from certain cash handling points; and its cash handling personnel may visually inspect retail outlets. CBM may take recourse to cash collected through its cash handling services and deposited into accounts at CBM should corporate borrowers fail to meet their obligations under their loan agreements with CBM. In addition to its corporate customer base, CBM provides cash handling services to other banks and their clients, which gives CBM exposure to the client bases of other banks, as many banks outsource cash handling services that fall outside of what they consider to be their core banking business.

CBM also seeks to develop and expand the range of cash handling services it offers. Since December 2010, CBM has provided the "INKASSLOGIST" service, which collects accounting documents from cash handling points for delivery to the customer's head office or to a CBM branch near an office of the customer. CBM is also currently developing automated collection and crediting products, which will enable it to offer faster crediting of cash to customer accounts and improve the efficiency of its cash handling routes.

At CBM's cash handling settlement centres, cash is physically delivered, calculated and credited to customers' deposit accounts. Approximately 95% of CBM's cash handling business is operated in the Moscow Area, with the remaining 5% operated in areas bordering the Moscow region. CBM uses more than 250 armoured cash collection vehicles to perform its cash handling services, and intends to continue expanding its cash handling business.

CBM collected cash with a value of over RUB 1,400 billion in the year ended 31 December 2013. As at 31 December 2013, CBM collected cash from over 17,000 cash handling points, had over 180 cash handling routes and over 1,000 cash handling service customers, of which 37 were banks, including Sberbank, VTB, Russian Agricultural Bank and Nomos Bank. CBM's cash handling customer base is diversified across different segments of the retail trading sector, wholesale trading sector and financial sector.

Retail Business

CBM's retail banking services include retail lending products, such as consumer loans, credit cards, mortgage loans and car loans; services to employees of corporate banking customers (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's "united product" offering enables approved customers to access a wider range of CBM's retail products after one visit to the branch, without the need for further visits.

The main focus of CBM's retail banking business is providing general purpose consumer loans and mortgage loans. The following table shows the retail loan breakdown by product as at the dates indicated.

	<i>Year ended 31 December</i>					
	<i>2013</i>		<i>2012</i>		<i>2011</i>	
	<i>RUB</i>	<i>% of</i>	<i>RUB</i>	<i>% of</i>	<i>RUB</i>	<i>% of</i>
	<i>millions</i>	<i>total</i>	<i>millions</i>	<i>total</i>	<i>millions</i>	<i>total</i>
Auto loans.....	10,306	10.5%	10,978	21.8%	6,175	20.7%
Mortgage loans	15,678	16.0%	10,442	20.7%	7,661	25.7%
Credit card loans.....	3,680	3.8%	1,090	2.2%	—	—
Other loans to individuals	68,186	69.7%	27,882	55.3%	16,022	53.6%
Total loans to retail clients	97,850	100.0%	50,392	100.0%	29,858	100.0%

CBM seeks to manage its existing customer base and to cross-sell products to its retail customers. In order to manage the costs of attracting new customers and retain existing customers, CBM leverages its existing customer relationships, focuses on high quality customers, offers innovative products and high standards of service, and offers an efficient and complementary, multichannel distribution network.

As at 31 December 2013, CBM had approximately 640,000 retail customers and its retail loan portfolio was RUB 97.8 billion, amounting to 30.8% of CBM's total gross loan portfolio. As at 31 December 2013, NPLs accounted for 3.9% of CBM's gross retail loan portfolio.

CBM has created a retail banking business centre, located in the centre of Moscow. At its retail banking business centre, retail banking customers have access to the full range of CBM's retail banking products, a high level of customer service and the use of advanced technology to expedite document preparation and processing. The retail business centre processes each transaction more quickly than CBM's typical office.

In the retail lending sector, CBM's most significant competitors are Alfa-Bank, Raiffeisen, UniCredit Bank and Rosbank, as well as Sberbank and VTB 24.

Customers

CBM divides its retail customers into the following four categories:

- **Active existing customers** include existing larger depositors, employees of the Bank, clients with a long positive credit history with CBM and active users of accounts with CBM. Large and long-established customers are considered the lowest credit risk by CBM employees.

- **Other existing customers** include existing small depositors, clients less active in their usage of CBM accounts and clients with a positive credit history for a shorter period than those falling within the first group.
- **Target customers** include employees and clients of CBM's strategic partners and customers, clients with a positive credit history with other banks, as well as public sector employees. This category also includes customers on retirement pensions and payroll customers.
- **Walk-in customers** are walk-in "street" customers and entrepreneurs. Walk-in customers are considered the highest credit risk among CBM's customers.

CBM aims to expand its retail banking business, particularly through cross-selling its retail products to its existing customers and attracting new corporate channel customers. CBM targets growth in these customer categories, as they are customers about which CBM possesses relatively more extensive and accurate information and, accordingly, whom it considers to be relatively lower credit risk. CBM targets retail customers over the age of 25 with a higher education; employed at a stable private company or a state company; with a monthly salary between RUB 50,000 and RUB 100,000 and a debt-to-income ratio of less than 25%.

For customers with deposits of more than RUB 10 million, CBM offers "Individual Banking", a premium and more personalised service that provides the customer with a personal manager who supports the customer with all transactions and offers non-standard financial solutions. Such premium customers also receive a higher interest rate on their deposits with CBM.

Products and Services

General Purpose Consumer Loans

General purpose consumer loans are unsecured cash loans provided to retail customers for unspecified purposes. General purpose consumer loans are, and are expected to remain, the main focus for CBM's retail loan portfolio growth in the future. CBM offers general purpose consumer loans to finance various purchases and other activities, with maturities ranging from six months to 15 years and an average interest rate in the low twenties. CBM seeks to differentiate its general purpose consumer loan offerings by selling through its network of terminals and providing for easy loan repayment through those terminals and ATMs.

As at 31 December 2013, CBM's gross consumer loan portfolio was RUB 97.8 billion, with general purpose consumer loans comprising 70% of this amount.

In the second quarter of 2011, CBM introduced insurance contracts processing services in respect of its consumer loans, partnering with several insurance companies to provide group unemployment and life insurance to its consumer loan customers. Part of the commission paid by the customer to the insurance company is transferred to CBM as an agency commission. Recently this source of fee income has been one of the drivers for the total fee income growth which was achieved in line with the expansion of retail lending.

Debit and Credit Cards

CBM offers a wide range of debit and credit cards to its customers. CBM is a principal member of the VISA International and MasterCard payment systems. In August 2014 CBM signed a cooperation agreement with JCB International Co, the largest Japanese payment system, and in November, 2014 CBM signed a cooperation agreement with UnionPay International, one of the leading payment systems in China. As at 31 December 2013, CBM had over 1.19 million debit and credit cards in issue, an increase of approximately 98% since 1 January 2011.

CBM aims to offer its retail customers innovative debit and credit card products. Within the last several years, CBM has introduced a card that can be combined with a Moscow metro pass, a card tailored to customers who frequently travel, a card aimed at making customs payments easier; chip and contactless payment credit cards, a new premium card with

access to the global premium programme, and a "union card" which combines the features of a debit card and credit card which was named the "Credit card of the year" by Banki.ru in February 2014.

In order to promote the use of its bank services and products, CBM is actively promoting the use of CBM's debit and credit cards for electronic payments and developing partner programmes with its corporate customers, such as co-branded card products. CBM's cardholders receive discounts on payments made with CBM's debit and credit cards in various restaurants and shops, and in some cases are eligible for banks rewards programs for performing a particular number of transactions using CBM's debit and credit cards.

CBM also offers acquiring services to its retail and wholesale trading customers, which facilitate and make more efficient the credit card payment transaction processes of those customers with their clients. For example, CBM was among the first banks in Russia to implement a regular payments system, enabling some of CBM's retail and wholesale trading customers to process direct debit from customers' cards.

In December 2012 CBM launched a pilot project with VSK insurance company and VISA in which VSK's employees could use the CBM Mobile application to process customers' credit card payment transactions.

Mortgage Lending

CBM's mortgage loan products are focused on medium and high income customers, particularly employees of its corporate customers and partner organisations, to finance the purchase of residential properties generally of a value between RUB 0.7 million and RUB 7.0 million, particularly sales on the primary (new construction) market. Mortgage lending enables CBM to cross-sell its other retail products, and it is cost-efficient, as CBM's partnerships with real estate agents do not entail payment of commissions or referral fees. As at 31 December 2013, CBM had outstanding mortgage loans of RUB 15.7 billion, comprising 16.0% of CBM's gross consumer loan portfolio. In the mortgage lending market, CBM's most significant competitors include Sberbank, VTB 24 and Societe Generale (Rosbank and Delta Credit).

Car Loans

CBM offers car loans to existing customers as a standard banking product, rather than through partnerships with automotive dealers, and each car loan is secured by the car that the customer purchases with the loan proceeds. A customer is also required to insure the vehicle and assign the benefit of the insurance to CBM. As at 31 December 2013, CBM's car loan portfolio was RUB 10.3 billion, comprising 10.5% of CBM's gross consumer loan portfolio.

Retail Deposits

Deposits from retail customers are a significant source of funding for CBM. As at 31 December 2013, CBM had retail deposits in the amount of RUB 134.5 billion, comprising 48.9% of CBM's total deposits by customers. As at the same date, term deposits and demand deposits comprised 92.8% and 7.2% of total retail deposits, respectively. CBM seeks to improve the cost of its funding by increasing the share of demand deposits, which generally bear lower interest rates than term deposits.

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, expansion of its distribution platform in Moscow and improvement of customer service.

CBM's deposit accounts include current and term accounts and are denominated in roubles, U.S. dollars and euros. CBM also introduced a new deposit product called the United Deposit in 2013, which offers tariff plan changes on an individual basis and is also expected to comprise an increasingly larger proportion of CBM's retail deposit portfolio. While the average term on CBM's deposits from retail customers as at 31 December 2013 was 12 months, under Russian law term deposits may be withdrawn at any time, upon request of the customer. See "*Risk Factors – Risks Relating to CBM's Business and Industry – CBM is exposed to liquidity risk*".

Distribution Network

Offices and Cash Offices

CBM has 59 offices, including five corporate banking centres dedicated to serving corporate customers and one retail business centre. CBM's offices operate seven days per week, with extended opening hours to accommodate to customers' needs. At its corporate business centres, CBM offers individual services to its corporate customers by assigning a personal manager to each corporate customer and providing on-going advisory services. At CBM's retail business centre, retail banking customers have access to the full range of CBM's retail banking products, a high level of customer service and the use of advanced technology to expedite document preparation and processing.

CBM has 33 cash offices. These cash offices provide services such as cash operations, money transfers and foreign exchange purchases and sales.

ATMs

As at 30 September 2014, CBM had over 800 ATMs in its ATM network. In addition, since February 2011, CBM's retail banking customers have been able to use, free of commission, the ATMs of three other Russian banks: Rosgosstrakh Bank (formerly Russ-Bank), which has ATMs located in 60 Russian cities; UniCredit Bank; and Alfa-Bank. In December 2012, CBM and Alfa-Bank united their ATM networks, granting customers access to a broader range of services through their respective ATMs. As a result, CBM's customers can use ATMs in a network of more than 3,500 ATMs in 232 cities throughout Russia on the same terms as using CBM's ATMs. Furthermore, since March 2013, customers of both CBM and Alfa-Bank are able to withdraw cash, repay loans and top up debit or credit card balances free of any fees from a united network of 10,600 devices, of which approximately 4,600 are ATMs and approximately 6,000 are payment terminals. Over 8,000 of these devices have a cash-in option (including all payment terminals).

Payment Terminals

In addition to its ATM network, as at 30 September 2014 CBM had c. 6,000 payment terminals. CBM sees its payment terminal network as a relatively low-cost means of expanding its distribution and customer service network, and providing opportunities to acquire new customers. CBM's payment terminal network is one of the largest such networks in Russia, and CBM ranked 2nd in Moscow based on the number of payment terminals as of 1 January 2013, according to RBC Rating. CBM seeks to locate its payment terminals in areas with high customer traffic, such as cafes, shopping malls, airports and train stations. At CBM's payment terminals, customers may make a wide range of payments, including payments to more than 400 organisations 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 open deposit accounts and make deposits, make wire transfers, and apply for and repay loans extended by CBM and other banks. CBM aims to continue to expand the functionality of its payment terminals by offering an increased range of related banking services from its payment terminals. CBM estimates that the cost of installing one payment terminal is approximately US\$ 4,000, as compared to approximately US\$ 12,500 for one ATM, or US\$ 31,000 with "custom" features, and payment terminals can be moved for limited cost if locations do not meet targeted performance criteria. In addition to generating fee and commission income for CBM, CBM uses information obtained through its payment terminals as part of its risk management procedures. In particular, CBM uses certain information obtained through payment terminals of customers who have set up a payment terminal account with CBM to make credit decisions when making loans to such customers. Payment terminals also facilitate acquisition of new customers, as they are exposed to CBM's brand advertising, services and product offerings. CBM estimates that more than half of the applicants for its retail loans in 2013 had used its payment terminals at least once prior to making applications.

Internet and Mobile Banking

CBM provides a wide range of remote services for individual and corporate customers, in addition to its physical network of offices, cash offices, payment terminals and ATMs. CBM offers an internet banking system called CBM Online to its retail customers, and in 2012 CBM launched a 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 iOS or Android platforms. In 2014 CBM was recognised by Markswebb Rank & Report as offering the second best and most efficient internal banking system in Russia. CBM estimates that over 60% of its retail customers use its internet banking services. CBM also offers an internet banking system to its corporate customers called "Your bank in your office", through which corporate customers can request bank statements and make payments.

Call Centres

CBM also has call centres where it can receive incoming calls from potential customers and make outgoing calls for telemarketing purposes. The call centres are directly linked with CBM's payment terminals.

Direct Sales Agents

Direct sales agents market CBM's products and services to employees of its corporate customers at their premises. CBM's corporate customers are incentivised to cross-sell CBM's products.

Growth Prospects

CBM plans to optimise its branch network by closely monitoring performance and closing ineffective offices and opening new ones in more favourable locations that have higher customer footfall. Meanwhile, in order to manage costs, CBM plans to further distribute customers to remote and direct sales agent sales channels, which management believes will help to reduce the costs of loan underwriting and maintenance.

Financial Markets, Treasury and Trading Securities

CBM participates in the interbank foreign exchange, international, domestic, government and corporate bonds and securities markets. CBM's securities portfolio consists primarily of Russian government and municipal securities, corporate bonds with high credit ratings and promissory notes of 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 consists almost exclusively of bonds, with equity securities representing less than 0.1% of CBM's total securities portfolio as at 31 December 2013. CBM's financial instruments at fair value through profit or loss, together with available-for-sale securities, represented 12.3% of its total assets as at 31 December 2013. As at 31 December 2013, the majority 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 conducts foreign exchange activities both for its own account and on behalf of its customers. 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*".

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 Corporate Risk Management Division of CBM and approved by the ALCO.

See "*Operating and Financial Review – Financial Condition – Assets*" and "*Risk Management – Market Risk – Securities Portfolio Risk*".

Information Technology

Information technology (**IT**) 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, and CBM seeks to improve its IT systems in order to increase CBM's competitive edge and improve the quality of customer services.

CBM has three secure data processing centres that were established in 2007, 2008 and 2012. These centres have independent power supplies and are fitted with firefighting and air conditioning systems. In 2012, CBM united these three data processing centres into one distributed data centre. Using such structure ensures that a breakdown of one of the data processing centres does not lead to a failure of CBM's IT system. CBM uses software purchased from vendors such as Oracle, Microsoft, IBM, SAS, as well as 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.

In order to focus more resources in developing the IT systems that require more attention, CBM classifies its IT systems into four categories based on required safety level and fault tolerance: Mission Critical, Business Critical, Business Operational and Office Productivity. It then commits its resources based on the category, thus ensuring an appropriate level of support for each IT system.

CBM's card processing centre is based on TSYS Card Tech software, and in 2013 the processing centre was upgraded to *Europay, Mastercard and Visa* technology for both issuing cards and processing card payments. The centre has its own personalisation bureau, ATM, point of sale terminal and kiosk networks.

In 2014 CBM continued to improve its retail customer relationship management (**CRM**) platform, created on the basis of Oracle Siebel CRM. New products have been added, including credit cards, commission products, schemes of first visit as well as the automation of claims activities and marketing systems. CBM then turned to corporate CRM implementation, which was the next stage in the development of a common CRM platform. The organisation of retail and corporate CRM onto a single platform allows CBM to synergise the relevant processes.

In 2014 CBM also started to implement a credit conveyer for corporate business on the basis of the industrial platform "Forecast. Credit portfolio management".

These projects are aimed at the gradual reduction of the operational costs of CBM, increasing operations efficiency, as well as the expansion of CBM's product range.

Insurance

CBM has a comprehensive Bankers Blanket Bond (**BBB**) insurance policy with Rosgosstrakh, one of Russia's major insurance companies, providing comprehensive insurance against crime and professional liability, including risks of illegal activity by third parties and employees. This policy covers a range of risks associated with CBM's operations, including property, deposits (such as those received via cash handling operations) and the risk of electronic fraud. The policy also covers the risk of criminal acts by CBM's employees and provides cover for CBM's liability for any damage caused to third parties in the course of its banking activities. The cost of the policy varies with the changing level of insurable assets, and CBM monitors the coverage to ensure that it maintains an appropriate level of coverage.

In addition to the BBB insurance policy, CBM has real estate and property insurance policies covering the buildings and premises owned by CBM. CBM insures valuables on its premises, including cash in the operational offices, payment terminals and ATMs, and 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 is a member of the Retail Deposit Insurance System.

Subsidiaries

CBM has two leasing company subsidiaries, MKB-Leasing LLC (**MKB-Leasing**) and M-Leasing LLC (**M-Leasing**), and one subsidiary through which it conducts its proprietary trading activities, MKB-Invest LLC (**MKB-Invest**). MKB-Leasing and M-Leasing are wholly owned by CBM. MKB-Invest is wholly owned by Twistlewood Corporation, which is in turn wholly owned by Mr Avdeev, but controlled by CBM pursuant to an option agreement and accordingly consolidated into the Financial Statements. CBM has also issued Eurobonds through a special purpose entity, CBOM Finance plc, which is not owned by CBM but which is consolidated into the Financial Statements in accordance with IFRS. During 2014 CBM established its subsidiary CJSC Mortgage Agent MKB, for the purposes of its mortgage loans

securitization program launched by CBM in 2014 and is consolidated into the Financial Statements in accordance with IFRS.

Employees

The following table sets forth the number of employees of CBM as at 31 December 2013, 2012 and 2011 by functional business areas.

	<i>As at 31 December</i>					
	<i>2013</i>		<i>2012</i>		<i>2011</i>	
	<i>Number</i>	<i>% of total</i>	<i>Number</i>	<i>% of total</i>	<i>Number</i>	<i>% of total</i>
Cash handling.....	1,075	23.7%	934	23.1%	800	24.1%
Retail network	1,014	22.3%	934	23.1%	812	24.4%
Retail	521	11.5%	493	12.2%	349	10.5%
Corporate.....	267	5.9%	229	5.7%	202	6.1%
Contact centre.....	232	5.1%	172	4.2%	117	3.5%
IT	209	4.6%	157	3.9%	108	3.3%
Other.....	1,222	26.9%	1,122	27.8%	934	28.1%
Total	4,540	100.0%	4,041	100.0%	3,322	100.0%

The average age of CBM's employees is 32, and approximately 62% of CBM's employees have a higher professional education. There are no collective bargaining agreements among CBM's employees.

The increase in the number of CBM's employees in recent years reflects the growth in CBM's business, including the opening of new offices and the expansion of CBM's cash handling business.

CBM has its own corporate training centre where training specialists conduct various internal training programmes and courses on a regular basis. Training programmes are in place for all employees and management including basic training for employees of any business line, skills training for the retail segment, a "Management Succession" program for the training of future directors of offices, a training and development programme for the underwriting department, a training and development programme for contact centre employees and a "Growth School" project.

CBM has incentive programmes for employees in the areas of corporate banking, retail banking, underwriting, loan recovery, legal and contact centre. The incentive programmes 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.

Legal Proceedings

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

Introduction

CBM has a centralised and sophisticated risk management system supported by its strong IT infrastructure and automated risk management processes. CBM believes it takes a well balanced approach to managing credit risk versus expected returns, based on careful client selection and differentiated offering for different types of clients, effective utilization of client and transaction data (including information from cash handling business and its payment terminals), advanced and automated underwriting, established monitoring and collection processes. In addition to managing credit risk, CBM constantly monitors its exposure to market risks, including interest rate, foreign currency, liquidity and operational risks, making corresponding changes to the products and services it offers when required.

CBM's key risk management principles, instruments and functions of various bodies are set forth in CBM's Risk Management Policy which is approved by the Supervisory Board. The Risk Management Policy establishes CBM's stability and reliability in the process of performing its activities and achieving results contemplated by CBM's development strategy as the core risk-management objective. In addition, CBM has a Risk Management Development Strategy, which is also approved by the Supervisory Board and which sets out key measures to enhance CBM's risk management and ensure its regulatory compliance through measures such as automation of risk management and control processes as well as development and implementation of advanced risk evaluation methodologies. CBM's risk management policies, procedures and methodologies are regularly reviewed in order to improve them and reflect changing market conditions, the effect of new products and services offered by CBM, the growth in scope of its operations and the development of risk management methodologies used in the international and Russian banking sectors.

The basis for CBM's approach to managing and controlling risks it faces is the system of risk metrics which determine the targeted level of risks the CBM may assume in accordance with its developments strategy (risk appetite) and prudential requirements. Key metrics, such as overall adequacy of capital to cover risk-weighted assets and its breakdown by significant types of risk, are established by CBM's Supervisory Board and are further allocated by the Management Board across CBM's lines of business and asset portfolios segments and then across products and types of operations and clients at the level of business divisions. CBM has established a multi-level structured limits system for various types of risks in order to achieve the established risk appetite levels.

Results of risk management are reflected in the risk management reporting system, which consists of regular as well as one-time reports prepared for various CBM's management levels. The most significant is the risk management report presented to the Supervisory Board at least quarterly, which contains the key results of risk management activity as well as the current values of risk appetite indicators.

Organisational Structure

CBM's risk management functions are carried out by several collective bodies and internal divisions 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:

Supervisory Board

The Supervisory Board has overall responsibility for the establishment and oversight of CBM's risk management framework. The functions of the Supervisory Board with respect to risk management include:

- overall management and establishment of CBM's priority lines of business and strategic goals of risk management;

- approving CBM’s risk and capital management strategy and policy as well as approving the risk management procedure for CBM’s most significant risks (including the upper limits for risk appetite indicators) and supervising its implementation;
- approving the procedure for application of bank methodologies for managing risks and models of quantitative risk assessment, including assessment of CBM’s assets and liabilities, off-balance sheet liabilities as well as scenarios and results of stress-testing (in the cases contemplated by the law);
- approving the procedure for preventing conflicts of interests, solvency restoring plan in the event of material deterioration of CBM’s financial position and business continuity action plan (in the cases contemplated by the law); and
- approving major and interested party transactions and transactions with related parties in the cases and in accordance with the procedures contemplated by CBM’s Charter and the current legislation.

Audit and Risk Committee

The Audit and Risk Committee is formed under the Supervisory Board. The committee's functions include:

- 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;
- 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.

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 CBM’s current performance.

The Management Board's functions include:

- forming committees and delegating to such committees part of its authority under the relevant regulations;
- approving risk limits and making decisions in relation to transactions that fall beyond the relevant management’s/committees’ authority;
- approving internal regulations, policies, guidance, instructions, rules and other internal documents;
- allocation of the values of risk appetite indicators established by the Supervisory Board across CBM’s divisions, business lines, products, operations and instruments;
- reviewing and approving reporting on the results of CBM’s risk management; and
- approving interest rates and tariffs for banking services.

Corporate Credit Committee

The Corporate Credit Committee approves credit limits up to RUB 1 billion and consists of six permanent members. Credit limits and transactions above RUB 1 billion are required to be approved by the Management Board. The committee's responsibilities include the following:

- organising and managing CBM's lending activity and credit risks;
- controlling the quality of CBM's loan portfolio;
- approving and changing credit 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; and
- setting credit ratings to reflect the relative risk of the various categories of borrowers.

Retail Credit Committee

The Retail Credit Committee consists of six 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 terms for basic products within its authority;
- reviewing high risk applications (with the authority to decline them); and
- escalating approval of applications to the Management 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 CBM's assets and liabilities, including categorising 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;
- managing interest risk; and
- managing liquidity.

Risk Management Committee

The Risk Management Committee is a body accountable to the Management Board and is responsible for implementation of CBM's risk management policy with respect to credit, market, operational, legal and compliance risks. The Risk Management Committee consists of 14 members and the Chairman of the Risk Management Committee is the Chairman of the Management Board. The functions of the Risk Management Committee include:

- approving methodologies and algorithms for calculating risk indicators (risk metrics) and limits;
- approving changes in CBM's internal processes relating to credit risk taking;

- monitoring of CBM's loan portfolio quality, in whole or with respect to certain segments, through risk metrics;
- monitoring the results of application of powers of CBM's bodies and authorised persons to take and manage credit risk;
- elaborating on recommendations to CBM's management bodies on the methods and instruments to reduce risk, optimise balance between risk and profitability in corporate and retail business lines.

Client Committee

Client Committee is a body accountable to the Management Board and is responsible for implementation of CBM's client policy with respect to corporate lending. Its main responsibilities include:

- setting the strategy for developing relations with corporate clients;
- taking managerial decisions on CBM's interaction with corporate clients;
- ensuring CBM's competitive performance, including efficient sales of banking products and services and quality of client servicing; and
- deciding on tariff setting for CBM's products and services taking into account regulation of risk and total profitability.

Technological Committee

Technological Committee is a body accountable to the Management Board and is responsible for, among other things:

- approving CBM's information technology policy, setting priorities and action plans for IT development and enhancing operational efficiency;
- determining viability of projects implementation, deciding on timing and means for their implementation and control over their implementation; and
- monitoring operational risks relating to technologies implemented by CBM and determining acceptable level of such risks, expert assessment of potential operational risks relating to implementation of new technologies at CBM.

Corporate Risk Management Division and Retail Credit Risk Division

CBM's Corporate Risk Management Division and Retail Credit Risk Division are specialised independent risk management divisions which elaborate, implement, perform and improve CBM's risk management system. These divisions play the key role in elaborating CBM's risk management policies and procedures and performing independent control and management of compliance by business divisions with the terms of transactions and limits approved by the management bodies.

These divisions are responsible for:

- elaborating, agreeing and supporting CBM's various internal regulations governing the risk management system together with other CBM's departments;
- developing models of risk assessment and risk management tools;
- risk management reporting and monitoring of key risk indicators;
- developing functional requirements for CBM's IT-systems (volume and quality of data, programme complexes, etc.) required for performance by the divisions of its goals, participation in their implementation and testing;
- developing lending decision methodology;
- evaluating, analysing and preparing an independent opinion on credit risks for operations with clients;

- monitoring of compliance of corporate clients with the established covenants;
- assessing credit and financial risks and providing recommendations on their management, including recommendations on risk limits;
- evaluating industry risks and their impact on the creditworthiness of corporate clients;
- 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 conditions;
- monitoring of the lending activities of CBM's divisions;
- monitoring of the compliance of CBM's divisions with established limits (including credit and market risk limits);
- assessing and analysing market risks including interest, currency and price risks;
- assessing proposals made by CBM's Treasury Department (the **Treasury Department**) on liquidity management and market risks;
- participating in development and implementation of procedures for bad debt recovery; and
- identifying and reporting credit risk factors to CBM's divisions and management on an ongoing basis, including through the system of daily, monthly and quarterly reporting across business lines.

The Corporate Risk Management Division consists of the Corporate Credit Risks Analysis Department, Appraisal and Monitoring Client Department, Risk Management Methodology Department, Project Risk Department, Monitoring and Credit Management Department and Collateral and Financial Risk Analysis Department. The Retail Credit Risk Division consists of the Retail Risk Management Department, Underwriting Department and Collection Department.

Treasury Department

The Treasury Department conducts the attraction and allocation of funds in financial markets and over-the-counter (OTC) 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:

- generating the preliminary daily financial plan for CBM;
- providing sufficient funds to CBM's correspondent accounts in order for rouble and foreign currency payments to be made;
- controlling CBM's liquidity and maturity forecast;
- analysing maturity forecasts in relation to severe market condition scenarios;
- monitoring and controlling the open foreign exchange position structure;
- forecasting changes in CBM's interest margin;
- attracting and placing funds into interbank loans and deposits, foreign exchange buying and selling, interbank bank note transactions, conversion operations, executing operations on allocation/attraction of funds at the exchange or OTC markets with the aim to control CBM's liquidity position; and
- providing recommendations on the maturity, amounts and currency structure of issued loans.

Financial Division

The Financial Division's main functions are:

- elaboration of CBM's development strategy;
- ensuring preparation of CBM's financials in accordance with RAS and IFRS;

- planning and control of performance of CBM's key operational indicators;
- participating in the planning of risk appetite indicators as well as control of their performance; and
- controlling CBM's compliance with regulatory ratios.

Internal Audit Division

Internal Audit Division is CBM's independent structural subdivision, controlled by and accountable to the Supervisory Board, which performs internal control functions at CBM. The main responsibilities of the Internal Audit Division include:

- ensuring CBM's compliance with Russian legislation, including CBR regulations;
- ensuring an efficient and reliable system of internal controls;
- controlling reliability, completeness, accuracy and timely preparation of CBM's accounting and financial statements and timely reporting to regulators and other relevant persons in compliance with legal and regulatory requirements;
- controlling CBM's compliance with requirements regarding banking risk assessment and risk management;
- ensuring efficient functioning of internal audit at CBM;
- controlling the assessment of financial viability and efficiency of banking transactions;
- providing information to CBM's management which is necessary for taking efficient decisions to remedy deficiencies or violations detected by CBM; and
- controlling timely performance of recommendations and orders to cure violations of laws, regulations and professional standards at CBM.

Internal Audit Division performs comprehensive and topical audits of all of CBM's activities and evaluates internal control processes and procedures related to CBM's operations, accounting practices, regulatory compliance, risk management and IT systems. Any CBM's internal division or employee may be subject to audit by Internal Audit Division. It monitors the efficiency of measures taken by internal divisions and management bodies based on audit results in order to mitigate the risks to which CBM is exposed, or ensures that decision on acceptability of the risks for CBM has been duly taken by respective CBM's internal division or management body, or informs the Supervisory Board if it believes that the level of risks taken is unacceptable or measures taken are inadequate. Internal Audit Division monitors the efficiency of CBM's internal control system, identifies and analyses any relevant issues and develops proposals for enhancing its efficiency. The Head of the Internal Audit Division reports directly to the Chairman of the Management Board and to the Supervisory Board. Internal Audit Division consists of Internal Audit Department, Special Audit Department and IT Audit Unit.

Internal Control Service

Internal Control Service is CBM's structural subdivision, controlled by and accountable directly to the Chairman of the Management Board. The main responsibilities of the Internal Control Service include:

- ensuring identification, recording and coordination of risk management activities in terms of loss prevention that may occur as a result of a failure to comply with federal laws and other regulatory requirements of the Russian Federation, internal documents of CBM, imposed sanctions and/or application of other enforcement measures from supervisory and regulatory authorities;
- ensuring qualitative and quantitative assessment and measurement of regulatory compliance;
- identifying conflicts of interest in CBM's activities;
- providing expertise on the comprehensiveness and effectiveness of assessment methodologies, processes and technologies management procedures;

- developing methodological support for the internal control system in CBM and regulatory risks management;
- providing analysis of business processes at the implementation stage in order to identify regulatory risks and preparing proposals for their minimization and elimination;
- ensuring control over the established authority system, procedures, limits, orders and technologies; and
- coordinating systems of compliance risk management, including legal, anti-money laundering (AML), combating the financing of terrorism (CFT) and reputational risks.

Internal Control Service on a continuing basis informs CBM's management about the circumstances that affect the assessment of regulatory risks exposure, undertakes multi-level reporting on compliance in accordance with the principle of avoiding conflicts of interest, and ensures compliance with management decisions which are taken under the system of limits and powers. Internal Control Service coordinates interaction of CBM's structural subdivisions under the system of compliance risk management and considers the results of its assessments with the aim of ascertaining the level and quality of management of compliance risks to which CBM is exposed.

Other Divisions

Other internal divisions, such as the Legal Division, perform other functions relating to risk management in accordance with CBM's Risk Management Policy and other internal policies and regulations.

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's collective bodies and internal divisions involved in risk management ensure control at all stages of the credit process:

- identification of industry benchmarks for potentially attractive corporate clients, stable economy sectors for lending, standards of credit requirements and authority structure enable to offer a wide range of credit products with a specific estimated risk and value;
- preliminary qualification of a potential client is made through various calculation tools, scoring point determination for retail clients or verification for legality of activities, good business reputation, compliance with CBM's lending and collateral policy for corporate clients;
- the Corporate Risk Management Division calculates or agrees lending limits for corporate clients and the Retail Credit Risk Division determines lending limits policy for standard retail products through automated loan approval system and participates in review of loan applications for non-standard retail loans. These Divisions' participation in the credit process is mandatory and the scope of its involvement depends on conformity with the standards to clients and products and size of business;
- at operational levels, automated procedures are employed to ensure that loans are issued within approved limits, pricing terms, and using standard form documentation, with additional controls provided by relevant departments of CBM;
- control over increase of risks within a period is performed using monitoring tools, which helps to detect early stage risks and decide on their minimisation in a timely manner.

CBM manages its credit risk by investigating and assessing the financial conditions and creditworthiness of each of its borrowers and counterparties at the time of entering into a loan transaction and during the life of the loan as well as by establishing and monitoring compliance with limits on credit risk exposure to counterparties, individual industries and

certain types of loans and securities. CBM has policies and procedures for the management of credit exposures (both for recognised and unrecognised exposures), including guidelines to limit portfolio concentration.

Lending Policies and Procedures

CBM has established procedures for approving loans, monitoring loan quality and extending and refinancing existing loans. These procedures are set out in CBM's credit policy, established by CBM's Management Board, and which sets out the framework for the provision of loans and defines the criteria for evaluating customers.

In making a lending decision with respect to both corporate and retail clients, CBM considers, amongst others, 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.

Corporate Loan Approval Process

Each corporate client of CBM has a dedicated client manager, who is responsible for the sale of CBM's products and services to that client, including the origination of loans. Client managers complete, or assist corporate clients with completing, the loan application forms, request necessary documents for creating loan files, and also take responsibility for monitoring the borrower's credit quality and financial position. CBM's corporate client divisions make preliminary analysis of a borrower's creditworthiness and check compliance with CBM's lending policy. The Collateral Appraisal and Monitoring Unit analyses a borrower's business reputation and collateral, based on which the respective corporate client division decides on whether to proceed with the loan application. If the decision is positive, the Corporate Risk Management 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. According to its risk management development strategy, CBM is phasing in the internal ratings system that meets the standards of the "International Convergence of Capital Measurement and Capital Standards: a Revised Framework" (**Basel II**) issued by Committee on Banking Supervision of the Bank for International Settlements and gives the quantitative assessment of the credit risk elements. The value of the collateral offered by the borrower is generally evaluated by the Collateral Appraisal and Monitoring Unit. CBM employs external specialists in cases where it requires additional capacity. CBM also assesses the feasibility of the proposed use of the loan by assessing 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 exposure and the extent to which a particular transaction deviates from CBM's standard lending terms.

The Management Board establishes lending limits and approves loans in excess of RUB 2 billion or if the terms of a transaction deviate from CBM's standard lending terms.

Lending limits or loans for a principal amount up to RUB 1 billion are approved by the Corporate Credit Committee.

Delegates from the Corporate Risk Management Division have the right to veto decisions of the Corporate Credit Committee.

Establishing lending limits or approving loans within the individual authority of a Deputy Chairman of the Management Board or First Vice-President of CBM is only possible if there is a positive decision by the Corporate Risk Management Division (including the client's business reputation and the quality of the collateral).

Lending limits or loans with a principal amount of less than RUB 60 million do not require an opinion of the Corporate Risk Management Division on the borrower's creditworthiness and financial position, though assessment of the borrower's business reputation and collateral is still required and the Corporate Risk Management Division checks such transactions for consistency with basic terms of lending. Each First Vice-President may approve lending limits or loans for the principal amount of up to RUB 60 million in an aggregate of up to RUB 1.5 billion, each responsible Deputy Chairman of the Management Board may approve lending limits or loans for the principal amount of up to RUB 60 million in an aggregate of up to RUB 1.5 billion, and the Chairman of the Management Board may approve lending limits or loans for the principal amount of up to RUB 60 million in an aggregate of up to RUB 3 billion.

Retail Loan Approval Process

Loan applications for retail clients are completed by the applicant. As part of their loan application, individuals must provide information on their income, the purpose of the loan and the proposed collateral (where applicable). CBM has a multichannel distribution network, which includes offices, payment terminals, a call centre and online banking through which applications for retail loans can be made.

In its retail loan approval process for general purpose consumer loans and credit card loans, CBM uses the Siebel 8 CRM module platform, which is integrated with SAS Real-Time Decision Manager, online decision making module developed by SAS. It allows to consolidate all of risk procedures for credit application processing, including:

- determining risk strategy for application processing;
- automated processing of various internal and external informational verification sources with respect to a borrower, including credit bureaus, scoring bureaus, information on client's payments through CBM's payment terminals, the history of using by the client of CBM's products, "stop-lists", etc.;
- determination of the client's compliance with minimum requirements and client profile;
- identification of the client segment category;
- checking the pre-approved decisions on credit products;
- scoring of default probability using an application/behavioural combined scoring model developed by CBM based on SAS Credit scoring;
- calculation of lending limits, validation of pre-approved credit products and forming credit products for cross-selling (if available);
- routing of further application processing, including the possibility of automated decision making, choosing stages of underwriting verification and authority level for decision making.

Depending on the client category and risk level, credit application processing involves participation of a credit specialist (underwriter) who takes additional measures for verification of a credit application. For existing CBM clients which meet certain criteria, such as default probability below certain thresholds, decision on a credit application for a consumer or credit card loan is taken automatically based on respective scoring model, while for other clients an underwriter implements verification stages offered by the system, including telephonic verification of contact data, analysis of specified income and expenses, verification of the documents provided and confirmation of the borrower's employment. The extent of verification (i.e. light checks or a more comprehensive verification) depends on the client's risk profile. The results of underwriter's decision are processed through SAS Real-Time Decision Manager. The final decision on an application is taken upon completion of all applicable automated and manual stages of application verification, together with the accepted parameters of a credit product of cross selling. The Retail Credit Risk Division determines lending limits for standard retail products and calibrates the decision making system accordingly as well as sets internal procedures and instructions for underwriters. There is flexibility if timely and efficient regulation of authorisation or cut-off levels and applications routing depending on the risk appetite and lending strategy. Significant proportion of general purpose consumer and credit card loans is issued on a pre-approved basis. CBM identifies existing clients as well as new clients with verifiable positive credit profiles to whom CBM may offer credit products or increase limits for existing products and pre-approves the relevant products or limit increase. Loan applications made by such clients still go through scoring and necessary underwriters checks.

All car loans and mortgage loans applications are processed by an underwriter.

Levels of authority of risk acceptance and particular persons authorised to make decisions with respect to retail loans approval are determined by the Management Board. Different types of loans have varying threshold amounts, and depending on the threshold amount can be qualified as applications subject to mandatory review by one or other risk management body. For example, general purpose loans filed by business owners are reviewed, inter alia, by the Corporate Risk Management Division if they exceed RUB 5 million / RUB 10 million, as the case may be, depending on particular application parameters.

In general, loans exceeding RUB 4 million are submitted for review by the Retail Credit Committee, while loans exceeding RUB 200 million are subject to approval by the Management Board. The Retail Credit Committee comprises representatives from the Retail Credit Risk Division, Retail Products and Technologies Directorate, Retail Branch Network Directorate and Legal Division. Authority limits for each of the Deputy Chairs of the Management Board are set individually.

Applications for which the analysis differs from the standard decision-making procedure are escalated to a higher level of approval.

Loan Portfolio Lending Limits

In order to limit its credit risk exposure, CBM has set credit risk limits based on product, type of collateral, geographical and industry concentrations. Some of these limits are reinforced by covenants in certain of CBM's financing arrangements. The most significant 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 total volume of general consumer loans may not exceed 15% of CBM's total capital.
- CBM's internal limits for related party transactions are 5% of CBM's assets or 15% of CBM's total capital.

As at 31 December 2013, the largest single borrower (grouped by holding company) to which CBM was exposed accounted for RUB 6.5 billion or 2% of CBM's gross loan portfolio, compared to RUB 5.4 billion or 2.6% of CBM's gross loan portfolio as at 31 December 2012 and RUB 4.5 billion or 2.8% of CBM's gross loan portfolio as at 31 December 2011. CBM's largest related party lending exposure as a percentage of total capital was 1.3% as at 31 December 2013, 0.9% as at 31 December 2012 and 0.3% as at 31 December 2011.

Collateral

To limit risks, and as required by CBM's existing internal regulations, CBM requires that corporate loan products, except for overdraft type credit products and for other short-term financing for up to 90 days to CBM's largest top-quality borrowers, and some retail loan products be secured by either a pledge of assets or a suretyship or guarantee. CBM's policies require that not less than 50 per cent. of its corporate loan portfolio is secured by pledge of assets. Collateral is evaluated by the Collateral Appraisal and Monitoring Unit and/or accredited independent appraisal companies. Collateral is also subject to the Legal Division's legal assessment. The collateral portfolio is revaluated and maintained on the basis of regular on-site visits and reports by the Corporate Risk Management Division. CBM's collateral policy sets the principles and standards to be applied to collateral, provides a list of acceptable assets, establishes assessment criteria, applicable discount rates, monitoring and revaluation parameters.

CBM uses an established set of procedures, including information analysis, assessment, monitoring and revaluation to determine acceptable credit risk/collateral ratios as well as to identify physical changes in the pledge status as well as potential changes in business environment.

CBM generally accepts as security commercial and residential property, plots of land, long-term real estate lease rights, equipment, vehicles (including self-propelled ones), inventory, property interests, claims, shares, participatory interests, securities, taking into account the authority levels. Assets are subject to discounts based on CBM's internal discounting matrix elaborated for various types of assets depending on their quality, liquidity and certain other factors.

CBM conducts ongoing collateral monitoring with respect to both corporate and retail clients to confirm the actual condition and value of collateral, and to timely identify any possible legal risks which could affect the quality of the collateral portfolio. 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, corporate borrowers are usually required to provide additional collateral. The Corporate Risk Management Division reports any breaches identified to CBM's authorised bodies and makes recommendations as to how to mitigate the risk of loss of collateral.

As at 31 December 2013, 57% 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. CBM's mortgage loans are secured by the underlying real estate and car loans are secured by the underlying car. CBM's Corporate Risk Management Division establishes and controls requirements to reports of accredited independent appraisal companies for mortgage loans and confirms reports for pledged assets with the value exceeding RUB 15 million. 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 31 December 2013, 2012 and 2011.

	<i>As at 31 December</i>		
	<i>2013</i>	<i>2012</i>	<i>2011</i>
	<i>(RUB millions)</i>		
Real estate	36,256	28,115	24,416
Goods	29,305	23,412	16,909
Notes	30,487	13,970	13,918
Claims for contract receivable	16,823	12,034	5,052
Equipment and motor vehicles	8,375	6,129	5,864
Bank's own debts	1,788	-	5,378
Guarantees by other banks.....	--	345	345
Corporate guarantees and no collateral.....	92,523	68,477	58,338
Total loans to corporate customers	215,557	152,482	130,220

Loan Portfolio Monitoring and Control and Loan Recovery

Corporate Loans

Monitoring of credit exposure on corporate loans is carried out for all clients on a continuous basis. Corporate Risk Management Division performs general portfolio monitoring on a quarterly basis. 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 breakdowns, the observance of limits and an assessment of overall profitability. Current monitoring of individual credit exposures is performed by a number of CBM's internal divisions, including corporate business divisions, cash handling service and Collateral Appraisal and Monitoring Unit which undertake ongoing monitoring of a borrower's compliance with its lending restrictions, financial performance and creditworthiness and repayment profile to reveal potential issues and identifying any deterioration in credit quality. Any deviations are reported to the Corporate Risk Management Division. The review is based on the borrower's most recent financial statements and other information submitted by the borrower, or otherwise obtained by CBM. CBM's cash handling business gives it good insight into the financial condition of some of its customers, and CBM uses this information to adjust its exposures to customers based on an analysis of the dynamics of the customers' cash flows. Accordingly, CBM is often able to identify potential problems at an early stage by monitoring the customers' cash flows through its cash handling operations.

Clients who have demonstrated problematic signs (such as breach of financial covenants, loss of collateral, decrease in amounts of cash handled for collection, etc.) are transferred to individual monitoring mode. Depending on the characteristics of warning signals, a specific set of measures may be applied to manage respective loans. Clients may be recognised as problematic on a case by case basis by the Corporate Credit Committee, who also determines the strategy for further work with such clients.

Corporate loan recovery is dealt with on a case-by-case basis, and may include loan restructuring, including loan extension and increase of collateral, acceleration of debt, court proceedings, arrest and sale of collateral, arrest of accounts or working with assigned receivables or with guarantors or assignment of claims under relevant loans to third parties. In some cases, ability to control flow of funds on clients' accounts through direct debit rights enables CBM to effectively collect the loan without court proceedings. CBM's Legal Division may also delegate certain actions with respect to collection of past due loans to a collection service.

Retail Loans

For exposure under retail loans, monitoring of repayments under individual loans is performed on an automated basis. In addition, based on information from CBM's internal sources as well as from credit bureaus, behaviour scorecard is applied to each existing client once in two or three months to assess the actual situation and take portfolio-specific action, if required. Retail Credit Risk Division regularly undertakes a comprehensive and system-wide monitoring and analysis (including factor analysis) of retail loan portfolio quality, including breakdown of loans by various criteria such as products, client categories, sales channels, social profile, overdue loans and others.

Retail clients are recognised as problematic automatically if they have a payment overdue for more than 60 days, or on the basis of opinion of CBM's Collection Department if there exist reliable information on a loan's potential non-recoverability of (death, fraud, loss of collateral, etc.).

Retail loan recovery consists of the following procedure:

- ***Pre-collection.*** From 10 days prior to the due date, CBM sends reminders, usually in the form of an SMS text message to a borrower's mobile phone to inform the borrower about the upcoming due date, in order to prevent loans from becoming past due. The majority of CBM's retail loans contemplate a securing payment to be made 10 to 15 days before the regular due date in consideration for a borrower getting a better interest rate on respective loan. In addition, CBM has implemented a recurrent payments system enabling direct debit from clients' cards issued by third party banks where this has been agreed by the clients in the relevant loan agreements.
- ***Soft collection.*** For up to 60 days past the due date, CBM's Collection Department starts interaction with debtors from the first day past the due date, for confirmation of payment or fraud detection, by way of phone calls, email, voice mail, letters and SMS. This procedure is aimed at motivating the customer to repay the debt. Further collection actions are determined based on the results of previous activities and debtor's response. In addition, in certain limited cases, CBM may apply various hardship tools for settlement or debt restructuring.
- ***Hard collection.*** From 60 days past the due date, or earlier in the case of fraud, the loan recovery process is delegated to a collection service that works with CBM under an agency agreement. CBM reviews the efficiency of collection agencies with change in agencies after 90 days, if applicable. The procedure for claiming the debt includes negotiating with the borrower or guarantor, mailing an official claim to the borrower, commencing pre-trial proceedings and visiting the client in attempt to negotiate settlement. When the preceding measures have been exhausted, CBM institutes court proceedings, court enforcement proceedings, arrest of pledge and sale of property.

Asset Quality, Provisioning and Write-off Policy

CBM classifies loans overdue by 90 days or more as NPLs. CBM's loan portfolio also includes loans that have been renegotiated and would otherwise be past due or impaired. Such renegotiation 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.

The level of CBM's NPLs as a percentage of total gross loans to customers was 1.3%, 1.0% and 1.1% as at 31 December 2013, 2012 and 2011, respectively. NPLs in CBM's corporate loan portfolio accounted for 0.2%, 0.2% and 0.4% of gross loans to corporate customers as at 31 December 2013, 2012 and 2011, respectively. NPLs in CBM's retail loan portfolio accounted for 3.9%, 3.2% and 4.3% of gross loans to retail customers as at 31 December 2013, 2012 and 2011, respectively.

CBM writes off its NPLs and the respective allowances for impairment only if it believes that actions to recover debt would incur 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 amount 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. See "*Operating and Financial Review – Financial Position – Distribution of Loans by Economic Sectors – Distribution of Loans by Status*" and "*Operating and Financial Review – Financial Position – Past Due Loans*" for further information on CBM's NPLs, overdue loans and restructured loans.

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 risk. 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. All market operations are also performed within credit risk limits established by the Management Board, ALCO and Corporate Credit Committee. 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 undertaking the majority of its operations in the domestic currency.

CBM conducts foreign exchange activities both for its own account and on behalf of customers. 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.

ALCO sets limits on the level of exposure by currencies in compliance with minimum requirements established by the CBR. The following measures are taken to manage CBM's currency risk:

- The Treasury Department monitors CBM's open foreign currency position in certain foreign currencies and precious metals is below CBM's internal limit of 3% of CBM's equity capital, which is significantly below the 10% limit of CBR Instruction No. 124-I.
- Limits are set on the amount of CBM's open position in each currency and are regularly reviewed using value-at-risk methodologies, with limits on losses related to unfavourable currency exchange rate changes are set (stop-loss limits).

- CBM uses an automated system that manages the amounts of its open foreign currency position, within the established limits.

The table below sets out the exposure of CBM's assets and liabilities to foreign currency risk as at 31 December 2013.

	<i>As at 31 December 2013</i>			
	<i>RUB</i>	<i>US\$</i>	<i>Other currencies</i>	<i>Total</i>
	<i>RUB millions</i>			
Assets				
Cash and cash equivalents	54,061	10,356	2,648	67,065
Obligatory reserves with the Central Bank of the Russian Federation	2,799	-	--	2,799
Due from credit institutions	6,448	4,018	--	10,466
Financial instruments at fair value through profit or loss	36,849	564	--	37,412
Available-for-sale securities	12,956	4,681	896	18,534
Loans to customers	253,305	50,834	4,801	308,941
Property and equipment	6,079	-	--	6,079
Goodwill	301	-	--	301
Other assets	2,527	33	45	2,606
Total assets	375,325	70,487	8,390	454,202
LIABILITIES				
Deposits by the Central Bank of the Russian Federation	14,566	-	-	14,566
Deposits by credit institutions	13,053	9,076	2,269	24,398
Deposits by customers	244,810	23,386	6,675	274,872
Debt securities issued	45,846	38,698	10	84,554
Income tax liability	2,077	-	-	2,077
Other liabilities	2,795	244	38	3,077
Total liabilities	323,148	71,404	8,992	403,544
Net position before hedging	52,178	(918)	(602)	50,658
Derivative financial instruments	(1,936)	1,937	(1)	
Net position	50,241	1,019	(603)	50,658

The table below sets out the exposure of CBM's assets and liabilities to foreign currency risk as at 31 December 2012.

	<i>As at 31 December 2012</i>			
	<i>RUB</i>	<i>US\$</i>	<i>Other currencies</i>	<i>Total</i>
	<i>RUB millions</i>			
Assets				
Cash and cash equivalents	36,895	6,526	4,037	47,459
Obligatory reserves with the Central Bank of the Russian Federation	2,546	-	-	2,546
Due from credit institutions	9,494	3,027	-	12,521
Financial instruments at fair value through profit or loss	29,849	1,836	-	31,685
Available-for-sale securities	3,214	2,234	-	5,448
Loans to customers	166,114	28,420	6,701	201,235
Property and equipment	6,080	-	-	6,080
Goodwill				
Other assets	1,688	32	35	1,755
Total assets	255,879	42,075	10,773	308,727
LIABILITIES				
Deposits by the Central Bank of the Russian Federation				
Deposits by credit institutions	10,460	21,702	3,022	35,184
Deposits by customers	167,088	14,272	7,655	189,014

	As at 31 December 2012			
	<i>RUB</i>	<i>US\$</i>	<i>Other currencies</i>	<i>Total</i>
	<i>RUB millions</i>			
Debt securities issued	33,960	6,043	11	40,014
Income tax liability	2,734	-	-	2,734
Other liabilities	2,179	172	139	2,489
Total liabilities	216,421	42,189	10,826	269,435
Net position before hedging	39,458	(113)	(53)	39,292
Spot contracts	(1,559)	787	772	-
Net position	37,900	673	719	39,292

The table below sets out the exposure of CBM's assets and liabilities to foreign currency risk as at 31 December 2011.

	As at 31 December 2011			
	<i>RUB</i>	<i>US\$</i>	<i>Other currencies</i>	<i>Total</i>
	<i>RUB millions</i>			
Assets				
Cash and cash equivalents	28,513	2,854	3,066	34,433
Obligatory reserves with the Central Bank of the Russian Federation	2,259			2,259
Due from credit institutions	1,620	3,263	418	5,301
Financial instruments at fair value through profit or loss	20,994	1,874		22,868
Available-for-sale securities	1,484	547		2,031
Loans to customers	132,935	18,186	7,899	159,020
Property and equipment	4,970			4,970
Goodwill				
Other assets	1,410	38	40	1,488
Total assets	194,186	26,762	11,423	232,371
LIABILITIES				
Deposits by the Central Bank of the Russian Federation				
Deposits by credit institutions	6,505	16,752	1,707	24,964
Deposits by customers	123,629	12,883	10,179	146,691
Debt securities issued	24,407	6,701	11	31,119
Income tax liability	2,090	-	-	2,090
Other liabilities	1,840	28	30	1,899
Total liabilities	158,471	36,365	11,927	206,763
Net position before hedging	35,715	(9,603)	(504)	25,608
Spot contracts	(9,607)	9,607	-	-
Net position	26,108	4	(504)	25,608

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, 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.

Fluctuations in interest rates have an impact upon the operations of CBM. During 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. At the end of 2011, 2012 and 2013, average rouble

lending rates for overnight deposits (Rouble OverNight Index Average, or RUONIA) on the Russian interbank market were 3.9%, 5.5% and 5.9%, respectively.

CBM's interest rate policy is reviewed and approved by ALCO.

To limit 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 contractual matching maturities of interest-bearing assets and liabilities, as at 31 December 2013, 2012 and 2011.

	<i>Less than 1 month</i>	<i>1 to 6 months</i>	<i>6 months to 1 year</i>	<i>Over 1 year</i>	<i>Overdue</i>	Total
<i>RUB millions</i>						
As at 31 December 2013						
Interest-bearing assets.....	47,010	120,085	49,525	181,176	3,787	401,583
Interest-bearing liabilities	44,513	79,858	92,594	126,984	--	343,949
Net interest sensitivity gap as at 31 December 2013	2,497	40,227	(43,069)	54,192	3,787	57,634
As at 31 December 2012						
Interest-bearing assets.....	35,911	79,987	43,310	110,561	1,299	271,067
Interest-bearing liabilities	39,233	65,757	73,587	53,866	-	232,443
Net interest sensitivity gap as at 31 December 2012	(3,322)	14,230	(30,277)	56,694	1,299	38,624
As at 31 December 2011						
Interest-bearing assets.....	25,743	66,906	29,719	78,705	1,487	202,559
Interest-bearing liabilities	23,681	51,799	54,274	49,427	-	179,181
Net interest sensitivity gap as at 31 December 2011	2,062	15,106	(24,555)	29,277	1,487	23,378

See Note 29 to the 2013 Annual Financial Statements, Note 28 to the 2012 Annual Financial Statements and Note 28 to the 2011 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 holdings of financial instruments at fair value through profit or loss as at 31 December 2013 was RUB 37.4 billion, as compared to RUB 31.7 billion as at 31 December 2012 and RUB 22.9 billion as at 31 December 2011. Available-for-sale securities as at 31 December 2013 were RUB 18.5 billion, as compared to RUB 5.4 billion as at 31 December 2012 and RUB 2.0 billion as at 31 December 2011.

As at 31 December 2013, the majority of CBM's total bond portfolio consisted of highly liquid bonds from the CBR Lombard and Repo lists, which are eligible for repo transactions and gives CBM the flexibility to seek liquidity from the CBR if required. This may also mean 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 Financial Risk Analysis Department 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, and accordingly CBM's equity investments are limited to liquid shares of large, highly liquid Russian companies. Equity securities represented 0.01% of CBM's total securities portfolio as at 31 December 2013, as compared to 0.07% and 0.1% as at 31 December 2012 and 2011, respectively.

See "*Operating and Financial Review – Financial Position – Assets*" and "*Business – Financial Markets, Treasury and Trading Securities*".

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), and to a lesser extent interbank borrowings and debt funding in both the 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 basis, but in practice it does not actively utilise such liquidity.

ALCO approves liquidity assessment and management procedures, determines liquidity requirements and sets minimum necessary levels of liquid assets and limits of maturity mismatch. ALCO's 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) statutory liquidity ratios. The risks relating to sources of funding are controlled by the CBR in accordance with the capital adequacy (N1) standard and long-term liquidity (N4) standard. The CBR requires that such ratios be complied 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 ALCO, which ensures ALCO has comprehensive control over liquidity risk.

The following table sets forth CBM's consolidated liquidity position as at 31 December 2013 and shows financial assets and liabilities according to their remaining contractual maturity as at 31 December 2013.

	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 9 months</i>	<i>9 months to 1 year</i>	<i>1 to 2 years</i>	<i>2 to 3 years</i>	<i>3 to 5 years</i>	<i>Over 5 years</i>	<i>No maturity</i>	<i>Overdue</i>	<i>Total</i>
ASSETS	<i>RUB millions</i>											

Cash and cash equivalents	67,065	-	-	-	-	-	-	-	-	-	-	67,065
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	2,799	-	2,799
Due from credit institutions	2,522	7,841	103	-	-	-	-	-	-	-	-	10,466
Financial instruments at fair value through profit or loss	25,593	477	402	187	-	2,029	353	8,370	-	-	-	37,412
Available-for-sale securities	6,221	1,493	1,570	135	2,618	141	1,669	3,584	1,098	5	-	18,534
Loans to customers	14,810	58,596	47,412	24,999	15,418	42,653	26,952	40,867	33,447	-	3,787	308,941
Property and equipment	-	-	-	-	-	-	-	-	-	6,079	-	6,079
Goodwill	-	-	-	-	-	-	-	-	-	301	-	301
Other Assets	774	250	847	336	399	-	-	-	-	-	-	2,606
	116,985	68,657	50,334	25,658	18,434	44,823	28,974	52,822	34,545	9,184	3,787	454,202
LIABILITIES												
Deposits by the CBR	6,053	3,505	-	4,508	501	-	-	-	-	-	-	14,566
Deposits by credit institutions	4,930	3,775	1,190	1,796	7,216	1,468	789	2,619	615	-	-	24,398
Deposits by customers	85,800	21,367	35,575	35,830	33,800	20,831	32,225	9,443	-	-	-	274,872
Debt securities issued	531	4,262	11,376	7,987	1,310	11,298	-	47,790	-	-	-	84,554
Income tax liability	-	197	-	-	-	-	-	-	-	1,880	-	2,077
Other liabilities	1,441	223	163	163	163	-	-	-	-	925	-	3,077
	98,756	33,328	48,303	50,283	42,990	33,597	33,014	59,852	615	2,805	-	403,544
Net position	18,229	35,328	2,032	(24,626)	(24,555)	11,226	(4,040)	(7,031)	33,930	6,378	3,787	50,658
Cumulative position	18,229	53,558	55,589	30,963	6,408	17,634	13,593	6,562	40,493	46,871	50,658	

The following table sets forth CBM's consolidated net liquidity position and accumulated gap as at 31 December 2013, 2012 and 2011.

	<i>Less than 1 month</i>	<i>1 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>No maturity</i>	<i>Overdue</i>	<i>Total</i>
<i>RUB millions</i>								
Net liquidity position as at 31								
December 2013.....	18,229	37,360	(49,181)	155	33,930	6,378	3,789	50,658
Accumulated gap as at 31 December								
2013.....	18,229	55,589	6,408	6,562	40,493	46,871	50,658	-
Net liquidity position as at 31								
December 2012.....	22,423	19,857	(26,828)	11,117	6,180	5,246	1,299	39,292
Accumulated gap as at 31 December								
2012.....	22,423	42,280	15,452	26,568	32,748	37,993	39,292	-
Net liquidity position as at 31								
December 2011.....	19,662	14,316	(25,058)	6,651	3,660	4,889	1,487	25,608
Accumulated gap as at 31 December								
2011.....	19,662	33,979	8,921	15,572	19,232	24,121	25,608	-

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or 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 the Internal Control Service which performs independent control of operational risk management and reports directly to the Chairman of the Management Board.

The Internal Control Service collects information about internal and external losses, monitors the state and extent of the operational risks CBM is facing, evaluates risks qualitatively and quantitatively, and identifies the incidence of risks at early stages and responds so as to prevent the risk from reaching levels that are considered substantial for CBM.

CBM's Operational Risk Management Policy is based on Russian statutory requirements, recommendations of the CBR and the Basel Committee on Banking Supervision, and internationally recognised principles. CBM gathers data on operational risk occurrences and monitors key risk indicators, and CBM's organisational units carry out self-assessment of risk and subsequently provide operational risk mapping across CBM.

CBM also seeks to manage its operational risks by recruiting qualified staff, provides training, regularly updating operational procedures, monitoring the security of its IT systems and ensuring that its infrastructure systems are robust.

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'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 client 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 is a highly regulated entity and it could fail to comply with applicable legal requirements"*.

CBM uses an automated monitoring system that identifies client transactions that are subject to mandatory control or appear suspicious in nature based on a risk-oriented approach. CBM's risk-oriented monitoring includes the following, all of which are 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 Foreign Currency Control Directorate, which includes the Foreign Currency Control Department (consisting of the Ongoing Foreign Currency Control Unit, the Foreign Currency Transactions Reporting and Record Unit and the Foreign Currency Control Documents Expertise Unit) and the Financial Monitoring Department (consisting of the Compulsory Control Unit, the Money Laundering Risk Appraisal Unit and the Methodology and Staff Training Group).

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.

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.

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:

- amendments to CBM's charter (with certain exception provided for by Russian law) and approval of the restated charter;
- 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, par value and type of authorised shares as well as the rights attached to those shares;
- increases in the instances provided by CBM's charter and reductions of CBM's charter capital;
- election of the Statutory Audit Commission and appointment of CBM's external auditor;
- declaration (payment) of dividends;
- approval of CBM's annual statutory accounts and reports;
- approval of CBM's participation in financial groups and associations; and
- certain other matters provided for by CBM's charter and 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 10 members. The last election of the Supervisory Board took place on 21 November 2014, at which Alexey Stepanenko was newly elected as a member.

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 the IFC or the IFC Russian Bank Capitalization Fund 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.

<i>Name</i>	<i>Year of Appointment to Supervisory Board</i>	<i>Position</i>
William Owens	2012	Chairman, Independent Non-executive Director Non-executive Director, Nominee of IFC and RBOF Holding Company I Ltd
Mikhail Kuznetsov	2013	Senior Independent Non-executive Director
Andrew Gazitua	2012	Independent Non-executive Director
Nicholas Haag	2013	Non-executive Director, Controlling shareholder
Roman Avdeev	2008	Non-executive Director
Alexander Nikolashin	2008	Executive Director, Chairman of the Management Board
Vladimir Chubar	2010	Non-executive Director, Nominee of EBRD
Thomas Grasse	2014	Independent Non-executive Director
Bernard Sucher	2014	Non-executive Director
Alexey Stepanenko	2014	

William Owens (born 1950) has served as a member of the Supervisory Board since November 2012 and as Chairman since 17 April 2013. 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. Subsequently, 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 MOEX. Mr. Owens also served as Chair of FESCO's Strategy Committee. Mr. Owens is presently the 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).

Mikhail Kuznetsov (born 1979) has served as a member of the Supervisory Board since June 2013. Mr. Kuznetsov has held managerial positions in Aviacor, Lukoil-Volga, Promsviaz and International Finance Corporation (IFC). He also has experience on the Board of Directors of such companies as OMC, SG-TRANS, Partner-Invest, Volzhanka and IDGC. Currently, Mr. Kuznetsov serves as an Independent Director on the Board of OJSC "Energosetproject", member of the Board of Directors of OJSC «EHO», OJSC «Mosenergoemont» and LLC «Megapolis-Service». He is the CEO and managing partner of Corporate Development Advisers and LLC «Topcompetence», and CEO of the Association of Corporate Directors and Managers. Mr. Kuznetsov (Ph.D. in Economics) graduated from Samara State Economic University with a degree in management in 2001, and was certified in finance and marketing at Loyola Marymount University (USA). He has obtained the Institute of Directors (U.K.) diploma in Company Direction, and the FCSM's broker, dealer and asset manager certificate. He has also taken a certificate course in Schulich School of Business, York University (Canada) on Corporate Governance. Mr. Kuznetsov was nominated to the Supervisory Board by the IFC and RBOF Holding Company I Ltd.

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. 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, on the Board of Directors of Web Financial Group S.A. and on the Board of AS Expobank. Mr. Gazitua graduated from Haverford College (USA) with a Bachelor of Arts degree.

Nicholas Haag (born 1958) has served as a member of the Supervisory Board since December 2013. Mr. Haag started his career in 1980 with Barclays De Zoete Wedd and later became Head of Equity Syndicate. After several years at Nomura International thereafter, he joined Paribas (now BNP Paribas) as Managing Director in equity capital markets. From 1999 to 2007 Mr. Haag held top positions in Technology Banking with ING Barings and ABN AMRO (London). From 2008 to 2012 he was the Managing Director and head of U.K. Equity Capital Markets at Royal Bank of Scotland/Hoare Govett. Mr. Haag also serves on the Supervisory Board of TBC Bank (Georgia). Mr. Haag graduated from Oxford University with a first class degree in Modern Studies and Geography.

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 to January 2008, Chairman of the Management Board from January 2008 to November 2008 and President of CBM from November 2008 to September 2010. Prior to this, he held positions as General Director of Rossium Concern and as a member of its Board of Directors. From March 2014 Mr. Avdeev has served as Chairman of the Supervisory Board of «MCB Capital». 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 an engineering science degree.

Alexander Nikolashin (born 1966) has served as a member of the Supervisory Board since October 2008 and was an executive director until March 2013. 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, and President. He was the Chairman of the Management Board from 2008 to 2012 and subsequently held the position of President of CBM. Mr. Nikolashin is currently President of LLC “MCB Capital”, a management company wholly-owned by Mr. Roman Avdeev. Previously, Mr. Nikolashkin held various managerial positions in CBM. 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 the position of 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).

Thomas Grasse (born 1955) has served as a member of the Supervisory Board since March 2014. In 1977 he earned his Bachelor in Banking from Frankfurt School of Finance and Management. He gained broad experience in commercial and investment banking while working for HypoVereinsbank, Munich (now UniCredit) from 1974-2007 in a number of senior executive managerial positions in Germany, Luxembourg and Poland. From 2007-2009 he served as CFO and COO of UniCredit Market & Investment Banking Poland, based in Warsaw. While at HypoVereinsbank he gained significant experience in Corporate Development and strategic M&A and was responsible for numerous

corporate transactions with a focus on financial institutions in Germany, Austria, the UK, Russia and the CIS, as well as managing strategic partnerships and ownership in various investments. His Board experience in Russia includes Banca Intesa Russia, International Moscow Bank (now UniCredit) and a leading Russian packaging company. Since 2009 Mr. Grasse has served on various bank Boards in Russia, Central Asia and the EU as an independent director on behalf of international financial institutions and institutional investors. Thomas Grasse was delegated to the Bank's Supervisory Board by the European Bank for Reconstruction and Development (EBRD).

Bernard Sucher (born 1960) has served as a member of the Supervisory Board since March 2014. While studying Russian language and the Soviet Union, he earned a bachelor's degree in business from the University of Michigan. Mr. Sucher's professional career in finance began in New York in 1984 with EF Hutton. Then he took on various positions with Japan specialist Cresvale and later Goldman Sachs, working in New York, London, Hong Kong and Tokyo. In 1993, Mr. Sucher moved to Moscow, where he co-founded and helped build the investment bank Troika Dialog. From 2002, Mr. Sucher oversaw the restructuring and re-launch of Alfa Capital, one of Russia's original asset management firms. From 2007 to 2010, he led Merrill Lynch's profitable re-entry into Russia, becoming Country Head following the firm's acquisition by Bank of America. Today, Mr. Sucher serves on the Boards of LLC «Aton», Russia's oldest independent investment bank, and UFG Asset Management, a leading international investor active in the country.

Alexey Stepanenko (born 1981) has served as a member of the Supervisory Board since November 2014. He was educated at the Financial University under the Government of the Russian Federation. Alexey Stepanenko started his career path in OJSC IMPEXBANK in 2004 as a Lead Associate at the Corporate Finance Unit of the Investment Business Department. In 2006 - 2008 he worked as Head of Market Research Unit in LLC IG East Kommerts. Alexey Stepanenko joined CREDIT BANK OF MOSCOW in February 2009 as Head of Sectoral Risk Monitoring Unit. At various times, he was Head of Financial and Sectoral Risks Analysis Unit, Head of Financial Risk Department, Deputy Director of Risk Division and Director of Analytical Division. In July 2012 Alexey was appointed Vice President of CREDIT BANK OF MOSCOW, and in 2013 he moved to the position of Vice President of MCB Capital. Currently Alexey holds the position of MCB Capital First Vice President.

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.

Management Board

The Management Board is CBM's collegial executive body, which is elected by the Supervisory Board. The Management Board meets as often as is considered necessary, typically 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 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 six 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.

<i>Name</i>	<i>Year of Appointment to Management Board</i>	<i>Position</i>
Vladimir Chubar	2008	Chairman
Dmitry Eremin	2008	First Deputy Chairman
Darya Galkina	2010	Deputy Chairperson
Svetlana Sass	2008	Chief Accountant
Yury Ubeev	2012	Deputy Chairman
Alexey Kosyakov	2013	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 is currently 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". Mr. Eremin holds degrees from the Academy of the Federal Security Service of the Russian Federation and the Moscow Institute of Economics and Finance.

Darya Galkina (born 1981) has served as a member of the Management Board since September 2010. During her career at 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 Principal Legal Advisor at Commercial Bank "Integral". Ms Galkina graduated from the Moscow Academy of Economics and Law in 2003.

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, as well as at Russian Universal Investment Bank, Impexbank and Russian Credit. Mrs. Sass has a degree from Moscow State University of Economics, Statistics and Informatics.

Yury Ubeev (born 1974) has served as a member of the Management Board since October 2012. Mr. Ubeev's prior experience includes being a member of the 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 financial markets. He has oversight over CBM's open-market debt programmes and projects intended to enhance CBM's performance in financial markets and expand cooperation with Russian and foreign financial institutions, as well as its treasury activities. Mr. Ubeev has a degree in Management from East Siberia State University of Technology and Management.

Alexey Kosyakov (born 1983) has served as a member of the Management Board since October 2013. Mr. Kosyakov has been working in banking sector since 2005. Before coming to CBM, he worked at "Russian Standard" bank, International Moscow Bank, Swedbank and Bank of Moscow. Mr. Kosyakov joined CBM in April 2011 as Head of the Consumer Lending Department. He was appointed Director of the Retail Lending Division in July 2011 and Head of the Retail Business Directorate in February 2012. Mr. Kosyakov supervises the retail business of CBM while overseeing further achievement of strategic objectives, such as increasing CBM's share in the retail banking services market, further improving the efficiency of CBM's branch network and developing remote client service channels. Mr. Kosyakov has degrees from the Moscow Engineering and Physics Institute and Plekhanov Russian Academy of Economics.

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.

Management Company for Roman Avdeev

In March 2013, Roman Avdeev, CBM's controlling shareholder and a member of the Supervisory Board, established LLC "MCB Capital" (**MCB Capital**), a management company incorporated in Russia. Mr. Avdeev is the sole beneficial owner of MCB Capital. The main task of MCB Capital is to carry out management functions in respect of businesses owned by Mr. Avdeev. MCB Capital is the sole executive body of "ROSSIUM Concern", LLC, which owns 85% of the shares in CBM, and therefore it participates in determining the development strategy of CBM on behalf of Mr. Avdeev in his capacity as a majority shareholder of CBM.

Corporate Governance

CBM complies with the Russian Federation's corporate governance regime. 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 and credit organisations 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 MOEX (formerly MICEX) since 2005. 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 2014.

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 interested parties, with a view to enhance reliability and client satisfaction, promote business culture, improve control over CBM's performance and to ensure compliance with highest ethical standards. The Corporate Governance Code seeks to improve and systemise approaches to client satisfaction by providing high quality banking services and reliability in accordance with CBM's plan to evolve as a modern financial institution. 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 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 and the Corporate Governance Code, 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, among others:

- 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 determine the decision of the management or business policies of an entity through the direct or indirect (i.e. through third parties) ownership of more than 20% 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, and have not 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 a significant (more than 2%) portion of the outstanding shares in CBM or shares/interests in the capital of any of its affiliates, 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, which 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 the estate of any such individual who has been declared missing, or administrators or trustees of the 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, the EBRD and IFC. The New Moscow Exchange Listing Rules also set out a new list of independence criteria for directors, with which CBM expects to comply with as well. CBM's Supervisory Board includes four independent directors. These directors are Andrew Gazitua, William Owens, Nicholas Haag and Bernard Sucher.

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 has 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 Nicholas Haag, Thomas Grasse and Bernard Sucher. 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 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;

- efficient 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.

Strategy and Capital Markets Committee

The Strategy and Capital Markets Committee of the Supervisory Board was established in August 2013 out of Capital Markets Committee and Strategic and Finance Committee of the Supervisory Board. The committee consists of six members. The committee is headed by an independent director. Currently the committee consists of Andrew Sergio Gazitua, William Forrester Owens, Vladimir A. Chubar, Thomas Grasse, Bernard Sucher and Nicholas Haag. The Strategy and 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; 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 Strategy and Capital Markets 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 four Supervisory Board members. The committee is headed by an independent director. Currently the committee consists of William Owens, Roman Avdeev, Mikhail Kuznetsov and Andrew Gazitua. 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.

Corporate Secretary

According to the bylaw on the Corporate Secretary adopted by CBM in December 2013, the Corporate Secretary's role is to promote efficiency of CBM's management in the interest of the shareholders, promote CBM's transparency and investment appeal and support the growth of its capitalisation and profitability.

Code of Corporate Ethics

On 12 November 2013 CBM also adopted a Code of Corporate Ethics (revised from a previous Code of Corporate Ethics adopted in November 2012), which sets out the standards of CBM's activities and employees conduct with the focus on maintaining ethical standards, quality of service provided to customers, increasing CBM's profitability, financial stability and efficiency. The objectives of the Code of Corporate Ethics include defining CBM's mission and corporate values; ensuring CBM's employees understand their personal responsibility to the CBM's customers, business partners, shareholders and their colleagues for executing their official duties and performing their functions; and setting forth the fundamental principles of CBM's relationships with customers, business partners, state and municipal authorities, competitors and CBM's employees, protecting interests of CBM's shareholders, customers, business partners and employees. The Code of Corporate Ethics applies to all employees of CBM. Employees are required to act

in accordance with the Code of Corporate Ethics and avoid situations where their personal interest conflict with CBM's interest. CBM views the adoption of the Code of Corporate Ethics as an important development in continuing to improve the corporate governance of CBM. The Code of Corporate Ethics also aims to assist with the integration of new employees into CBM's corporate culture.

Remuneration

In the years ended 31 December 2013, 2012 and 2011, aggregate remuneration paid by CBM to the members of its Supervisory Board and Management Board was RUB 231.1 million, RUB 219.2 million and RUB 49.6 million, respectively. The increase in the total remuneration paid was in part 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 six 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.

Policy

In December 2014 the Supervisory Board approved the new remuneration policy for the Management Board members and the "risk-takers" of CBM in line with new Instruction No. 154-I of the CBR. This policy is to be effective from 1 January 2015.

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.

SHAREHOLDERS

General

As at 30 September 2014, CBM's charter capital amounted to RUB 14,467,761,735 and comprised of ordinary shares each with a nominal value of RUB 1.00. As at the date of this Prospectus, CBM has authorised but unissued ordinary shares with an aggregate nominal value of RUB 21,808,396,273.

The table below sets forth information regarding CBM's shareholders as at the date of this Prospectus.

*Ordinary shares owned as at the date of this
Prospectus*

	<i>Number</i>	<i>Percentage (%)</i>
"Rossium Concern", LLC ⁽¹⁾	12,297,597,473	85.0
European Bank for Reconstruction and Development	1,085,082,131	7.5
RBOF Holding Company I Ltd. ⁽²⁾	666,266,977	4.6
International Finance Corporation ⁽²⁾	418,815,154	2.9
Total.....	14,467,761,735	100.00

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) RBOF Holding Company I Ltd. is a wholly owned subsidiary of IFC Russian Bank Capitalization Fund, LP, which forms a group of companies with the 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.

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 holders of the Notes" 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. Thomas Grasse was nominated by EBRD to the Supervisory Board and elected at the extraordinary General Shareholders' Meeting held on 31 March 2014.

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. Mikhail Kuznetsov was nominated by IFC and RBOF Holding Company I Ltd. to the Supervisory Board and elected at the ordinary General Shareholders' Meeting held on 27 June 2013.

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. On 11 April 2013, a general shareholders’ meeting of CBM adopted certain amendments to its charter to bring it in line with recent changes introduced to the law on joint stock companies. The amended charter was registered with the CBR on 5 June 2013. A further new charter of CBM was adopted on 30 December 2013 and registered with the CBR on 31 January 2014. On 28 August 2014 a General Shareholders’ Meeting of CBM adopted certain further amendments to its charter to address certain corporate governance issues. These amendments were registered by the CBR on 23 September 2014.

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 2014 and 31 December 2013, 2012 and 2011 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 31 December 2013 and incurred interest expense to such shareholders in the year ended 31 December 2013. 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 "*Operating and Financial Review – Financial Position – Total Liabilities – Deposits by Credit Institutions*" and "*Shareholders*". Since 31 December 2013, CBM has continued to enter into related party transactions within the normal course of business.

	As at 30 September 2014	As at 31 December		
		(RUB thousands, except percentages)		
		2013	2012	2011
Total capital	76,528,737 ⁽¹⁾	71,906,103 ⁽²⁾	44,995,891 ⁽²⁾	29,480,006 ⁽²⁾
Loans to customers				
Roman Avdeev	–	–	350,110	70,208
Under control of Roman Avdeev	529,804	713,175	1,006	87,138
Management	74,054	187,581	88,892	43,977
Total loans to related parties	603,858	900,756	440,008	201,323
Deposits by customers				
Roman Avdeev	744,690	3,773,757	320,310	31, 993
Under control of Roman Avdeev	139,341	18,838	2,342,880	2,909,463
Parent company ⁽³⁾	26,675	41,350	265,752	250, 896
Management	161,561	167,823	89,066	35, 481
Other	–	–	–	–
Total deposits by related parties	1,072,267	4,001,768	3,018,008	3,227,833
Related party exposure/Total capital	0.8%	1.3%	1.0%	0.7%

	As at 30 September 2014	As at 31 December		
		(RUB thousands, except percentages)		
		2013	2012	2011

(as per Basel norms)

Note:

- (1) Basel III methodology, as adopted by the CBR.
- (2) Basel I methodology, as adopted by the CBR.
- (3) "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%).

	Year ended 31 December		
	2013	2012	2011
	(RUB thousands, except where otherwise specified)		
Interest income on loans to customers			
Roman Avdeev	8,926	4,563	34,236
Under control of Roman Avdeev	68,922	5,085	38,956
Management	8,025	8,049	4,786
Other	—	—	—
Total interest income from related parties on loans to customers	85,873	17,697	77,978
Interest expense on deposits by customers			
Roman Avdeev	33,304	17,738	459
Under control of Roman Avdeev	60,796	95,058	166,694
Management	9,336	2,697	1,716
Parent company ⁽¹⁾	36,017	22,252	31,743
Other	—	—	—
Total interest expense to related parties on deposits by customers	139,453	137,745	200,612

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%).

As at 31 December 2013, loans to related parties represented 0.3% of CBM's total gross loans to customers and deposits from related parties represented 1.5% of CBM's total deposits by customers. For the year ended 31 December 2013, total interest income from loans to related parties was RUB 85.9 million and total interest expense for deposits by related parties was RUB 139.5 million. As at 31 December 2013, the average interest rate for deposits by related parties was 8.2% and the average effective interest rate on loans to related parties was 13.7%.

As at 31 December 2012, loans to related parties represented 0.2% of CBM's total gross loans to customers and deposits from related parties represented 1.6% of CBM's total deposits by customers. For the year ended 31 December 2012, total interest income from loans to related parties was RUB 17.7 million and total interest expense for deposits by related parties was RUB 137.7 million. As at 31 December 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 14.2%.

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%.

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 – Shareholders Agreement*".

THE BANKING SECTOR IN RUSSIA

Overview of the Russian Federation and Key Macroeconomic Indicators

According to the IMF, in 2012 Russia was the 8th largest economy in the world and the largest economy in Central and Eastern Europe as well as the CIS with a GDP of US\$2,030 billion. It recorded one of the highest GDP growth rates among the top 12 global economies between 2000 and 2012, with an average annual real GDP growth rate of 5.2% during this period, exceeded only by China (10.0%) and India (6.9%). At the same time, while, according to the IMF, Russia's GDP per capita for 2012 of US\$14,302 was more than double that of China (US\$6,071), it still lags significantly behind those of Western European countries.

The following table contains certain key Russian macroeconomic data for the periods indicated:

	<i>For the year ended 31 December⁽¹⁾</i>					
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
Nominal GDP (billions of roubles).....	41,277	38,807	46,308.5	55,644	61,811	66,689
Real GDP index (%) (2003 prices=100%)	140.9	129.8	135.4	141.2	146.2	<i>Data not yet available</i>
Real GDP growth/(decline) (% , year-on-year).....	5.2	(7.8)	4.5	4.3	3.4	1.3
Nominal GDP per capita (roubles)	289.2	271.8	324.2	390.3	437.1	<i>Data not yet available</i>
Real GDP per capita index (%) (2003 prices=100%)	143.4	132.3	137.0	142.8	147.8	<i>Data not yet available</i>
Real GDP per capita growth/(decline) (% , period-on-period)	5.4	(7.8)	3.5	4.3	3.4	<i>Data not yet available</i>
GDP deflator (% , period-on-period)	18.0	2.0	14.2	15.2	7.4	6.5
Inflation, (% , year-on-year)	13.3	8.8	8.8	6.1	6.6	6.5
Total population, millions (end of year)	142.8	142.7	142.9	142.9	143	143.3

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 January 2014.

Russia's economy strengthened between 2000 and 2012 (aside from a decline in 2009), despite the economic crisis between 2008 and 2010. According to Rosstat and the Russian Ministry of Finance, GDP increased more than eight-fold from RUB 7,306 billion in 2000 to RUB 61,811 billion in 2012; the consumer price index dropped from 20.2% in 2000 to 6.6% in 2012; and government debt as a share of GDP decreased from 62% to 11.8% during the same period. The growth in GDP was driven to a large extent by rising exports of goods and an increase in labour productivity, as well as domestic personal consumption, which increased more than eight-fold during the same period, and, in turn, laid a strong foundation for growth in the banking sector. 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. Currently the sovereign ratings of Russia by Fitch, Moody's and Standard & Poor's are 'BBB-'/ 'Baa2'/'BBB-'. In March 2014, both Fitch and Standard & Poor's downgraded the sovereign rating outlook for Russia from stable to negative in light of the potential impacts of US and EU sanctions on the Russian economy. In April 2014 Standard & Poor's downgraded the sovereign debt rating of Russia to 'BBB-' with a negative outlook, in October 2014 Moody's downgraded this rating to Baa2 with a negative outlook and in January 2015 Fitch downgraded its sovereign debt rating of Russia to "BBB-" with a negative outlook.

Strong natural resource exports and the government revenue help generate Russia's economic position relative to other large global economies in terms of international trade, international currency reserves and fiscal position. In 2012, Russia had an export surplus of 9.7% of GDP according to Rosstat, and the second highest current account balance among G8 countries, equal to 4.1% of GDP according to the IMF. Strong exports have helped Russia to accumulate substantial international monetary reserves, which were the third largest among G8 countries in 2012, according to the World Bank. As of 12 December 2014, however, according to the CBR these reserves had decreased to US\$416.2 billion. Notwithstanding, Russia's fiscal finances in 2012 were healthier than those of many other major world economies based on its external government debt to GDP ratio.

In addition to its vast natural resources, Russia has a well-educated population, 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. In 2012, the United Nations Development Programme reported that Russia had an HDI Education Index of 0.788, which was the highest among BRIC countries. In addition, a decrease in the unemployment rate (in accordance with the International Labour Organisation definition of unemployment, as a percentage share of the economically active population) from 8.3% in 2009 to 5.5% in the year ended 31 December 2013, according to Rosstat, has had a positive impact on domestic demand.

The European debt crisis has so far had a limited impact on the Russian economy, primarily because of Russia's relatively healthy fiscal finances, including its low debt-to-GDP ratio, small budget deficit and a high level of international reserves. However, recently there has been a significant decline in the prices of some of Russia's key exports, particularly oil and other natural resources, which has adversely affected Russia's economy.

Despite the financial crisis in 2008 and 2009 and the substantial decline in Russia's GDP, banking sector lending in Russia experienced only a minor decrease of just over 2.5% in 2009, according to the CBR. As at 1 January 2014, banking assets accounted for 86% of Russia's GDP compared to 60.5% in 2008, according to the CBR and Rosstat data. A number of Russian banks have been adversely affected by the volatility of the rouble in the fourth quarter of 2014 which has resulted in the CBR raising interest rates from 9.5% on 5 November 2014 to 17% on 16 December 2014.

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 defaulted 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 RUB 100,000. This threshold was later increased to RUB 190,000 (from August 2006), RUB 400,000 (from March 2007) and RUB 700,000 (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.

Following this period, the Russian banking sector saw a reduction in the 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 December 2014, there were 842 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 RUB 300 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 RUB 910 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 "*Banking Regulation in Russia*". The government continued to implement intensive anti-crisis measures in 2009 and 2010. The government increased the guaranteed retail deposit amount up to RUB 700,000 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. Basel III rules are also being gradually introduced in Russia. Regulation 395-P was introduced in March 2013, and other 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 (*ie.* 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. Following the adoption of the Banking Sector Development Strategy, the CBR pursued its intention to increase banks' capital cushions 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. See "*Banking Regulation in Russia – Capital Requirements – Basel Implementation in Russia*".

Role of the Financial Services Sector in the Russian Economy

The share of the Russian financial services sector in GDP grew over the last decade, from 2.9% in 2003 to 4.25% in 2013, according to Rosstat. However, although banks play an increasingly important role in the Russian economy, the industry still remains underdeveloped in certain respects, providing potential for long term growth. According to data provided by the Economist Intelligence Unit, Russian banking sector assets are currently at levels (relative to GDP) significantly lower than in Western European economies and when compared to countries such as Turkey (95%), Hungary (107%) and the Czech Republic (122%).

The retail banking market in the Russian Federation also remains in relatively early stages of development, with market penetration (14.9% on 1 January 2014) well below levels in Central and Eastern Europe and other Western countries, according to CBR data, measured by retail loan levels as a proportion of GDP. Between 2007 and 2012, retail loans increased substantially, at a compound annual growth rate of 21.10%, and retail lending as a percentage of GDP increased from 8.9% in 2007 to 14.9% on 1 January 2014.

Over 2014, CBR statistics show continued growth in Russian retail lending of 15.9% and corporate lending of 23.7%, with increases of 11.2% in retail and 29.9% in corporate deposits, demonstrating strong overall deposit generation in the banking sector, alongside a stable loan to deposit ratio of 95% (94% in 2012).

The following table sets forth certain information regarding the Russian banking sector as at the dates indicated:

	<i>As at 31 December</i>				
	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>
Total assets/liabilities (not including capital)					
(in trillions of RUB)	57.4	49.5	41.6	33.8	29.4
Total assets/liabilities (percentage of GDP)	86.1 ⁽¹⁾	79.1	74.6	73.0	75.8
Own funds (capital) (in trillions of RUB).....	7.1	6.1	5.2	4.7	4.6
Loans to customers over total assets (%).....	70.6	68.7	69.0	65.6	67.5
<i>including loans to credit organisations (%)</i>	8.9	8.5	9.5	8.6	9.3
Deposits from individuals over total liabilities (%)	29.5	28.8	28.5	29.0	25.4
Number of operating credit organisations	923	956	978	1,012	1,058
Assets of the five largest credit organisations over total assets					
(%).....	52.7	50.3	50.0	47.7	47.9
Credit organisations located in Moscow and the Moscow region					
(%).....	53.9	52.9	52.4	51.9	50.6
Number of profitable credit organisations (including zero profit)					
.....	834	901	928	931	938

Source: CBR

Note:

(1) 2013 GDP ratios calculated using Rosstat estimate of Russian GDP for 2013.

The following table sets out certain information on corporate and retail lending and deposits for the periods indicated:

	2008	2009	2010	2011	2012	2013 ⁽²⁾	CAGR 2008-2013
	<i>RUB billions, except percentages</i>						
Corporate lending	12,510	12,542	14,063	17,715	19,971	22,499	12.46%
% of GDP	30%	32%	31%	32%	32%	34%	
Retail lending	4,017	3,574	4,085	5,551	7,737	9,957	19.91%
% of GDP	10%	9%	9%	10%	12%	15%	
Total lending	16,527	16,116	18,148	23,266	27,709	32,456	14.45%
% of GDP	40%	42%	39%	42%	44%	49%	
Corporate deposits	4,945	5,467	6,036	8,367	9,620	10,838	16.99%
% of GDP	12%	14%	13%	15%	15%	16%	
Retail deposits	5,907	7,485	9,818	11,871	14,251	16,958	23.48%
% of GDP	14%	19%	21%	21%	23%	25%	
Total deposits ⁽¹⁾	14,373	16,809	20,699	25,565	29,578	34,312	19.01%
% of GDP	35%	43%	45%	46%	47%	51%	

Source: CBR

Notes:

- (1) including funds of legal entities in settlement and other accounts;
- (2) 2013 GDP ratios calculated using Rosstat estimate of Russian GDP for 2013.

Overall, the performance of Russian banks remains positive and has shown improvement as the sector has recovered from the global financial crisis. Over the last three years, banking sector performance has been partly driven by improving asset quality and lower provisioning levels, and, according to the CBR, as of 1 December 2014 the ratio of non-performing loans has fallen to 4.2% for corporate customers since its 2010 peak of 6.4%, and to 5.9% for retail customers, from 7.5% in 2010, while the overall share of overdue loans has declined from 5.5% as at 31 December 2010 to 4.5% at 1 December 2014. The overall capital adequacy ratio for the sector was 12.6% as at 1 November 2014, which was significantly lower than the 18.1% capital ratio as at 31 December 2010, largely as a result of banking sector growth.

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 53.3% 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 December 2014, those state-controlled or affiliated banks that are among the top ten banks in Russia by assets held approximately 50% of the sector's assets and continue to play a leading role in the sector. Among them, Sberbank with approximately 33.4% market share by total assets and VTB (including Bank of Moscow and TransCreditBank) with approximately 15% 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 CBM, Alfa-Bank, Otkritie Holding JSC, Promsvyazbank, Uralsib 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 Otkritie Holding JSC 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 November 2014, 37 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 76.

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 licences decreased from 1,311 in 2000 to 850 as at 1 November 2014, driven primarily by domestic consolidation through acquisitions or some banks ceasing operations and losing their banking licences due to the global financial crisis. The top 20 banks in Russia have been active in domestic consolidation through strategic acquisitions. As a result, concentration has increased among the top 20 banks: their share accounted for 63.7% of total assets in 2007 as compared to 73.7% of total assets as at 1 November 2014, according to the CBR. Increased banking regulation is expected to benefit stronger banks, which may provide further stimulus for sector consolidation.

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, NOMOS Bank's acquisition of Khanty-Mansiysk Bank in December 2010, the merger of URSA Bank into MDM Bank, VTB's acquisition of TransCreditBank and Bank of Moscow, Sberbank's acquisition of Troika Dialog, the acquisition of NOMOS Bank and Petrocommerce Bank by Financial Corporation Otkritie, Sovcombank's acquisition of GE Money Bank in Russia, and Mobile TeleSystems OJSC's acquisition of a 25.1% stake in MTS Bank.

Russian Banking Sector Presence in Capital Markets

During the past several years Russian banks have been expanding to international capital markets, attracting financing through initial public offers (IPOs) and follow-on offerings.

Significant equity capital markets transactions conducted since 2007 include a RUB 230.2 billion secondary offering by Sberbank in March 2007, VTB's approximately US\$ 8 billion IPO in May 2007, the further US\$3.3 billion sale of a 10% stake in VTB by the Russian government in February 2011, the May 2013 secondary offering by VTB worth RUB 102.5 billion, the April 2011 IPO by NOMOS Bank which raised approximately US\$718 million at US\$35 a share, Sberbank's September 2012 US\$ 5.2 billion secondary offering with the CBR selling approximately 7.58 % of shares in the bank and, in October 2013, Tinkoff Credit Systems' IPO, which raised approximately U.S.\$ 1.1 billion.

In addition to equity transactions, Russian banks have in recent years also been successful in tapping international debt markets. Access to capital markets provides Russian banks with opportunities to implement an optimal funding strategy, supporting further banking sector growth. Due to the 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 addition, and in response to the volatility and depreciation of the rouble, the CBR raised interest rates on 16 December 2014 to 17%.

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, some of which are described in this section. Among other things, they define credit organisations, set out the list of banking operations and other transactions that may be performed by credit organisations and establish the framework for the registration and licensing of credit organisations and the regulation of banking activity by the CBR.

While the CBR is the primary regulator of the banking sector, other governmental entities also exercise regulatory and supervisory functions over credit organisations in Russia. The Federal Antimonopoly Service (the **FAS**) controls mergers of credit organisations and acquisitions of voting stock in credit organisations as well as disposals of assets in them. The tax authorities supervise tax assessments of credit organisations.

The Central Bank of Russia

The CBR's main aim is to protect the Rouble against depreciation and maintain its stability. The CBR is also responsible for the stability and the development of the Russian banking system as well as the stability and the development of the national payment system.

The status of the CBR is determined by the Constitution of the Russian Federation and developed by the CBR Law. According to the CBR Law, the Russian government is not liable for the CBR's obligations, and the CBR is not liable for the obligations of the Russian government, unless such liability has been assumed or is imposed by Russian legislation. The assets of the CBR are owned by the Russian Federation.

The CBR is legally and operationally independent from the Russian government. The CBR has a head office in Moscow and regional branches in the constituent subjects of the Russian Federation, as well as local branches. The management of the CBR consists of the Chairman of the CBR, its board of directors and the National Financial Council.

The main functions of the CBR include, among others: exclusive issue of currency in the Russian Federation and regulation of its circulation; 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 performs state registration of credit organisations; issues, suspends and revokes banking licences of credit organisations; 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; supervises bank operations and transactions; appoints the temporary administration of credit organisations which are facing insolvency; regulates acquisition and trust management of shareholdings in banks exceeding certain thresholds and assesses the financial standing of banks and that of their owners. The CBR also establishes eligibility requirements for the positions of executive, chief accountant and certain other officers of credit organisations and candidates for such positions are subject to its prior approval before they are elected or appointed to the respective position.

Amendments to the CBR Law and the Banking Law introduced by Federal Law No. 146-FZ dated 2 July 2013 which came into effect on 1 January 2014 (with certain exceptions) and which, among other things, establish the grounds for banking supervision by the CBR on a consolidated basis, have broadened the scope of measures that may be taken by the CBR as part of the supervision, including sanctions for non-compliance with the requirements of banking laws and

regulations. In particular, the amendments introduce the right for the CBR to apply certain measures to holding companies of banking groups and banking holdings for non-compliance with requirements established by laws and CBR regulations for banking groups and banking holdings. In addition, the CBR may impose sanctions on a shareholder of a credit organisation for the following violations committed by such shareholder: (i) non-compliance with the rules on disclosure of persons exercising control or significant influence over a credit organisation; (ii) non-performance of obligations imposed on them by applicable laws in connection with the prevention of bankruptcy of a credit organisation; or (iii) entering into a transaction(s) with the credit organisation which has caused a breach of mandatory ratios by such credit organisation. In these cases, the CBR may order the relevant shareholder to rectify such violation, and if the shareholder fails to comply, his/her shares will become non-voting until the CBR's order has been performed or withdrawn. The CBR may also challenge decisions of a General Shareholders' Meeting and transactions entered into pursuant to such decisions if they were taken with the participation of the shareholders when their voting rights were limited under a CBR order. Further, the CBR may also introduce individual minimum levels of mandatory ratios for credit organisations or parent organisations for banking groups, the risk and capital management or internal control systems of which are found by the CBR as being not in compliance with the CBR requirements or not adequate in view of the nature and scale of credit organisation's (or banking group's) operations.

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.

On 23 July 2013, a set of amendments was introduced to legislation relating to the creation of the financial "megaregulator" in Russia. In accordance with these amendments which mostly came into force on 1 September 2013 the CBR became responsible for the development and stability of the Russian financial market, the FSFM was integrated into the CBR and all of the FSFM's functions, including registration of securities issues, ensuring the disclosure of information on securities markets and control and supervision of securities issuers and professional securities market participants, were transferred to the CBR.

Pursuant to the CBR Law, the Banking Law, the Securities Market Law and the Currency Law, the CBR has the authority to issue and implement binding regulations governing banking, financial markets and currency operations.

On 16 December 2014 in response to the depreciation of the rouble the CBR announced the following measures: (i) that its key rate, which determines the borrowing cost for commercial banks, would be increased from 10.5% to 17%; (ii) an increase in the limits of foreign currency repo auctions for a term of 28 days from \$1.5 billion to \$5 billion and that similar auctions will be held for a term of 12 months every week; and (iii) it will provide loans against non-market assets for a term of 2 to 549 days at a floating rate comprising the key rate plus 1.75%.

Credit Organisations and their Operations

Banks provide a wide range of banking services while non-banking credit organisations conduct only a limited number of banking operations, such as maintaining accounts and processing payments on behalf of various companies.

Under the Banking Law, the following services are considered "banking operations" and require receipt of an appropriate licence from the CBR: taking demand and fixed-term deposits from individuals and legal entities; investing the deposited funds as a principal; opening and maintaining bank accounts for individuals and legal entities; performing transfer of funds in accordance with the instructions of individuals and legal entities, including correspondent banks, from or to their bank accounts; cash, cheque, promissory note, payment document handling services and over-the-counter services provided to individuals and legal entities; sale and purchase of foreign currency, including banknotes and coins; taking deposits in precious metals and investing them; issuing bank guarantees; and performing transfer of funds, including electronic transfers, without opening bank accounts, excluding payments by post.

In addition to banking operations, credit organisations are permitted to give sureties for obligations of third parties contemplating payment in cash; to take assignments of rights to demand payment in monetary form; to perform fiduciary management of monetary funds and other assets for individuals and legal entities; to engage in operations with precious metals in accordance with Federal Law No. 41-FZ "On Precious Stones and Precious Metals" of 26 March

1998 and related legislation; to lease special premises and safe deposit boxes to individuals and legal entities for document and valuables storage; to effect leasing operations and to provide consulting and information services. A credit organisation may enter into any other transaction in compliance with the relevant Russian legislation. Under the Banking Law, a credit organisation cannot engage in manufacturing, commodities trading, excluding cash-settled commodity derivatives and precious metals, or insurance activities.

Foreign banks may carry out business activity in the Russian Federation through establishment of Russian subsidiary banks or through representative offices, whereas the possibility to establish branches of foreign banks was eliminated by amendments to the Banking Law which came into effect in March 2013. See "*Accession of Russia to the WTO*".

The Association of Russian Banks

The Association of Russian Banks had 669 members (of which 449 are credit institutions) as at 3 December 2014 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.

Registration and Licensing Requirements

According to the Banking Law, a licence must be obtained from the CBR in order for any organisation to engage in banking operations as a credit organisation.

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 approves the registration and issues licences to banks and non-banking credit organisations in accordance with the procedures set forth in the Banking Law and CBR Regulation No. 135-I of 2 April 2010, as amended.

The following types of banking licences may be issued to a bank by the CBR: (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.

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.

Additional requirements have been introduced for obtaining a license for taking deposits from individuals. The license could be granted to (a) a bank existing for more than two years from the date of its registration or (b) a newly

established bank or a bank existing for less than two years provided that: (i) the charter capital of a newly established bank or the regulatory capital of an existing bank is not less than RUB 3,600 million, and (ii) the bank complies with the CBR's requirement to publicly disclose all information relating to persons having control or significant influence over the bank.

The Banking Law also provides a list of circumstances in which a banking licence may be revoked by the CBR. These include, among others: (1) the information upon which the licence 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 licence; (4) the bank's activities do not comply with Russian banking or anti money laundering legislation or CBR regulations; or (5) the bank repeatedly (within one year) fails to carry out court decisions on the collection of funds from client accounts.

The CBR must revoke a banking licence from a bank if (i) its capital adequacy ratio falls below 2 per cent., (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.

From 1 September 2013, as a result of accession of the FSFM to the CBR, the CBR has started to issue licences to banks to act as a securities broker or dealer or provide custody and other securities market services.

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) acquiring the shares. The CBR must also give prior consent to an acquisition (including an acquisition on the secondary market) of more than 10 per cent. of the share capital of, or participation interests in, a credit organisation or acquisition of direct or indirect control over a shareholder (participant) holding more than 10 per cent. of the bank's shares. This 10 per cent. threshold replaced the previous 20 per cent. threshold which was in effect before 2 October 2013. In certain cases (such as an acquisition of more than 10 per cent. of the share capital in a public placement), post-acquisition consent of the CBR can be obtained. Furthermore, in accordance with the Banking Law, prior consent of the CBR is required for the acquisition or transfer into trust of more than, or any subsequent increase in the ownership or trust holding above, 25 per cent., 50 per cent. or 75 per cent. of the share capital of a credit organisation in the form of a joint-stock company or one third, 50 per cent. and two thirds of participatory interests in a credit organisation in the form of a limited liability company. The CBR may deny approval if an applicant's financial condition is unsatisfactory, or if the consent of FAS or the special state government committee under 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, if required, has not been obtained for the acquisition, or the business reputation of the acquirer is unsatisfactory, or in other cases contemplated by federal laws and CBR regulations. An acquisition conducted without prior, or subsequent (as the case may be) CBR approval may be challenged by the CBR in court if the acquirer of shares or control has not complied with the CBR's order to rectify the breach within 90 days, either by obtaining the CBR's approval for the relevant acquisition or by disposing of the relevant shares. Before the CBR's order to rectify the breach has been fulfilled, the relevant shares are non-voting and are not taken into account for the purpose of determining a quorum for a General Shareholders' Meeting.

In addition, if the CBR detects non-compliance with business reputation requirements of current shareholders (participants) holding more than 10 per cent. of a bank's shares or persons controlling such shareholders, the CBR may make an order to rectify such breach by reducing the relevant shareholder's participation to not more than 10 per cent. or by ceasing such control. Until the CBR's order has been fulfilled, the relevant shareholders may not vote with more

than 10 per cent. of shares, and other shares held by such shareholders are non-voting and are not taken into account for the purpose of determining a quorum for a General Shareholders' Meeting.

On 2 February, the CBR Regulation No. 146-I of 25 October 2013 (the **Regulation No. 146-I**) came into effect which developed the respective requirements of the Banking Law and established the procedure for obtaining CBR's approval for acquisition of shares or control. According to the Regulation No. 146-I, the CBR's approval is valid for one year from the date of issuance. The CBR's approval will set the general limit on the percentage of charter capital which may be acquired and the total value of acquisition determined based on net assets (own funds, assets) of an acquirer.

The Federal Antimonopoly Service

The FAS 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. 1072 of 18 October 2014, as amended, prior consent of the FAS is required for the following actions: (i) an acquisition of more than 25 per cent. 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 per cent. and 75 per cent. 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 $\frac{1}{3}$, $\frac{1}{2}$ and $\frac{2}{3}$); (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 per cent. 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 RUB 29 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 RUB 29 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.

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 licence. The opening of a representative office of a Russian credit organisation outside the Russian Federation requires notification to be made to the CBR.

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 applies for obtaining a licence to conduct banking operations in roubles and foreign currencies, and for taking deposits from individuals in roubles and foreign currencies.

Basel Implementation in Russia

Russian regulation of capital is generally based on the recommendations of the Basel Committee, starting from Basel I. It is, however, less sophisticated in certain respects. Over recent years, the CBR has started 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 for the implementation of the internal ratings-based approach of Basel II Pillar 1. As part of this preparation, in January 2013, the CBR published letter No. 192-T dated 29 December 2012 "On Methodological Recommendations for Implementation of Approach to Calculation of Credit Risks on the Basis of Banks' Internal Ratings".

As part of the introduction of the Basel II Pillar 2 "Supervisory Review Process", the CBR issued 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 their respective internal procedures for capital adequacy assessment, which comprise the process of assessment by a credit organisation of the adequacy of its own capital, *ie.* its internal capital to cover accepted and potential risks, as well as constitute 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 Russian 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 is expected to commence approximately in 2014 and 2015, respectively.

The Banking Sector Development Strategy also contemplates the introduction in Russia of Basel III in the following periods: (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.

As part of the implementation of Basel III in Russia, Regulation 395-P setting out new capital definitions for Russian banks entered into force on 1 March 2013 (with certain provisions effective from 1 January 2014 and onwards). For monitoring purposes, the new rules generally became effective from 1 March 2013, and reporting pursuant to Regulation 395-P was required from the reporting quarter as of 1 April 2013. Pursuant to amendments introduced to Regulation 395-P by CBR Directive No. 3096-U dated 25 October 2013, which came into effect on 1 January 2014, Regulation 395-P has become effective for prudential purposes from 1 January 2014.

Prior to the enactment of Regulation 395-P, Russian banks' capital calculations used, among other things, in CBR mandatory ratio reporting, as well as requirements for subordinated debt to qualify as part of a bank's capital, were primarily set out in Regulation 215-P dated 10 February 2003, as amended, which now continues to apply for certain limited purposes.

Regulation 395-P distinguishes between core capital (**Tier 1 capital**, or *osnovnoi kapital*) and supplemental capital (**Tier 2 capital**, or *dopolnitennyi kapital*) (together, **own funds** or **regulatory capital**). Core capital is further divided into base capital (**CET 1**, or *bazovyi kapital*) and additional capital (**additional Tier 1 capital**, or *dobavochnyi kapital*). Pursuant to Regulation 395-P, the own funds of Russian banks is determined as the amount of its Tier 1 capital and Tier 2 capital less certain items listed in Regulation 395-P.

Regulation 395-P sets out requirements for subordinated financings which may be included in the additional Tier 1 capital and in Tier 2 capital of a credit organisation. A credit organisation can receive subordinated financing in the form of a loan, a deposit or debt securities (collectively, a **Subordinated Instrument**).

As part of implementation of Basel III with respect to leverage ratio, the CBR issued Letter No. 142-T dated 30 July 2013 "On Calculation of Leverage Ratio", which sets out the recommended methodology for calculating the leverage ratio and the form for disclosure of information on its components together with the procedure for its completion. Starting from the reporting as of 1 August 2013, the CBR began collecting data received from banks on the results of the leverage ratio calculation. As was publicly announced by the CBR, mandatory public disclosure by credit

organisations of information on the leverage ratio and its components according to the standard form is expected from 1 January 2015, and the application of the leverage ratio for prudential purposes is expected to begin from 1 January 2018.

The CBR is currently elaborating on the regulations introducing the new liquidity ratios contemplated by Basel III. In particular, the CBR is considering the regulation on the calculation of the liquidity coverage ratio for monitoring purposes; its application for prudential purposes is currently expected to start from 2 July 2015.

Subordinated Debt - New Requirements Under Regulation 395-P

Supplemental (Tier 2) Capital

In order for a Subordinated Instrument to be included into the Tier 2 capital under Regulation 395-P, it should meet the following criteria:

- (i) the credit organisation does not undertake an obligation to repay the debt prematurely;
- (ii) the terms of the debt (including the interest rate), as at the date the relevant loan or deposit agreement is entered into or amended, or such subordinated domestic bonds are placed, do not materially differ from the prevailing market terms of similar debt instruments;
- (iii) the agreement specifically provides for the lowest creditor priority ranking of the creditor in the event of the borrower's bankruptcy.
- (iv) its term is no less than five years;
- (v) it may not be prepaid at the initiative of the credit organisation earlier than five years after its inclusion in the supplemental capital;
- (vi) 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, or early termination of the obligations under, the agreement; it may also contemplate early redemption of the debt or early termination of, or early termination of the obligations under, the agreement upon borrower's initiative where after execution of the agreement or registration of issue the law is changed in a way which has a material adverse effect on both parties and provided that CBR's consent has been received prior to such early redemption or early termination;
- (vii) terms of a Subordinated Instrument indicate that if (i) the CET 1 ratio falls below 2 per cent. or (ii) the borrower receives a notice from the Deposits Insurance Agency regarding the adoption of a plan of bankruptcy prevention measures for the borrower pursuant to the Banking System Stability Law (which contemplates that the Deposits Insurance Agency invests in the borrower's equity in a certain way):
 - (A) the credit organisation's obligation to pay accrued but unpaid interest terminates and such unpaid interest does not accumulate, and the obligation to pay the outstanding principal amount of the Subordinated Instrument terminates in whole or in part; and/or
 - (B) the Subordinated Instrument may be converted/transformed into ordinary shares of that credit organisation.

A Subordinated Instrument may not be included in Tier 2 capital:

- (viii) if it is secured by assets that are: (A) provided directly or indirectly by the credit organisation; (B) sourced or originated from assets of the credit organisation; or (C) provided by third parties if in the

latter case the credit organisation has assumed the risks of losses which may arise in connection with providing the security;

- (ix) if it is in the non-monetary form;
- (x) if an individual (except in the case of an issue of subordinated domestic bonds) or a subsidiary of the credit organisation is a party to the agreement; and
- (xi) in the case of a placement of pension reserves of non-state pension funds.

Additional Tier 1 Capital

A Subordinated Instrument can be included in the additional core capital of a credit organisation if:

- (i) it satisfies the criteria listed in (i) to (iii) and (vi) for the Tier 2 capital Subordinated Instrument above;
- (ii) it is perpetual and governed by a foreign law that recognises the concept of perpetual obligations, or it is extended to a credit organisation by a non-resident creditor, whose only obligations are obligations under perpetual subordinated financings, for a term of at least 50 years with the unilateral option of the borrower to extend it every 50 years;
- (iii) the terms of a Subordinated Instrument indicate that, if the CET 1 ratio falls below 5.5 per cent:
 - (A) the credit organisation's obligation to pay accrued but unpaid interest terminates and such unpaid interest does not accumulate, and the obligation to pay the outstanding principal amount of the Subordinated Instrument terminates in whole or in part; and/or
 - (B) the Subordinated Instrument may be converted/transformed into ordinary shares of that credit organisation.

The above listed cases when Subordinated Instrument may not be included in Tier 2 capital apply equally to additional Tier 1 Subordinated Instruments.

CBR Prior Consent

The qualification of a Subordinated Instrument as additional Tier 1 or Tier 2 capital is subject to consent of the CBR.

Any early repayment of the subordinated debt upon the initiative of the credit organisation is subject to prior consent of the CBR. The CBR will not grant its consent should the grounds for bankruptcy prevention measures exist at the time application is being considered by the CBR or may arise as a result of prepayment of a Subordinated Instrument.

The new capital requirements, as contemplated by Regulation 395-P, are calculated on the basis of a credit organisation's standalone financial statements.

Amortisation

Subordinated Instruments issued before 1 March 2013 that no longer meet the requirements of Regulation 395-P must be gradually amortised and excluded from a bank's capital at a rate of 20 per cent. per annum, on 1 January 2014 and at a rate of 10 per cent. per annum, on 1 January of each following year until 1 January 2022. If there are several non-eligible Subordinated Instruments, the amortisation should be applied on a portfolio basis.

Phase-out does not substitute quarterly depreciation to which all Subordinated Instruments (other than perpetual) would be subject once their year-to-maturity period is less than 5 years.

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 (**Regulation 139-I**). As part of implementation of Basel III capital requirements in Russia, in October 2013, Regulation 139-I was amended by CBR Regulation No. 3097-U dated 25 October 2013 (**Regulation 139-I Amendments**) to introduce, among other things, new capital adequacy ratios and set their calculation basis and minimum values in conjunction with application of Regulation 395-P for prudential purposes. The new capital adequacy ratios, which apply instead of capital adequacy ratio (N1), include: (i) a base capital (CET 1) adequacy ratio (N1.1), (ii) a core capital Tier 1 capital adequacy ratio (N1.2) and (iii) an own funds adequacy ratio (N1.0). The new rules on mandatory economic ratios calculation introduced by Regulation 139-I Amendments apply for prudential purposes with effect from 1 January 2014 (with limited exceptions).

The table below sets forth the mandatory economic ratios that must be observed by banks on a daily basis and regularly reported to the CBR. Unless stated otherwise, all ratios described below are calculated on the basis of RAS, as formulated under the applicable Russian laws and the CBR regulations.

<i>Mandatory Economic Ratios</i>	<i>Description</i>	<i>CBR Mandatory Economic Ratio Requirements</i>
Capital adequacy ratios:	These ratios set requirements for the minimum size of the bank's capital necessary to cover credit, operational and market risks and represent the ratios of a bank's base capital, core capital and own funds (regulatory capital), respectively, to its risk-weighted assets calculated separately for each of the ratios.	
	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 derivatives, credit valuation adjustment, operational risk and market risks, in each case separating systemic and idiosyncratic factors.	
<i>base capital adequacy ratio (N1.1)</i>		Minimum 5%
<i>core capital adequacy ratio (N1.2)</i>		Minimum 5.5% (increasing to 6% from 1 January 2015)
<i>own funds adequacy ratio (N1.0)</i>		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%

<i>Mandatory Economic Ratios</i>	<i>Description</i>	<i>CBR Mandatory Economic Ratio Requirements</i>
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)	<p>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 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 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).</p> <p>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.</p>	Maximum 25%
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	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	Maximum 50%

<i>Mandatory Economic Ratios</i>	<i>Description</i>	<i>CBR Mandatory Economic Ratio Requirements</i>
participants (shareholders) (N9.1)	extended by the bank to its participants (shareholders), to the bank's own funds (regulatory capital).	
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, which include: (i) affiliates of the bank; (ii) members of the bank's credit committee; (iii) chief accountant of the bank or any of its branches; (iv) chief executive officer of the bank or any of its branches; (v) other bank's officers that by virtue of their position at the bank may influence decisions on credit granting and (vi) close relatives of individuals listed in (i) to (v)). 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%

Regulation 139-I Amendments also touch upon the calculation of risk-weightings used in mandatory ratios calculation. In particular, the methodology for risk calculation with respect to derivatives and syndicated loans has been adjusted. Additional risk coverage for derivative transactions has been introduced through inclusion of credit valuation adjustment in capital adequacy ratios calculation, which was applied for prudential purposes from 1 October 2014. In addition, following the increased risk-weighting coefficients for higher rate consumer loans granted after 1 July 2013 as initially introduced by Regulation 139-I, Regulation 139-I Amendments have further increased risk-weighting coefficients which were applied to higher rate consumer loans granted after 1 January 2014 for the purpose of calculating risk-weighted assets under the CBR's mandatory economic ratios.

Further, pursuant to amendments introduced to the CBR Law by Federal Law No.146-FZ dated 2 July 2013, the definition of "related borrowers" for the purpose of N6 ratio calculation will be amended with effect from 1 January 2015 to include both legally and economically related borrowers (i.e. borrowers one of which controls or exercises significant influence over the other; borrowers that are under control or significant influence of a third party; and borrowers that are related in such a way that deterioration of economic position of one person may cause default by the other on obligations towards credit organisation). In addition, maximum exposure to a person or group of persons related to a credit organisation will be introduced as a new mandatory ratio from 1 January 2015 and set at 20 per cent. of a credit institution's own funds. The CBR will be entitled to use its "reasoned judgment" to determine that an affiliation exists between a bank and a borrower based on indirect relationships.

CBR Regulation No. 112-I of 31 March 2004, as amended, outlines additional mandatory economic ratios for credit organisations that issue mortgage-backed bonds. This regulation details the methods of calculating the ratio introduced by Mortgage-Backed Securities Law, i.e. the minimum ratio of 100 per cent. for claims relating to principal and interest of loans secured by mortgages to the principal plus interest of issued mortgage-backed bonds (N18). Banks are required to comply with this special ratio from the time when the decision is taken to issue mortgage-backed bonds until the complete redemption of such bonds.

In addition, with effect from 1 January 2014, CBR's Regulation No. 3090-U dated 25 October 2013 (**Regulation 3090-U**) introduced mandatory ratios with respect to banking groups, which are to be calculated on a consolidated basis and

reported to the CBR by the parent credit organisation for the banking group. The procedure for calculating respective ratios is generally based on Regulation 139-I, with adjustments contemplated by Regulation 3090-U. Head organisations for the respective banking groups determine the way to control compliance with mandatory ratios for banking groups at their own discretion. Regulation 3090-U establishes the following mandatory ratios and their respective minimum or maximum requirements for banking groups: base capital adequacy ratio (N20.1), core capital adequacy ratio (N20.2), own funds adequacy ratio (H20.0) with minimum values set at 5 per cent., 5.5 per cent (to be increased to 6 per cent from 1 January 2015) and 10 per cent., respectively; maximum exposure to a single borrower or a group of related borrowers (N21) set at 25 per cent; maximum amount of major credit risks (N22) set at 800 per cent.; and ratio for the maximum use of own funds (regulatory capital) of a banking group for acquisition by the head organisation for the banking group and members of the banking group of shares (participation interests) in other legal entities (N23) set at 25 per cent.

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. Reserve requirements must not exceed 20 per cent. of the banks liabilities and may vary for different types of banks. Particular reserve requirements are set by the board of directors of the CBR from time to time.

In response to the financial crises, as a measure aimed at stabilising the Russian financial market and improving the liquidity of the Russian banking sector, in October 2008 the CBR decreased mandatory reserves down to 0.5 per cent for all types of bank's obligations. From May 2009, the CBR gradually increased the reserve requirements necessary for banks to maintain for all types of financial obligations. According to CBR Directive No. 2970-U dated 12 February 2013, starting from 1 March 2013, banks are generally required to post mandatory reserves equal to 4.25 per cent. of funds due to non-resident legal entities in Roubles and foreign currency, 4.25 per cent. of funds due to individuals in Roubles and foreign currency and 4.25 per cent. of other funds due in Roubles and foreign currency. 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 "On Procedure for Provisioning for Potential Losses on Loans and Similar Indebtedness by Credit Organisations" of 26 March 2004, as amended (the **Regulation 254-P**), which applies subject to CBR Regulation No. 2459-U "On Peculiarities of Credit Risk Assessment of Single Loans, Loan and Similar Indebtedness" dated 3 June 2010. 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) – no 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. 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%.

Russian banks are required to make provisions on a portfolio basis, for loans of the same kind (such as consumer loans) depending on whether the loans are secured and whether they are overdue or the period of time the loans are in arrears (from 1 to 30 calendar days, 31 to 90 calendar days, 91 to 180 calendar days, 181 to 360 calendar days or more than 360 calendar days of arrears). For example, for portfolios of consumer loans that are not overdue, these include 0.5 per cent for portfolios of loans secured by mortgage and auto loans, 1 per cent. for portfolios of other loans to those individuals who maintain bank accounts with lending bank and 2 per cent. for portfolios of all other loans. Regulation 254-P also sets a maximum level for provisioning of a portfolio of consumer loans which are overdue for more than 360 calendar days at a rate of 100 per cent.

On 3 December 2012, the CBR adopted changes to Regulation No. 254-P "On the Procedure for Making Provisions for Possible Losses on Loans and Similar Indebtedness by Credit Organisations" dated 26 March 2004 (as amended), which, among other things, doubled the CBR's required provisioning for certain unsecured consumer loans issued after 1 January 2013 that are either not overdue or overdue by less than 31 calendar days. Pursuant to amendments to Regulation 254-P, which came into effect from 1 March 2014 (and reflected in banks' reporting as of 1 April 2014), provisioning requirements for unsecured consumer loans granted after 1 January 2014 were increased as follows: for portfolio of loans without overdue payments, from 2 to 3 per cent; for portfolio of loans with payments overdue by up to 30 days, from 6 to 8 per cent; and for portfolio of loans without overdue payments and with payments overdue by up to 30 days, from 3 to 5 per cent. Amounts of provisions for loans with payments overdue more than 30 days remained the same. With effect from 9 July 2014, the CBR by its Regulation No. 3267-4 has decreased the provisioning requirements for mortgage loans without overdue payments from 0.5 per cent. to 0.35 per cent.

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 any discount. The CBR and its regional divisions have the right to audit the banks' compliance with the requirements relating to provisions for loan losses and check the correct calculation of such provisions.

In addition to the foregoing, banks are also required to create provisions for potential losses other than loan losses, which may include losses related to investments in securities, funds held in correspondent accounts in other banks, credit-related commitments, interest income 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. Banks are then required to create 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. The CBR and its regional divisions are responsible for monitoring the banks' compliance with these rules.

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 per cent. of the bank's regulatory capital. Furthermore, banks are periodically required to report to the CBR regarding their open currency positions. CBR is authorised to impose sanctions on the banks if the limits of open currency positions are exceeded on more than six operational days in each period of 30 consecutive operational days.

With effect from 1 January 2014, Regulation 3090-U has established requirements to currency exposure of banking groups on a consolidated basis, subject to a moratorium for application by the CBR of prudential measures contemplated by the CBR Law for violating limits on open currency positions of banking groups for a period before 1 October 2014, provided that the values of limits for open currency positions of a banking group do not deteriorate as compared to respective values calculated as of 1 April 2014.

Accounting and Reporting

The CBR establishes accounting rules and procedures for banks, as well as a standard format for presentation of financial and statistical data by credit organisations and recording banking transactions. Starting from 1 January 2004, all credit organisations in the Russian Federation have been required to prepare their financial statements according to both RAS and IFRS. Starting from the financial year 2012, the requirement for credit organisations to prepare annual consolidated financial statements under IFRS, have then audited and reported to the CBR is set forth in 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 accounting practices are regulated by the CBR Regulation No. 385-P dated 16 July 2012, as amended. Pursuant to this regulation, financial statements of credit organisations must be prepared in accordance with RAS.

Pursuant to CBR Regulation No. 2964-U dated 16 January 2013, credit organisations are required to submit their financial statements prepared in accordance with IFRS (other than the annual consolidated financial statements) to the territorial institutions of the CBR for the period from 1 January to 31 December.

The CBR issued recommendations as to how to prepare IFRS financial statements, the most recent of which are set out in its Letter No. 234-T of 6 December 2013, 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.

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, credit organisations must publicly disclose their RAS financial statements 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. Annual financial statements must be published only after their certification by an independent auditor. Quarterly financial statements may be published without their certification by an independent auditor.

Banking groups (*ie.*, groups of legal entities, in which one credit organisation, directly or indirectly, exercises control or substantial influence on other credit organisations within the group) and banking holdings (*ie.*, groups of legal entities, in which one entity, which is not a credit organisation, exercises control or 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.

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 exercise control or significant influence (as these terms are understood under IFRS) over them. 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 CBR may at any time conduct full or selective audits of any bank's filings and may inspect all of its books and records. The CBR, however, is prohibited from conducting a secondary audit of matters covered by the previous audit within a single reporting period, save for limited circumstances provided in the CBR Law.

Regulation of Retail Banking

According to the Retail 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, full compliance with the CBR mandatory ratios, no enforcement actions being conducted by the CBR with respect to the bank and no grounds for such enforcement actions having arisen during the CBR's review of the bank's application.

Under the Retail Deposit Insurance Law, the Deposits Insurance Agency is in charge of, among other things, collecting insurance contributions, managing the funds in the mandatory insurance pools, establishing insurance premiums and monitoring insurance payments. Under the Retail 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 per bank. 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 amount of each bank's contribution to the retail deposit insurance scheme is assessed on the quarterly average of daily balances of its retail deposits, excluding bearer deposits. Standard contribution premiums cannot exceed 0.15 per cent. of the contribution basis. In certain circumstances, the premium can be increased up to 0.3 per cent. of the contribution basis, but not for more than two quarters in every 18-months period. When the size of the insurance fund exceeds 5 per cent. of total retail deposits of all Russian banks, all subsequent contribution premiums cannot exceed 0.05 per cent. of the contribution basis. When the size of the insurance fund exceeds 10 per cent. of all Russian banks' retail deposits, no contributions need to be made, but contributions must be resumed if the size of the insurance fund falls below 10 per cent. of the combined retail deposits.

The 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.

From July 2013, the CBR has had the right to appoint an authorised representative to a credit organisation where that credit organisation's assets equal or exceed 50 billion Roubles and/or the level of funds attracted from individuals in the form of deposits and bank accounts equals or exceeds 10 billion Roubles (in addition to cases when credit organisation has received state budgetary funds, including through measures contemplated by Russian laws to support the stability of Russian banking and finance system).

According to amendments to the CBR Law introduced by Federal Law No. 146-FZ dated 2 July 2013, which took effect in October 2013, if a credit organisation does not comply with the CBR's orders to rectify violations detected by the CBR, or if such violations or the credit organisation's operations have threatened the interests of its creditors or depositors, the CBR may limit the maximum interest rate on deposits offered by such credit organisation for a period of up to one year, but not lower than 2/3 of the CBR's refinancing rate on deposits in Roubles or LIBOR on deposits in foreign currency.

In September 2013, the State Duma adopted in the first reading a draft law on amendments to the Retail Deposit Insurance Law and the CBR Law, which contemplate significant changes to the system of mandatory insurance of retail deposits. The draft contemplates, among other things, an increase in the coverage limit for insured deposits to RUB 1,000,000 and introduces 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 Retail Deposit Insurance Law).

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 the Russian Federation No. 7 of 29 September 1994, further replaced by Resolution of the Supreme Court of the Russian Federation No. 17 dated 28 June 2012 "On Consideration by Judges of Civil Cases on Consumer Protection Disputes" (**Resolution No. 17**), 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 licence, 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, contrary to the position of the Supreme Arbitration Court, the Supreme Court of the Russian Federation supported the opposing position in Resolution No. 17, in which it declared that the assignment by banks of receivables under retail loan agreements to non-banking organisations inconsistent with the Consumer Protection Law, except where a borrower has consented to the assignment in advance.

Federal Law No. 353-FZ dated 21 December 2013 "On Consumer Credit (Credit)" (the **Consumer Loan Law**) and the related Federal Law No. 363-FZ of 21 December 2013 "On Amendment and Termination of Certain Laws of the Russian Federation in Connection with the Adoption of the Federal Law "On Consumer Credit (Credit)"" (the **Additional Consumer Loan Law**) became effective on 1 July 2014. They regulate consumer lending to individual borrowers for non-commercial purposes and are intended to bring more transparency into, and a higher level of regulation by the CBR of, the interaction between Russian credit organisations, microfinance organisations or credit cooperatives and retail borrowers. The Consumer Loan Law and the Additional Consumer Loan Law apply to the Consumer Loan (as defined below) issued after 1 July 2014.

According to the Consumer Loan Law, the full value (calculated as a percentage per year) of the consumer loan provided to an individual borrower (the **Consumer Loan**) should include all payments, interests and mandatory fees payable by a borrower under the relevant Consumer Loan and cannot exceed the average full value for Consumer Loans of a respective type (being a corresponding average value calculated and published by the CBR for the current quarter) by more than one third. The CBR should establish a list of the respective types of Consumer Loans and methodology of a quarterly calculation of their average full values. Moreover, the Consumer Loan Law prescribes the detailed requirements to the form of the Consumer Loan agreements and splits all terms and conditions of the Consumer Loans into two types: basic (non-negotiable) and individual (negotiable). It also limits the maximum percentage of penalty applicable to the Consumer Loans (20 per cent. per year if the interest is still charged or 0.1 per cent. per day if the interest is no longer charged) and restricts certain enforcement actions by the creditors and collection agencies. Among

other things, the Consumer Loan Law also requires detailed disclosure by creditors of lending terms to retail borrowers and expressly permits assignment of creditors rights under the Consumer Loans to any third parties, including non-banking organisations, without a borrower's consent.

Pursuant to the Additional Consumer Loan Law, certain provisions of the Consumer Loan Law also applies to the mortgage loans provided to individuals, and the creditors under the Consumer Loans are subject to administrative liability for the breach of the applicable Consumer Loan legislation.

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.

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 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. Following the integration of the FSFM to the CBR with effect from 1 September 2013, the credit bureaus are supervised by the CBR. As at 8 October 2014, 25 credit bureaus have been registered in the Russian Federation.

According to the Additional Consumer Loan Law, starting from 1 July 2014, the credit history of an individual borrower will have to be provided to a credit bureau and could be distributed to a third party without such individual borrower's consent. The credit history of an individual borrower should also include the informational part containing details of any refusal in providing a loan by a creditor, and details of any defaults under provided loans. These provisions are accompanied by the corresponding obligation of the credit organisations, microfinance organisations or credit cooperatives acting as creditors to submit the above information to at least one credit bureau.

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 **Anti-Money Laundering Law**) was adopted to comply with the requirements of the Financial Action Task Force on Money Laundering (**FATF**). The Anti-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 Anti-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 Anti-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 Anti-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 RUB 600,000 (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 Anti-Money Laundering Law, in particular, foreign exchange operations that do not exceed RUB 15,000.

On 21 November 2011, amendments to the Anti-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-P, 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.

Further amendments to the Anti-Money Laundering Law, which were introduced by Federal Law No. 134-FZ dated 28 June 2013 "On Amending Certain Legislative Acts of the Russian Federation on the Counter Measures on illegal Financial Operations", came into force on 30 June 2013. These amendments, among other things: introduced the definition of the "beneficiary owner" to the Anti-Money Laundering Law to extend the scope of client identification procedure; set forth the obligation of the clients to provide all necessary information on their beneficiary owners to banks; established obligations of the banks to take reasonable steps for preliminary identification of the clients' reputation, financial position and objectives of the business activity as well as to freeze monetary funds and other assets of individuals and legal entities under certain circumstances; and provided for additional measures against terrorism financing.

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: *ie.*, 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 licence 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 CBR (prior to 1 September 2013, 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.

The Central Depository Law

Federal Law No. 414-FZ "On the Central Depository" (the **Central Depository Law**), which generally came into force on 1 January 2012, provides legal framework for establishment, and operational conditions, of the central depository, in particular, setting out rights and obligations of the central depository, requirements to its activities and specifics of the state control and supervision over its activities. The Central Depository Law aims at improving effectiveness and competitiveness of Russian stock market, including, expediting and facilitating securities trade settlements and mitigating the risks associated therewith. Under this law, the central depository is defined as a depository that is a non-banking credit organisation (**NCO**), to which the status of the central depository has been assigned. Only a joint-stock company registered in Russia can be the central depository. Pursuant to the Central Depository Law, the central depository (within one year from the date of assignment of its status) shall take all necessary steps in order to open its nominal holder accounts, in particular, in all securities registers of issuers obliged to disclose information in accordance with the Securities Market Law. In addition, the Central Depository Law prohibits persons maintaining securities registers from opening, and depositing securities to, other nominal holder accounts from the opening date of a nominal holder account of the central depository. On 6 November 2012, CJSC NCO "National Settlement Depository" (**NSD**) was assigned the central depository status.

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.

Among other matters, the National Payment System Law contemplates an obligation of credit institutions to inform their clients on all operations involving electronic payment instruments. A credit institution is required to compensate a client for unauthorised operations made after such credit institution has received a notification from a client on the loss or unauthorised use of an electronic payment instrument, provided that such notification has been made by the client no later than the day following the receipt of notification of respective operation from the credit institution. With respect to

individuals, a credit organisation is liable for all unauthorised operations, provided that an individual has notified it bank on the loss or unauthorised use of electronic payment instrument, unless the credit institution proves that such individual has breached the rules for the use of electronic payment instrument resulting in its unauthorised use.

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 depository for recording rights to such mortgage certificates. If mortgage certificates are recorded with a depository, their transfer and pledge is effected by making entries in the relevant depository 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.

The Mortgage-Backed Securities Law and certain other laws regulating mortgage-backed securities (including, but not limited to, the Civil Code and the Securities Market Law) were amended by the Federal Law No. 379-FZ of 21 December 2013 "On Amendments to Certain Laws of the Russian Federation" (the **Securitisation Amendments**), which became effective on 1 July 2014. The Securitisation Amendments are intended to further develop the regulation of issuance of assets-backed securities, including mortgage-backed securities. The Securitisation Amendments, among other things, introduce the concept of an SPV for securitisation purpose and regulate the conditions for its creation, reorganisation and bankruptcy (with a large part of respective provisions being applicable to a mortgage agent as well); provide the CBR with the powers to establish specific requirements for the banks issuing mortgage-backed securities; and introduce the concept of the nominal and escrow accounts.

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 licence, 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 March 2013, amendments to certain banking laws and regulations were signed in law to prohibit the establishment of foreign bank branches in Russia. The amendments entered into force on 23 March 2013.

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 per cent. 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.

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 Russian government and the CBR provided up to RUB 910 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 per cent. of the credit organisation's assets, (iii) relate to the performance of any obligations, if the book value of such obligations exceeds 1 per cent. of the credit organisation's liabilities, (iv) relate to any transfer of funds to foreign banks, if the amount transferred exceeds 1 per cent. 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 per cent. 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 is applicable only to banks-participants of the Retail Deposit Insurance System, such as CBM, and provides for the possibility of the CBR to arrange for the State Corporation Deposit Insurance Agency (the **Deposit Insurance Agency**) to participate in bankruptcy prevention measures of Russian banks. 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 (as defined below), 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.

Initially, the decision on involvement of the Deposit Insurance Agency is taken by the Banking Supervision Committee of the CBR, which is entitled to send the respective notice to the Deposit Insurance Agency regarding its proposed participation in bankruptcy prevention measures. The CBR may also carry out evaluation of financial standing of the bank in order to decide whether participation of the Deposit Insurance Agency is viable. The Deposit Insurance Agency considers the CBR's notice and is required not later than in 10 days to notify the CBR on its decision to participate in bankruptcy prevention measures or to refuse from such participation.

While there is no precise list of cases when the CBR may propose the Deposit Insurance Agency to intervene, there is a general reference that it may happen when there are clear signs of financial instability of a particular credit organisation.

The financial instability of a bank is usually connected with the presence of grounds for banking licence revocation, prohibition of attraction of deposits from individuals and/or application of other sanctions by the CBR. As of the date of sending the notice to the Deposit Insurance Agency, the CBR is entitled to delay the application of the aforementioned sanctions until the termination of performance of bankruptcy prevention measures by the Deposit Insurance Agency.

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 licence, 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 licences, see "*Registration and Licensing Requirements*".

Consequences of the CBR Decision to Revoke a Banking Licence

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 a temporary administration for the credit organisation (if the CBR has not appointed such temporary administration earlier, e.g., under certain circumstances set forth in the Bank Insolvency Law indicating the deteriorating financial condition of the credit organisation). The temporary administration, among other things, oversees the operations, identifies debtors of the credit organisation and collects its assets. The powers of the temporary 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.

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 per cent. 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", *ie.*, 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 Federal Law No. 127-FZ dated 26 October 2002 "On Insolvency (Bankruptcy)", as amended, the claims of creditors of a credit organisation that participates in the Retail 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 Retail 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 Retail 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. fourth 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.

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 6th Floor, Pinnacle 2, Eastpoint Business Park, Dublin 3, 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 6th Floor, Pinnacle 2, Eastpoint Business Park, Dublin 3, 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); the issue of US\$200,000,000 8.25% Loan Participation Notes due 2014 for the sole purpose of funding a loan to CBM (which notes were redeemed in August 2014), the issue of US\$500,000,000 7.70% Loan Participation Notes due 2018 for the sole purpose of funding a loan to CBM and the issue of US\$500,000,000 8.70% Loan Participation Notes due 13 November 2018 for the sole purpose of funding a subordinated loan to CBM.

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:

Deirdre Glynn 6th Floor, Pinnacle 2, Eastpoint Business Park, Dublin 3, Ireland

Rhys Owens 6th Floor, Pinnacle 2, Eastpoint Business Park, Dublin 3, Ireland

The Company Secretary is Deutsche International Corporate Services (Ireland) Limited.

The directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares.

The directorship of the directors is provided as part of the Corporate Services Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement.

The directors of the Issuer may engage in other activities and have other interests, which may conflict with the interests of the Issuer.

Financial Statements

The financial year of the Issuer ends on 31 December in each year. Financial statements for each of the years ended 31 December 2011, 2012 and 2013 were prepared 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 SUBORDINATED LOAN AGREEMENT

The following is the text of the Subordinated Loan Agreement entered into between CBM and the Issuer:

THIS SUBORDINATED LOAN AGREEMENT is made on 24 November 2014

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 6th Floor, Pinnacle 2, Eastpoint Business Park, Dublin 3, 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:

- (A) The Lender has, at the request of the Borrower, agreed to make to the Borrower a subordinated loan in the amount of RUB 5,000,000,000 on the terms and subject to the conditions of this Agreement.
- (B) The Lender and the Borrower have agreed that, on the occurrence of a Bankruptcy Event (as defined below), the claims of the Lender in respect of the Subordinated Loan (as defined below) shall be subordinated to the claims of Senior Creditors (as defined below) of the Borrower in accordance with the Insolvency Law (as defined below).
- (C) The Borrower intends the Subordinated Loan to be qualified as Tier 2 Capital (as defined below).
- (D) The Lender and the Borrower have agreed that the terms and conditions set forth in this Agreement, including the Rate of Interest (as defined below) payable in respect of the Subordinated Loan, do not differ materially from the terms and conditions of similar agreements concluded on market terms as of the date 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:

"Acceleration Event" has the meaning assigned to such term in Clause 14.3 (*Notice of Acceleration Event*) hereof;

"Account" means the account with account number 17053592 of the Lender with the Principal Paying Agent;

"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 26 November 2014, 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;

"**Approval Date**" means the date falling 180 days after the date of this Agreement;

"**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 or any amendment thereto or replacement thereof setting out the name and signature of such Person and confirming such Person's authority to act;

"**Banking System Stability Law**" means Federal Law No. 175-FZ "On Additional Measures to Strengthen the Stability of the Banking System in the period to 31 December 2014" dated 27 October 2008, as amended, supplemented or replaced from time to time;

"**Bankruptcy Event**" means the entry into force of a final decision of a competent Russian court finding the Borrower bankrupt;

"**Business Day**" means 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;

"**CBR Reporting Date**" means the first day of each month or such other interim date as of which the Borrower is required to report Common Equity Tier 1 Capital Ratio to the CBR pursuant to the applicable CBR regulations;

"**Closing Date**" means 26 November 2014;

"**Common Equity Tier 1 Capital**" means the common equity capital of Tier 1 capital (*bazovy capital osnovnogo kapitala*) of the Borrower within the meaning given to it in Regulation No. 395-P;

"**Common Equity Tier 1 Capital Ratio**" means the common equity Tier 1 capital adequacy ratio (*normativ dostatochnosti bazovogo kapitala*) determined by the Borrower pursuant to Instruction No. 139-I;

"**Conditions**" means the terms and conditions of the Notes, as set out in the Trust Deed and all references to a numbered "**Condition**" are to the corresponding provision thereof;

"**Deposit Insurance Agency**" means the State Corporation Deposit Insurance Agency established on the basis of Federal Law No. 177-FZ "On the Insurance of Household Deposits in Banks of the Russian Federation" dated 23 December 2003 (as amended), or such other governmental or other agency or authority as shall from time to time carry out functions under the Banking System Stability Law;

"**Facility Fee**" has the meaning assigned to such term in Clause 2.3 (*Facility Fee and Other Costs*) hereof;

"**Fee Side Letters**" means the Upfront Fee Side Letter and the Ongoing Fee Side Letter;

"**Final Conclusion**" means the final conclusion (*podtverzhdenie*) of the CBR confirming the final unconditional approval by the CBR of this Agreement and the Subordinated Loan as a subordinated loan eligible for inclusion into own funds (capital) of the Borrower as Tier 2 Capital;

"**Finance Documents**" means this Agreement and any other agreements and deeds relating to the Subordinated 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;

"**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;

"**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);

"**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 to 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 and, in respect of all conditional obligations as described above, the maximum liability upon the occurrence of the contingency giving rise to the obligation;

"Insolvency Law" means Federal Law No. 40-FZ "On Insolvency (Bankruptcy) of Credit Organisations" dated 25 February 1999 (as amended, supplemented or replaced from time to time);

"Instruction 139-I" means CBR Instruction No.139-I "On the Mandatory Bank Ratios" dated 3 December 2012, as amended, supplemented and/or replaced from time to time;

"Interest Cancellation Measure" means cancellation in whole or in part of interest accrued and not paid to the Lender as of the Write Down Measure Effective Date pursuant to Clause 8 (*Write Down*) of this Agreement;

"Interest Payment Date" means 26 May and 26 November of each year, commencing on 26 May 2015 and ending on 26 May 2025;

"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);

"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;

"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 or the Subscription Agreement; or
- (c) validity or enforceability of this Agreement, the Agency Agreement or 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;

"Moscow Business Day" means a day other than a Saturday or Sunday on which commercial banks and foreign exchange markets generally are open for business in Moscow;

"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 RUB 5,000,000,000 16.5 per cent. loan participation notes due 2025 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 alia, the Trustee, the Lender and the Borrower;

"Optional Prepayment Date" means 26 May 2020;

"Original Principal Amount" means, in respect of the Subordinated Loan, the principal amount on the Closing Date being RUB 5,000,000,000;

"Outstanding Principal Amount" means, in relation to the Subordinated Loan on any day, the Original Principal Amount, as reduced from time to time (on one or more occasions) pursuant to any Principal Write Down Measure or any prepayments or repayments which have occurred in respect of the Subordinated Loan prior to such day in accordance with the terms of this Agreement;

"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;

"Prepayment Date" means any date on which the Loan is to be prepaid pursuant to any of the provisions of Clauses 7.2 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.3 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*), 7.4 (*Special Prepayment in the Event of Taxes or Increased Costs*) or 7.5 (*Prepayment at the Optional Prepayment Date*), if applicable;

"Principal Paying Agent" means Citibank, N.A., London Branch;

"Principal Write Down Measure" means the writing down in whole or in part of the principal amount of the Subordinated Loan pursuant to Clause 8 (*Write Down*) of this Agreement;

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

"Qualifying Jurisdiction" means any jurisdiction which has a double taxation treaty with the Russian Federation 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" means 16.5 per cent. per annum;

"Regulation 395-P" means CBR Regulation No. 395-P "On Methodology of Determination of the Amount and Assessment of Sufficiency of Own Funds (Capital) of Credit Organisations (Basel III)" dated 28 December 2012, as amended, supplemented or replaced from time to time;

"Repayment Date" means 26 May 2025;

"Same-Day Funds" means same day, freely transferable cleared funds for payment in Roubles as the Lender may at any time determine to be customary for the settlement of international transactions of the type contemplated hereby;

"Senior Creditors" means all creditors of the Borrower other than (i) creditors of the Borrower whose claims are in respect of the Borrower's Capital Stock in their capacity as shareholders or (ii) creditors of the Borrower under other subordinated loans, deposits or other subordinated instruments whose claims rank equally with or are subordinated to the claims of the Lender under this Agreement pursuant to Russian law or pursuant to an agreement (to the extent permitted by Russian law);

"Subordinated Loan" means the subordinated loan advanced by the Lender pursuant to this Agreement;

"Subscription Agreement" means the subscription agreement dated 24 November 2014 between, inter alia, the Lender, the Borrower and the Joint Lead Managers (as defined therein), 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 (*osnovnoy kapital*) of the Borrower within the meaning given to it in Regulation 395-P;

"Tier 2 Capital" means additional capital (*dopolnitelny kapital*) of the Borrower within the meaning given to it in Regulation 395-P;

"Trust Deed" means the trust deed to be dated 26 November 2014 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 Citibank, N.A., London Branch, 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 alia, the Lender and the Borrower;

"Write Down Event" shall be deemed to occur if: (i) the Borrower's Common Equity Tier 1 Capital Ratio is less than 2 per cent. as of a CBR Reporting Date, or (ii) the Borrower receives notice from the Deposit Insurance Agency that the Deposit Insurance Agency has taken a decision to implement in relation to the Borrower a bankruptcy prevention plan approved by the CBR which includes the implementation of any of the bankruptcy prevention measures set out in sub-paragraphs 3) and 4) of paragraph 1 of Article 2 of the Banking System Stability Law;

"Write Down Event Effective Date" means, in respect of a Write Down Event, the first day on which that Write Down Event occurs;

"Write Down Event Notice" means a notice in writing which shall be given by the Borrower to its shareholders, the Lender and the Trustee as provided under this Agreement and which shall (i) state that the Write Down Event has occurred and (ii) specify the event(s) constituting the Write Down Event, including the relevant Common Equity Tier 1 Capital Ratio as of the relevant CBR Reporting Date and/or the nature of the bankruptcy prevention measures the Deposit Insurance Agency has committed to (as applicable) and the grounds for the application of such bankruptcy prevention measures in relation to the Borrower;

"Write Down Instruments" means, in respect of any Write Down Event, any obligations (other than the Subordinated Loan) incurred directly or indirectly by the Borrower which (a) constitute claims of creditors of the Borrower that are subordinated so as to rank *pari passu* with, or junior to, the claims of the Lender under this Agreement, (b) contain provisions analogous to those set out in Clause 8 (*Write Down*) relating to cancellation of interest or write-down of the principal amount of such instrument (whether or not that instrument also provides for subsequent write-up or reinstatement of such obligations) or provisions which otherwise permit or require the cancellation of interest and write down of such instrument and in respect of which the conditions (if any) to the operation of such provisions, as set forth under the terms of such obligation, are (or with the giving of any certificate or notice which is capable of being given by the Borrower, would be) satisfied as of the relevant Write Down Measure Effective Date and (c) are subordinated debt which qualify as Tier 2 Capital of the Borrower;

"Write Down Measures" means an Interest Cancellation Measure and/or a Principal Write Down Measure;

"Write Down Measure Effective Date" means the earlier of (i) the date falling on the 30th Moscow Business Day after the Write Down Event Effective Date or (ii) the Moscow Business Day immediately preceding the date on which implementation of measures contemplated in sub-paragraphs 3) and 4) of paragraph 1 of Article 2 of the Banking System Stability Law actually starts pursuant to the plan for bankruptcy prevention measures agreed by the CBR;

"Write Down Measure Notice" means a notice in writing which shall be given by the Borrower to its shareholders, the Lender and the Trustee as provided under this Agreement and which shall state with reasonable detail the Write Down Measure Effective Date and the Write Down Measures being implemented, including any amount of interest to be cancelled and/or any principal amount of the Loan to be written down and the basis of calculation.

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 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. SUBORDINATED LOAN

2.1 Subordinated Loan

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 to the Borrower, and the Borrower hereby agrees to borrow from the Lender, a subordinated loan in the amount of RUB 5,000,000,000.

2.2 Purpose

The proceeds of the Subordinated Loan 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 Subordinated Loan to the Borrower, the Borrower shall pay (a) an arrangement fee to the Lender in connection with the provision of the Subordinated Loan (the "**Facility Fee**") as specified in the Upfront Fee Side Letter between the Lender, the Borrower and the other parties thereto and (b) certain costs and expenses relating to the provision of the Subordinated Loan which are referred to under the Upfront Fee Side Letter between the Lender, the Borrower and the other 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 Subordinated Loan to the Borrower on the Closing Date and the Borrower shall make a single drawdown in the full amount of the Subordinated Loan.

3.2 Payment of Facility Fee and Other Costs

In consideration of the Lender's undertaking to make the Subordinated 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 2 p.m. (London 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.

3.3 Disbursement

Subject to the conditions set forth in this Agreement, the Lender shall transfer the amount of the Subordinated Loan (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:

Corr. Acc.30101810300000000659 with Office 2 of the Main Department of the Bank of Russia for the city of Moscow of the Central Federal District

SWIFT MCRBRUMM

BIK 044585659

INN 7734202860

3.4 Ongoing Fees and Expenses

In consideration of the Lender (i) agreeing to make the Subordinated Loan to the Borrower, and (ii) making available and supporting such a continuing Subordinated Loan, 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 (*Ongoing Fees and Expenses*) shall survive the termination of this Agreement.

4. SUBORDINATION

4.1 Subordination

The claims of the Lender against the Borrower under this Agreement in respect of the principal of, and interest on, the Subordinated Loan will be subordinated, upon the occurrence of a Bankruptcy Event, to the claims of Senior Creditors in accordance with the Insolvency Law, and will rank at least *pari passu* with the claims of all other subordinated creditors of the Borrower (whether actual or contingent) having a fixed maturity from time to time outstanding and will be senior to the claims of holders of the Borrower's Capital Stock in their capacity as shareholders.

4.2 No Security

The Subordinated Loan is not secured by any security.

4.3 No Termination of Obligations by Set-Off

No termination of obligations under this Agreement by way of compensation for release (*otstupnoye*), set off (including as a result of an assignment) or novation shall be permitted. Subject to applicable law, the Lender may not exercise or claim any right of set-off in respect of any amount owed to it arising under or in connection with this Agreement by the Borrower, and the Lender shall, by virtue of its execution of this Agreement, be deemed to have waived all such rights of set-off.

4.4 Reclassification

If the CBR fails to issue the Final Conclusion to the Borrower on or before the Approval Date, Clause 4.1 (*Subordination*) and the requirement to obtain prior CBR consent under Clauses 7.1(b), 7.1(c), 7.2 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.4 (*Special Prepayment in the Event of Taxes or Increased Costs*), 7.5 (*Prepayment at the Optional Prepayment Date*), 7.6 (*Reduction of the Subordinated Loan Upon Cancellation of Corresponding Notes*) and 19.8 (*Amendments*) shall not apply and the claims of the Lender against the Borrower in respect of principal of and interest on the Subordinated Loan will, upon the occurrence of a Bankruptcy Event, rank at least *pari passu* with the claims of Senior Creditors and the Subordinated Loan shall be treated as senior in priority to any subordinated debt or Capital Stock of the Borrower. In addition, in the event that the Subordinated Loan is treated as senior in priority to any subordinated debt or Capital Stock of the Borrower in accordance with this Clause 4.4 (*Reclassification*), the provisions of Clause 8 (*Write Down*) shall also not apply.

5. PRIOR CONSENT OF THE CBR

5.1 No Prepayment without Prior Consent of the CBR

Pursuant to the provisions of Clauses 7.1 (*Repayment*), 7.2 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.4 (*Special Prepayment in the Event of Taxes or Increased Costs*), 7.5 (*Prepayment at the Optional Prepayment Date*) and 7.6 (*Reduction of the Subordinated Loan Upon Cancellation of Corresponding Notes*), no prepayment of the Outstanding Principal Amount of the Subordinated Loan and/or any interest accrued thereon (in whole or in part) shall be permitted without the prior written consent of the CBR.

5.2 No Amendment and Termination without Prior Consent of the CBR

No early termination of, or amendment to, or early termination of the obligations under, this Agreement shall be permitted without the prior written consent of the CBR.

6. INTEREST

6.1 Rate of Interest

Subject to Clause 8 (*Write Down*), the Borrower will pay interest in Roubles to the Lender on the Outstanding Principal Amount of the Subordinated Loan from (and including) the Closing Date at the Rate of Interest.

6.2 Payment

Subject to the provisions of Clause 8.2 (*Write Down Measures*), 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 (unless the Subordinated Loan has been prepaid in full in accordance with Clause 7 (*Repayment and Prepayment*)) and shall be paid by the Borrower to the Lender in arrear not later than 2 p.m. (London time) one Business Day prior to each Interest Payment Date.

6.3 Accrual of Interest

Subject to the provisions of Clause 8.2 (*Write Down Measures*), interest on the Subordinated Loan will cease to accrue from the Repayment Date (or any date upon which the Subordinated Loan is prepaid in full pursuant to Clause 7 (*Repayment and Prepayment*) or repaid pursuant to Clause 14 (*Limited Acceleration Events*)) 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 Outstanding Principal Amount of the Subordinated Loan is made.

6.4 Calculations

The amount of interest payable in respect of the Subordinated Loan for any Interest Period shall be calculated by applying the applicable Rate of Interest to the Outstanding Principal Amount of the Subordinated Loan, dividing the product by two and rounding the resulting figure to the nearest copeck (half a copeck 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.

7. REPAYMENT AND PREPAYMENT

7.1 Repayment

Except as otherwise provided herein:

- (a) the Borrower shall repay the Subordinated Loan, including all sums of accrued but unpaid interest and any additional amounts thereon not later than 2 p.m. (London time) one Business Day prior to the Repayment Date;
- (b) the Borrower shall not prepay all or any part of the Subordinated Loan or interest on the Subordinated Loan unless the parties hereto agree otherwise and only with the prior written consent of the CBR;
- (c) this Agreement may not be terminated earlier than the Repayment Date unless the parties hereto agree otherwise and only with the prior written consent of the CBR;
- (d) the Borrower shall not prepay the Subordinated Loan, in whole or in part, before the 5th anniversary of inclusion of the Subordinated Loan into Tier 2 Capital.

7.2 Special Prepayment by Reason of Amendment to CBR Regulations

Notwithstanding the provisions of Clause 7.1 (*Repayment*), the Borrower may, at its option, and with the prior written consent of the CBR (if required), prepay the Subordinated Loan (in whole but not in part) following the receipt of the Final Conclusion, at any time, if, as a result of any amendment to, clarification of, or change in (including a change in the official interpretation or application of) Regulation 395-P and/or any other applicable requirements of the CBR, the Subordinated Loan ceases to fully qualify as Tier 2 Capital. If the Borrower elects to prepay the Subordinated Loan pursuant to this Clause 7.2 (*Special Prepayment by Reason of Amendment to CBR Regulations*), the Subordinated Loan shall be prepaid, in whole but not in part, at the Outstanding Principal Amount plus accrued and unpaid interest no earlier than the date on which the Subordinated Loan fully ceases to qualify as Tier 2 Capital but not more than 90 days following such date provided that notice thereof together with an Officers' Certificate confirming the existence of the relevant circumstances permitting such a prepayment shall be given to the Lender, with a copy to the Trustee, not less than 30 days prior to the date of prepayment. Upon the delivery of such notice and such Officers' Certificate, the Borrower shall be bound on the Prepayment Date to repay the outstanding amount of the Subordinated Loan (in whole but not in part) at the Outstanding Principal Amount plus accrued and unpaid interest, as aforesaid.

7.3 Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date

Notwithstanding the provisions of Clause 7.1 (*Repayment*), the Borrower may, at its option, prepay the Subordinated Loan (in whole but not in part) within 30 days following the Approval Date, if the CBR does not issue the Borrower with the Final Conclusion on or before the Approval Date. If the Borrower elects to prepay the Subordinated Loan pursuant to this Clause 7.3 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*), the Subordinated Loan shall be prepaid in whole, but not in part, at the Outstanding Principal Amount thereof plus any accrued and unpaid interest thereon provided that notice thereof (which shall be irrevocable) together with an Officers' Certificate confirming the existence of the relevant circumstances permitting such a prepayment shall be given to the Lender, with a copy to the Trustee, not less than 10 days prior to the date of prepayment. Upon the delivery of such notice and such Officers' Certificate, the Borrower shall be bound on the Prepayment Date to repay the Subordinated Loan (in whole but not in part) at the Outstanding Principal Amount plus any accrued and unpaid interest.

7.4 Special Prepayment in the Event of Taxes or Increased Costs

Notwithstanding the provisions of Clause 7.1 (*Repayment*), if, as a result of the application of, or any amendments or clarification 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, as provided in Clauses 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 9.4 (*Withholding on the Notes*) or if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 11.1 (*Compensation*) (unless the increase in payment is in respect of any amounts due or paid pursuant to Clause 3 (*Drawdown*)) 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) if it obtains the prior written consent of the CBR, upon not more than 30 days' prior written notice to the Lender (copied to the Trustee) (which notice shall be irrevocable) specifying the date for prepayment of the Subordinated 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 Subordinated Loan in whole (but not in part) at the Outstanding Principal Amount, together with accrued interest and other amounts (if any) thereon.

7.5 Prepayment at the Optional Prepayment Date

Notwithstanding the provisions of Clause 7.1 (*Repayment*), the Borrower at its option, and with the prior written consent of the CBR, may prepay the Subordinated Loan, in whole but not in part, on the Optional Prepayment Date at the Outstanding Principal Amount plus any accrued and unpaid interest thereon. Notice of such payment shall be given by the Borrower to the Lender, with a copy to the Trustee, not more than 60 and not less than 30 days prior to the Optional Prepayment Date.

7.6 Reduction of the Subordinated Loan Upon Cancellation of Corresponding Notes

Subject to the provisions of Clause 7.1(d), the Borrower or any Subsidiary of the Borrower or any Person on behalf of the Borrower may, at any time after the 5th anniversary of inclusion of the Subordinated Loan into Tier 2 Capital, in accordance with the Conditions and to the extent permitted by applicable law and subject to the prior written consent of the CBR for the prepayment of a portion of the Subordinated Loan, 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, subject to the prior written consent of the CBR, the Subordinated 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.

7.7 Payment of Other Amounts

If the Subordinated Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clause 7.2 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.3 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*), 7.4 (*Special Prepayment in the Event of Taxes or Increased Costs*), 7.5 (*Prepayment at the Optional Prepayment Date*) or 7.6 (*Reduction of the Subordinated Loan Upon Cancellation of Corresponding Notes*) 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 Outstanding Principal Amount of the Subordinated Loan is reduced pursuant to the provisions of Clause 7.6 (*Reduction of the Subordinated 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 Subordinated 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 7 (*Repayment and Prepayment*).

7.8 Provisions Exclusive

The Borrower shall not prepay all or any part of the amount of the Subordinated 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.

7.9 Interest Refund

If, pursuant to Clauses 7.2 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.3 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*), 7.4 (*Special Prepayment in the Event of Taxes or Increased Costs*), 7.5 (*Prepayment at the Optional Prepayment Date*) or 7.6 (*Reduction of the Subordinated Loan Upon Cancellation of Corresponding Notes*), the Subordinated Loan is declared due and payable and the sum paid by the Borrower in repayment of such Subordinated 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 Subordinated Loan, equal to such excess sum.

8. WRITE DOWN

8.1 Write Down Event Notice

If a Write Down Event has occurred and is continuing, the Borrower shall provide the Write Down Event Notice to its shareholder(s), the Lender and the Trustee no later than two Business Days after the Write Down Event Effective Date. The Write Down Event Notice shall, in the absence of manifest error, be conclusive proof of the occurrence of such Write Down Event and shall be binding on all parties.

8.2 Write Down Measures

If a Write Down Event has occurred and is continuing on the Write Down Measure Effective Date, the Borrower shall apply Write Down Measures on the Write Down Measure Effective Date in accordance with this Clause 8.2.

The Borrower shall determine the amount of the interest to be cancelled and/or the amount of the Outstanding Principal Amount of the Subordinated Loan to be written down (in conjunction with any interest cancellation measures taken in respect of, or write down of, other Write Down Instruments) pursuant to the Interest Cancellation Measure and/or Principal Write Down Measure applied pursuant to this Clause 8.2 as necessary to remedy the Write Down Event (or, if this is not possible, the full amount of the accrued interest and the full amount of the Outstanding Principal Amount of the Subordinated Loan), and shall set out its determination thereof in the relevant Write Down Measure Notice together with the then remaining Outstanding Principal Amount of the Subordinated Loan (if any) and the then remaining accrued but unpaid interest (if any) following the application of the relevant Write Down Measures pursuant to this Clause 8.2. The Borrower shall provide the relevant Write Down Measure Notice to its shareholder(s), the Lender and the Trustee no later than three Business Days prior to the relevant Write Down Measure Effective Date. If, in respect of the Borrower receiving notice from the Deposit Insurance Agency that the Deposit Insurance Agency has taken a decision to

implement in relation to the Borrower a bankruptcy prevention plan approved by the CBR which includes the implementation of any of the bankruptcy prevention measures set out in sub-paragraphs 3) and 4) of paragraph 1 of Article 2 of the Banking System Stability Law, the Borrower is notified of the Write Down Measure Effective Date less than three Business Days in advance, it shall promptly give such Write Down Measure Notice to its shareholder(s), the Lender and the Trustee and in no event later than the Write Down Measure Effective Date.

The Principal Write Down Measure shall be applied by the Borrower only if, after cancellation of all accrued but unpaid interest under the Interest Cancellation Measure, the Write Down Event would still be continuing.

The Outstanding Principal Amount of the Subordinated Loan may only be written down (i) pro rata with other Write Down Instruments qualified as Tier 2 Capital; and (ii) if the Write Down Event has occurred as a result of losses of the Borrower, after all sources of Common Equity Tier 1 Capital, including, but not limited to, undistributed profits and the reserve fund, have been exhausted to absorb losses of the Borrower. The accrued but unpaid interest may only be cancelled by the Borrower (i) pro rata with interest on other Write Down Instruments qualified as Tier 2 Capital; and (ii) if the Write Down Event has occurred as a result of losses of the Borrower, after all sources of Common Equity Tier 1 Capital, including, but not limited to, undistributed profits and the reserve fund, have been exhausted to absorb losses of the Borrower.

Once the Outstanding Principal Amount of the Subordinated Loan has been written down in accordance with this Clause 8.2, the Outstanding Principal Amount of the Subordinated Loan so written down may not be restored under any circumstances, including where the relevant Write Down Event(s) is (are) no longer continuing. If the Outstanding Principal Amount of the Subordinated Loan is written down to zero, this Agreement shall cease to have effect.

Any interest payment that has been cancelled in accordance with this Clause 8.2 shall not accumulate or be payable at any time thereafter, including where the relevant Write Down Event(s) is (are) no longer continuing.

From the Write Down Event Effective Date and until the Write Down Event ceases to continue, the Borrower shall not make any payments of accrued interest or any prepayments of the Subordinated Loan, and no interest shall accrue on such outstanding amounts. No interest shall accrue on the Outstanding Principal Amount of the Subordinated Loan as long as a Write Down Event is continuing. Upon cessation of the Write Down Event, interest shall again commence to accrue pursuant to the terms of this Agreement. The Borrower shall determine whether a Write Down Event has ceased to continue and shall immediately notify the Lender and the Trustee in writing on the cessation of any Write Down Event. Such notice shall, in the absence of manifest error, be conclusive proof of the cessation of the relevant Write Down Event and shall be binding on all parties.

A Write Down Event may occur on more than one occasion (and the accrued interest may be cancelled and the Subordinated Loan may be written down pursuant to this Clause 8.2 on more than one occasion). Provisions of this Agreement in relation to the Write Down Measures shall only apply for so long as a Write Down Event is continuing.

8.3 No Default

Notwithstanding any other provision of this Agreement, a cancellation of interest or a write down of the Outstanding Principal Amount of the Subordinated Loan, in whole or in part, or non-payment of interest during the continuation of a Write Down Event, in each case, under Clause 8.2 (Write Down Measures) shall not constitute a default under this Agreement.

9. PAYMENTS

9.1 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 7 (*Repayment and Prepayment*) shall be made unconditionally by credit transfer to the Lender's Account not later than 2 p.m. London 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 7 (*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 Trust Deed, the Agency Agreement and this Agreement.

9.2 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 9.2 (*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 9.2 (*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 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.

9.3 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 9.1 (*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.

9.4 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 2 p.m. London 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).

9.5 Tax Indemnity

Without prejudice to, and without duplication of the provisions of Clauses 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 9.4 (*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 Subordinated 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 9.5 (*Tax Indemnity*) are collectively referred to as "**Tax Indemnity Amounts**". For the avoidance of doubt, the provisions of this Clause 9.5 (*Tax Indemnity*) shall not apply to any withholding or deductions of Taxes with respect to the Subordinated Loan or Notes in respect of which any additional amount is payable under Clauses 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) and 9.4 (*Withholding on the Notes*).

If the Lender intends to make a claim for any Tax Indemnity Amounts, it shall promptly notify the Borrower thereof.

9.6 Reimbursement

If an additional amount is paid under Clause 9.1 (*Making of Payments*) or a Tax Indemnity Amount is paid under Clause 9.5 (*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 9.7 (*Mitigation*) and 9.8 (*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 9.5 (*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 9.1 (*Making of Payments*) or a Tax Indemnity Amount is paid under Clause 9.5 (*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.

9.7 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 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 9.4 (*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 9.7 (*Mitigation*).

9.8 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 9.9 (*Delivery of Forms*).

9.9 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 9.9 (*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 9.9 (*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 bank account details, the Lender shall at the request of the Borrower (a) use reasonable efforts to procure that such bank account of the Lender is duly opened and maintained, and (b) thereafter furnish the Borrower with the details of such bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such 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.

9.10 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.

10. CONDITIONS PRECEDENT

10.1 Documents to be Delivered

The obligation of the Lender to make the Subordinated Loan 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 16.5 (*Service of Process (Borrower)*) have agreed to receive process in the manner specified herein; and

- (c) evidence that the persons mentioned in Clause 16.6 (*Service of Process (Lender)*) have agreed to receive process in the manner specified herein.

10.2 Further Conditions

The obligation of the Lender to make the Subordinated Loan (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 12.1 (*Borrower's Representations 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 an Acceleration Event;
- (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 payable on or prior to the Closing Date pursuant to Clauses 2.3 (*Facility Fee and Other Costs*) and 3.4 (*Ongoing Fees and Expenses*).

11. CHANGE IN LAW OR BANKING PRACTICES; INCREASE IN COST

11.1 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 Subordinated Loan with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central or other fiscal, monetary or other authority, Agency or any official of any such authority, which:

- (a) subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Subordinated 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 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 9.4 (*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 Subordinated 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 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 9.4 (*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 or the Subordinated Loan,

and if as a result of any of the foregoing:

- (e) the cost to the Lender of making, funding or maintaining the Subordinated Loan is increased; or
- (f) the amount of principal, interest or other amount payable to or received by the Lender under this Agreement is reduced; or
- (g) 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 Subordinated 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 11.1(e) and 11.1(g) 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 11.1(f) 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 11.1(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 11.1 (*Compensation*) will not apply to or in respect of any matter for which the Lender has already been compensated under Clauses 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 9.4 (*Withholding on the Notes*) or 9.5 (*Tax Indemnity*).

11.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 11.1 (*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 11.2 (*Mitigation*) 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.

11.3 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.

12. REPRESENTATIONS AND WARRANTIES

12.1 Borrower's Representations and Warranties

The Borrower makes the representations and warranties to the Lender set out in this Clause 12.1 (*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 Subordinated Loan; that it has taken all necessary corporate, legal and other action required to authorise the borrowing of the Subordinated Loan 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 Acceleration Event 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 Subordinated Loan;
- (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) 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 constitute direct, unconditional, unsecured and subordinated obligations of the Borrower;
- (h) the audited consolidated financial statements of the Group for the years ended 31 December 2013, 2012 and 2011 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;
- (i) since the date of the latest audited 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;
- (j) 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);

- (k) 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;
- (l) the Borrower and each Material Subsidiary are in compliance in all material respects with all applicable provisions of applicable law;
- (m) 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;
- (n) subject to any general principles of law limiting the same and referred to in any legal opinion required under the Finance Documents, 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;
- (o) subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding in respect of any Taxes is required to be made from any payment by the Borrower under this Agreement;
- (p) 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;
- (q) 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;
- (r) 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;

- (s) 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;
- (t) 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 12.2 (*Lender's Representations and Warranties*) and compliance by the Lender with Clause 9.9 (*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 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
- (u) 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 31 December 2013 and since 31 December 2013, 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 31 December 2013 to the date which is one year prior to the date this representation is given.

12.2 Lender's Representations and Warranties

The Lender makes the representations and warranties to the Borrower set out in this Clause 12.2 (*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 filing of a form C1 containing particulars of the Trust Deed together with the prescribed fee within 21 days of the date of the Trust Deed);
- (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 Subordinated 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.

13. COVENANTS BY THE BORROWER

For so long as any amount remains outstanding under this Agreement:

13.1 Capital Treatment

The Borrower will use its best efforts to procure that the CBR issues a Final Conclusion and will provide all relevant information about the Subordinated Loan to the CBR as may be necessary for the issuance of such Final Conclusion.

13.2 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 13.2 (*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.

13.3 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.

13.4 Financial Information

- (a) the Borrower hereby undertakes that so long as the Subordinated Loan 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 Subordinated Loan 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 Subordinated Loan 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, taken 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 13.4 (*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 13.4(a) above, accompanied by an audit report thereon of the Auditors, and in the case of the statements provided pursuant to sub-Clause 13.4(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 13.4(a) above and sub-Clause 13.4(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 may reasonably require, including pursuant to this Clause 13.4 (*Financial Information*) and Clauses 7.2 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.3 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*), 7.4 (*Special Prepayment in the Event of Taxes or Increased Costs*), 7.5 (*Prepayment at the Optional Prepayment Date*) and such information may also be provided to the Trustee, if so requested by the Trustee.

13.5 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.

13.6 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.

14. LIMITED ACCELERATION EVENTS

14.1 Payment Default

If the Borrower fails to pay any amount payable under this Agreement as and when such amount becomes payable in the currency and in the manner specified herein, provided such failure to pay continues for more than 14 days, the Lender may at its discretion and without further notice, institute proceedings in a manner and to the extent contemplated by the applicable law for the insolvency (bankruptcy) of the Borrower and/or to prove for its debt, and claim, in any consequent liquidation of the Borrower.

14.2 Winding-up

On the occurrence of any of the following events:

- (a) the commencement of any liquidation of the Borrower (*likvidatsia*, as such term is defined in the Civil Code of the Russian Federation);
- (b) the entering into force of the decision of a competent court of the Russian Federation on bankruptcy of the Borrower (*reshenie o priznanii dolzhnika bankrotom*, as such term is defined under the Insolvency Law);
- (c) any revocation of any licence for the performance of banking operations of the Borrower; or
- (d) subject to the CBR's prior written consent (if needed), any other event, under Russian law, whereby the obligations of the Borrower under this Agreement are accelerated (otherwise than at the option of the Borrower),

the Lender may give notice to the Borrower that under the laws of the Russian Federation the Subordinated Loan is, and it shall accordingly become, due and repayable (*srok ispoleninya obyazatelstv schitaetsya nastypivshim*, as such term is used in Russian law) (subject to and in accordance with the provisions of Clause 4.1 (*Subordination*) above) at the Outstanding Principal Amount thereof together with any interest accrued and unpaid to the date of repayment and any additional amounts due and payable by the Borrower pursuant to this Agreement, and the Lender may, at its discretion and without further notice, take any actions in the manner and to the extent contemplated by the applicable law of the Russian Federation to prove for its debt and/or, to the extent applicable, commence liquidation or winding up proceedings of the Borrower.

14.3 Notice of Acceleration Event

The Borrower shall deliver to the Lender and the Trustee, forthwith after becoming aware thereof, written notice of any event described in Clauses 14.1 (*Payment Default*) and 14.2 (*Winding-up*) (each an "**Acceleration Event**"), its status and what action the Borrower is taking or proposes to take with respect thereto.

14.4 Proceedings

In addition to its rights under Clauses 14.1 (*Payment Default*) and 14.2 (*Winding-up*), the Lender may institute such other proceedings against the Borrower as it may think fit to enforce any obligation, condition or provision binding on the Borrower under this Agreement (other than any obligation for payment of any principal or interest in respect of the Subordinated Loan contemplated by Clauses 14.1 (*Payment Default*)) provided that the Borrower shall not by virtue of any such proceedings be obliged to pay (i) any sum or sums representing or measured by reference to principal or interest in respect of the Subordinated Loan sooner than the same would otherwise have been payable by it or (ii) any damages.

14.5 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.

15. INDEMNITY AND DEFAULT INTEREST

15.1 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 Subordinated Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Subordinated 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 15.1 (*Indemnification*).

15.2 Independent Obligation

Clause 15.1 (*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.

15.3 Evidence of Loss

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 15.1 (*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.

15.4 Currency Indemnity

To the fullest extent permitted by law, the obligation of the Borrower in respect of any amount due in Roubles 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 Roubles 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 Roubles 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 Roubles. Any obligation of the Borrower not discharged by payment in Roubles 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 Roubles that may be purchased exceeds that Due Amount the Lender shall promptly pay the amount of the excess to the Borrower.

15.5 Survival

The obligations of the Borrower pursuant to Clauses 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), 9.4 (*Withholding on the Notes*), 9.5 (*Tax Indemnity*), 9.6 (*Reimbursement*), 15.1 (*Indemnification*) and 15.4 (*Currency Indemnity*) shall survive the execution and delivery of this Agreement and the drawdown and repayment of the Subordinated Loan by the Borrower.

15.6 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 9 (*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 Clause 15 (*Indemnity and Default Interest*)) be selected by the Lender (but shall in any event not be longer than one month).

15.7 Default Interest

During each such period relating thereto as is mentioned in Clause 15 (*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.

15.8 Payment of Default Interest

Any interest which shall have accrued under Clause 15.7 (*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.

16. GOVERNING LAW AND ARBITRATION

16.1 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.

16.2 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 16.2 (*Arbitration*), which Rules shall be deemed incorporated into this Clause 16.2 (*Arbitration*). 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.

16.3 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.

16.4 Proceedings

The Borrower consents generally in respect of any proceedings (including arbitral proceedings pursuant to Clause 16.2 (*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.

16.5 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 16.5 (*Service of Process (Borrower)*) shall affect the right of the Lender to serve process in any other manner permitted by law.

16.6 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 16.6 (*Service of Process (Lender)*) shall affect the right of the Borrower to serve process in any other manner permitted by law.

17. NOTICES

17.1 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.
6th Floor
Pinnacle 2
Eastpoint Business Park
Dublin 3 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: Elena Finashina, Director of International Business Division

or to such other address or fax number as any party may hereafter specify in writing to the other.

17.2 Effectiveness

Every notice or other communication sent in accordance with Clause 17 (*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.

18. ASSIGNMENT

18.1 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 referred to in Clause 18.3 (*No Assignment by the Lender*) 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 9.6 (*Reimbursement*) or Clause 11 (*Change in Law or Banking Practices; Increase in Cost*).

18.2 No Assignment by the Borrower

The Borrower may not assign, dispose of, novate or transfer all or any part of its rights or obligations hereunder to any other party.

18.3 No Assignment by the Lender

The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except as contemplated by the Trust Deed.

19. GENERAL

19.1 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.

19.2 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.

19.3 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.

19.4 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).

19.5 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.

19.6 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.

19.7 Language

The language which governs the interpretation of this Agreement is the English language.

19.8 Amendments

This Agreement may not be varied unless: (i) any amendment or variation is in writing signed by the parties; (ii) an amendment agreement (or draft) has been submitted to the CBR; and (iii) approval from the CBR has been received.

19.9 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.

20. 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 Joint Lead Managers (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 Joint Lead Managers 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 20 (*Limited Recourse and Non Petition*) shall survive the termination of this Agreement.

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 RUB 5,000,000,000 16.5 per cent. Loan Participation Notes due 26 May 2025 (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 dated 26 November 2014 (the “**Trust Deed**”, which expression includes such trust deed as from time to time modified, supplemented or restated 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 Citibank, N.A., London Branch (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 subordinated loan in an aggregate amount of RUB 5,000,000,000 (the “**Subordinated Loan**”) to CREDIT BANK OF MOSCOW (open joint-stock company) (the “**Bank**”). The terms of the Subordinated Loan are recorded in a subordinated loan agreement dated 24 November 2014 between the Issuer (in its capacity as the lender thereunder (in such capacity the “**Lender**”)) and the Bank (as amended and supplemented from time to time, the “**Subordinated 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 Subordinated Loan Agreement, less any amounts in respect of the Reserved Rights (as defined in the Trust Deed). The Noteholders must therefore rely solely and exclusively on the Bank's covenant to pay under the Subordinated Loan Agreement, the benefit of the Security Interests (as defined below) and the credit and financial standing of the Bank. The Noteholders shall have no recourse (direct or indirect) to any other asset of the Issuer.

The Issuer (as the 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 the Lender under the Subordinated 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 Subordinated 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 the 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**”) dated 26 November 2014 and made between the Bank, the Issuer, Citigroup Global Markets Deutschland AG, as the registrar (the “**Registrar**”, which expressions shall include any successors), Citibank, N.A., 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 Subordinated Loan Agreement and the Agency Agreement are available for inspection by the 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, 6th Floor, Pinnacle 2, Eastpoint Business Park, Dublin 3, Ireland), the principal office of the Trustee being, at the date hereof, Citigroup Centre, 25 Canada Square, Canary Wharf, London E14 5LB 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 Subordinated Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Subordinated Loan Agreement and the Agency Agreement which are 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 Subordinated Loan the proceeds of which will be used by the Bank for general banking purposes. 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 Subordinated 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 Subordinated Loan Agreement, less any amount in respect of the Reserved Rights. 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 and retained (net of tax) by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Subordinated Loan Agreement, less any amount in respect of the Reserved Rights and subject to Condition 8 (Taxation), will be made pro rata among all the 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 Subordinated 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.

The 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 Subordinated Loan Agreement. It is hereby expressly provided that, and the 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 Subordinated 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 Subordinated 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 Subordinated 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(s), 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 Subordinated Loan Agreement and its covenant to make payments under the Subordinated Loan Agreement and its credit and financial standing. The Bank has represented and warranted to the Issuer in the Subordinated Loan Agreement that the Subordinated 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 Subordinated 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 Subordinated 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 Subordinated Loan Agreement or the Subordinated 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 Subordinated 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 (Status and Limited Recourse)) at any time, at its discretion and without notice, institute such proceedings or take such other action as it thinks fit to enforce its rights under the Trust Deed and these Conditions in respect of the Notes, (including, without limitation, after the occurrence of a Relevant Event, exercising its rights under or enforcing the Security Interests created in the Trust Deed) but in any such case it shall not be bound to do so unless it has been directed or requested to do so by the Noteholders as described herein and indemnified and/or secured (including by way of prefunding) 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 Subordinated 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 Acceleration Event). The 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 the 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 the 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 RUB10,000,000 and integral multiples of RUB100,000 in excess thereof (each a “**Specified Denomination**”).

The Notes will be sold to investors outside the United States in reliance on Regulation S under the Securities Act and will be represented by an unrestricted global note certificate (the “**Global Note**”). The 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/or Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”).

Ownership of beneficial interests in the Global Note will be limited to the Persons that have accounts with Euroclear or Clearstream, Luxembourg or the Persons that may hold interests through such participants. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected through, records maintained in book-entry form by Euroclear and/or Clearstream, Luxembourg and their participants, as applicable. The Global Note will be exchangeable for the Notes in definitive form only in certain limited circumstances specified in the Global Note.

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 the 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, a copy of which will be 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 the Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of the 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 whatever 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 the Notes and entries on the Register are subject to the detailed regulations concerning the transfer of the 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 Subordinated Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Subordinated 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, shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (Notices).

So long as any Note remains outstanding, the Issuer shall not, without the prior written consent of the Trustee, 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 property over which the Security Interests are granted or over which any other security interests in respect of any further notes for the purposes of making loans to the Bank have been created), making the Subordinated Loan to the Bank pursuant to the Subordinated 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 Subordinated 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 26 May and 26 November of each year, commencing on 26 May 2015 and ending on 26 May 2025 (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 Subordinated Loan Agreement (with respect to the corresponding interest payment thereunder) which interest under the Subordinated Loan Agreement is equal to 16.5 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; PURCHASE; AND WRITE-DOWN

(A) Scheduled Redemption

Unless previously prepaid or repaid, the Bank will be required to repay the Subordinated Loan (in full and not in part) on the day which is one Business Day (as defined in the Subordinated Loan Agreement) prior to the Repayment Date (the “**Subordinated Loan Repayment Date**”) and, subject to such repayment, as set forth in the Subordinated Loan Agreement, all the Notes then outstanding will, on the Repayment Date or as soon thereafter as such repayment of the Subordinated Loan is actually received, be redeemed or repaid by the Issuer at 100 per cent. of the principal amount thereof.

(B) Early Redemption

The Notes shall be redeemed by the Issuer in whole, but not in part, at any time, subject to giving prior notice to the Noteholders, the Trustee, the Principal Paying and Transfer Agent and the Bank (which notice shall be irrevocable and shall specify a date for redemption, being the same date as that set out in the notice of prepayment) in accordance with Condition 14 (Notices) at the prices set out in Clause 7 (*Repayment and Prepayment*) of the Subordinated Loan Agreement, together with interest accrued and unpaid to the date fixed for redemption and any additional amounts in respect thereof (to the extent that such amounts are received by the Issuer from the Bank pursuant to the Subordinated Loan Agreement) pursuant to Condition 8 (Taxation), if, immediately before giving such notice, the Issuer provides the Trustee with satisfactory evidence that the Issuer has received a notice of prepayment from the Bank pursuant to Clause 7.2 (Special Prepayment by Reason of Amendment to CBR Regulations), Clause 7.3 (Special Prepayment if the CBR does not issue the Bank the Final Conclusion on or before the Approval Date) or Clause 7.4 (Special Prepayment in the Event of Taxes or Increased Costs) of the Subordinated 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) from the Bank following acceleration of the Subordinated 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 7.2 (Special Prepayment by Reason of Amendment to CBR Regulations), Clause 7.3 (Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date) or Clause 7.4 (Special Prepayment in the Event of Taxes or Increased Costs) of the Subordinated 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 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) Bank's Call Option

The Bank may at its option (the "**Call Option**") on the Optional Prepayment Date (as defined in the Subordinated Loan Agreement), on giving not more than 60 nor less than 30 days' notice to the Issuer with a copy to the Trustee (the "**Call Option Notice**"), repay the Subordinated Loan in whole (but not in part). The Call Option Notice shall specify the Optional Prepayment Date (as defined in the Subordinated Loan Agreement) which will also be the date for the redemption of the Notes (the "**Call Redemption Date**"). Immediately on receipt of the Call Option Notice, the Issuer shall, in accordance with Condition 14, give notice of the receipt of the Call Option Notice to the Noteholders, the Trustee and the Principal Paying Agent. If the Subordinated Loan should become repayable following exercise of the Call Option by the Bank (and be repaid) prior to the Repayment Date, the Notes will thereupon become due and repayable at the price set out in Clause 7 (Repayment and Prepayment) of the Subordinated Loan Agreement, together with interest accrued and unpaid to the Call Redemption Date and any additional amounts in respect thereof (to the extent that such amounts are received by the Issuer from the Bank pursuant to the Subordinated Loan Agreement) pursuant to Condition 8 (Taxation), and the Issuer shall, subject to receipt of such amounts from the Bank under the Subordinated Loan, redeem the Notes on the Call Redemption Date, subject as provided in Condition 7 (Payments).

(D) Write-down of the Notes following a Write Down Event

Following receipt by the Issuer and the Trustee of a Write Down Event Notice (as defined in the Subordinated Loan Agreement), the Issuer shall promptly thereafter give notice to the Noteholders in accordance with Condition 14 (Notices) of the details contained in such Write Down Event Notice. Following receipt by the Issuer and the Trustee of a Write Down Measure Notice (as defined in the Subordinated Loan Agreement), the Issuer shall promptly thereafter give notice to the Noteholders in accordance with Condition 14 (Notices) that on the relevant Write Down Measure Effective Date (as defined in the Subordinated Loan Agreement and as set out in the Write Down Measure Notice):

- (a) interest on the Notes and (if any) additional amounts in an amount equal to the interest and (if any) additional amounts under the Subordinated Loan being cancelled shall be automatically cancelled on a pro rata basis on the relevant Write Down Measure Effective Date, and all references to accrued and unpaid interest and additional amounts in the Conditions, the Trust Deed, the Agency Agreement and the Notes shall be construed accordingly;
- (b) as applicable, a principal amount of the Notes in an amount equal to the principal amount of the Subordinated Loan being written down shall automatically be written down on the Write Down Measure Effective Date, such Notes shall be cancelled on a pro rata basis and in the case of a partial write-down and cancellation of the Notes, all reference to the outstanding principal amount of the Notes in the Conditions, the Trust Deed, the Agency Agreement and the Notes shall be construed accordingly;
- (c) the Noteholders shall be deemed automatically to irrevocably waive their right to receive, and shall no longer have any rights against the Issuer or any other party with respect to, repayment of the aggregate principal amount of the Notes, accrued and unpaid interest and (if any) additional amounts, in each case so written down and cancelled pursuant to paragraphs (a) and (b) above; and
- (d) all rights and claims of the Noteholders for and to payment of any amounts under or in respect of the Notes (including, without limitation, accrued and unpaid interest and any additional amounts) that are subject to write down and cancellation pursuant to this Condition as set out in the Write Down Measure Notice, and all corresponding rights of the Noteholders to instruct the Trustee to exercise any rights in respect of such amounts, shall be extinguished and shall become null and void, irrespective of whether such amounts have become due and payable prior to the relevant Write Down Measure Notice or the Write Down Measure Effective Date.

Neither the Trustee nor any Agent shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Write Down Event or any Write Down Measures (as defined in the Subordinated Loan Agreement) and consequent cancellation of the Notes or write down of any claims in respect thereof, and neither the Trustee nor the Agents shall be responsible for any calculation or determination or the verification of any calculation or determination in connection with the same. Notwithstanding any other provision of these Conditions, a cancellation of interest or a write down of the principal amount of the Subordinated Loan, in whole or in part, shall not constitute an Acceleration Event (as defined in the Subordinated Loan Agreement) or a default under the Subordinated Loan Agreement.

(E) Purchase of the Notes

The Issuer or the Bank or any of the Bank's subsidiaries may at any time, subject to the prior written consent of the CBR (as defined in the Subordinated Loan Agreement), 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 of Notes) 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 the Noteholders).

(F) Cancellation of Notes

All the Notes which are surrendered to the Registrar for cancellation pursuant to Condition 6(E) (Purchase of the Notes) will be cancelled and may not be reissued or resold.

(G) Disapplication of Certain Conditions

In the event that the Subordinated Loan is not confirmed as Tier 2 Capital prior to the Approval Date (as such terms are defined in the Subordinated Loan Agreement), Condition 6(D) (Write-down of the Notes following a Write Down Event) shall not apply.

The Issuer shall give notice to the Noteholders in accordance with Condition 14 of any disapplication of provisions in these Conditions and/or the Subordinated Loan Agreement promptly after receiving notice thereof from the Bank.

7. PAYMENTS

(A) Principal

Payments of principal shall be made by Rouble (as defined in the Subordinated Loan Agreement), or, in the case of Notes in respect of which a U.S. Dollar Noteholder Election has been made pursuant to Condition 7(I), 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 Rouble, or, in the case of Notes in respect of which a U.S. Dollar Noteholder Election has been made pursuant to Condition 7(I), U.S. dollar, account maintained by the payee with a bank in London 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.

If the Notes are represented by a Global Note, payments of principal shall be made by the Principal Paying Agent in Roubles or, in the case of accountholders of Euroclear and/or Clearstream, Luxembourg holding such Notes in respect of which a U.S. Dollar Noteholder Election has been made pursuant to Condition 7(I), U.S. dollars, in accordance with the procedures of Euroclear and/or Clearstream, Luxembourg.

(B) Interest

Payments of interest shall be made by Rouble or, in the case of Notes in respect of which a U.S. Dollar Noteholder Election has been made pursuant to Condition 7(I), 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 Rouble or, in the case of Notes in respect of which a U.S. Dollar Noteholder Election has been made pursuant to Condition 7(I), U.S. dollar, account maintained by the payee with, a bank in London 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.

If the Notes are represented by a Global Note, payments of interest shall be made by the Principal Paying Agent in Roubles or, in the case of accountholders of Euroclear and/or Clearstream, Luxembourg holding such Notes in respect of which a U.S. Dollar Noteholder Election has been made pursuant to Condition 7(I), U.S. dollars, in accordance with the procedures of Euroclear and/or Clearstream, Luxembourg.

(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 on the Record Date.

(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 Subordinated 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 Subordinated Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer. Pursuant to the Trust Deed, the Issuer has charged 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 itself and the Noteholders.

(H) Currency Other Than Roubles

In respect of the Issuer's obligations under Conditions 5 (Interest), 6 (Redemption; Purchase; and Write-Down) and 8 (Taxation), and subject to the following sentence, if the Issuer receives any amount under the Subordinated Loan Agreement in a currency other than Roubles, 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 Roubles 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 15.4 (Currency Indemnity) of the Subordinated 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).

(I) U.S. Dollar Noteholder Election

The Noteholders may, no later than the seventh business day (which has the meaning given to such term in Condition 7(D) (*Payments on Business Days*)) before the due date for any payment of interest or principal (each a "**Payment Date**"), give an irrevocable notice of election (a "**U.S. Dollar Noteholder Election**") to the Principal Paying Agent to receive such payment of interest or principal, as the case may be, in U.S. dollars. Upon any such election in accordance with the foregoing, such interest or principal will be converted into U.S. dollars by the Principal Paying Agent pursuant to this Condition 7(I).

For so long as any Notes are represented by the Global Note, a U.S. Dollar Noteholder Election may be given to the Principal Paying Agent by any accountholder of Euroclear and/or Clearstream, Luxembourg holding such Notes through the notification procedures of Euroclear and/or Clearstream, Luxembourg.

Subject as provided above, the Principal Paying Agent shall, on or before the business day prior to each Payment Date (the "**Exchange Date**"), purchase U.S. dollars (the "**U.S. Dollar Amount**") with the Exchange Amount (as defined below) at a purchase price calculated on the basis of the Applicable Exchange Rate (as defined below) for settlement on the relevant Payment Date.

If the Notes are represented by Definitive Note Certificates and for any reason on the Exchange Date the Principal Paying Agent determines that it is not possible for the Principal Paying Agent to purchase the U.S. Dollar Amount with the Exchange Amount at the Applicable Exchange Rate, the Principal Paying Agent shall notify the relevant Noteholders in accordance with Condition 14 (Notices) and (i) if a Paying Agent has been notified of a Russian Rouble account into which a Noteholder's payment should be made, such Paying Agent shall pay to such Noteholder the relevant proportion of the Exchange Amount due to it; or (ii) if a Paying Agent has not been notified of a Russian Rouble account into which a Noteholder's payment should be made, the Paying Agents shall hold all or the remaining portion of the Exchange Amount until such time that the relevant Noteholders notify the Principal Paying Agent of the Russian Rouble account into which their respective payments should be made.

If the Notes are represented by the Global Note and for any reason on the Exchange Date it is not possible for the Principal Paying Agent to purchase the U.S. Dollar Amount with the Exchange Amount at the Applicable Exchange Rate, the Principal Paying Agent shall make payments on such Notes in Russian Roubles to all Noteholders through the facilities of Euroclear and/or Clearstream, Luxembourg.

As used in this Condition 7(I):

"**Applicable Exchange Rate**" means the internal foreign exchange conversion rate for settlement on the relevant Payment Date, which the Principal Paying Agent acting in a reasonable manner uses to convert Russian Roubles into U.S. Dollars; and

"**Exchange Amount**" means, in respect of each Payment Date, the amount in Russian Roubles in aggregate equivalent to the portion of such interest and/or principal in respect of the Notes due on the relevant Payment Date, which is payable to the holders of such Notes (if any) which have given an irrevocable notice of a U.S. Dollar Noteholder Election pursuant to and in accordance with this Condition 7(I) to receive payment of such interest and/or principal in U.S. Dollars.

On the Business Day prior to the Payment Date, the Principal Paying Agent shall give due notice to the Noteholders in accordance with Condition 14 of (a) the Exchange Amount and the U.S. Dollar Amount applicable to such Payment Date and (b) the Applicable Exchange Rate at which such U.S. Dollar Amount was purchased by the Principal Paying Agent.

For the purposes of this Condition 7(I), none of the Principal Paying Agent, the other Agents and the Trustee shall be liable to any Noteholder, the Issuer, the Bank or any third party for any losses whatsoever resulting from application by the Principal Paying Agent or any other Agent of the Applicable Exchange Rate. The Trustee shall not be liable to the Noteholders or any such other parties for any failure by the Principal Paying Agent to comply with the provisions of this Condition 7(I).

8. TAXATION

All payments 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 (if any) 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 Subordinated Loan Agreement. To the extent that the Issuer does 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 Subordinated 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:

- (a) 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;
- (b) 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;
- (c) 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;
- (d) 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
- (e) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment in Ireland.

Notwithstanding anything to the contrary in the preceding paragraph, none of the Issuer, any paying agent or any other person shall be required to pay any additional amounts with respect to any withholding or deduction imposed on or in respect of any Note pursuant to Section 1471 to 1474 of the U.S. Internal Revenue Code of 1986, as amended (“**FATCA**”), any treaty, law, regulation or other official guidance enacted by a Relevant Jurisdiction implementing FATCA, or any agreement between the Issuer and the United States or a Relevant Jurisdiction, or any authority of the foregoing implementing FATCA.

As used herein, “**Relevant Date**” means (i) the date on which the equivalent payment under the Subordinated Loan Agreement first becomes due but (ii) if the full amount payable by the Bank has not been received by, or for the account of, the Issuer or the Principal Paying Agent pursuant to the Subordinated 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 Subordinated 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 such other jurisdiction (in each case, a “**Relevant 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 Acceleration Event (as defined in the Subordinated 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 the 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 the Lender under the Subordinated Loan Agreement (in the case of an Acceleration Event), or exercise any rights under or enforce 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 Subordinated Loan or the receipt in full of all principal and interest accrued under the Subordinated Loan following an Acceleration Event 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 the Noteholders on any certificate or report prepared by any of the above mentioned experts or any auditor, pursuant to these Conditions or the Trust Deed, whether or not addressed to the Trustee and whether or not the expert or auditor's liability in respect thereof is limited by a monetary cap or otherwise.

10. MEETINGS OF THE NOTEHOLDERS; MODIFICATION; WAIVER; SUBSTITUTION OF THE LENDER

(A) Meetings of the Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matters relating to their interests or the Notes, including the modification of any provision of the Subordinated 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 the 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 one person present holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, at

least one person present being or representing the 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 the Noteholders at which at least one person 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 neither the Bank nor any subsidiary of the Bank nor any holding company of the Bank nor any subsidiary of any such holding company who is or are also the 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 the Noteholders holding at least 75 per cent. in principal amount of the Notes for the time being outstanding (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, the Trust Deed or the Subordinated 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 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 Notes, these Conditions, the Trust Deed or, the terms of the Subordinated Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Subordinated 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 Subordinated 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 (i) the substitute obligor's rights under the Subordinated 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 the Lender under the Subordinated Loan Agreement and (ii) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution, substitute any entity in place of the Issuer as creditor under the Subordinated 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. Any such substitution shall be binding on all the Noteholders.

(D) Exercise of Powers

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the

general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Bank, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

11. PRESCRIPTION

The 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, security and prefunding of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment and any other action under the Trust Deed and the Subordinated Loan unless directed (subject to being indemnified and/or secured and/or prefunded to its satisfaction) by an Extraordinary Resolution of the Noteholders, 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 Subordinated 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 Subordinated 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 60 days 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 or within 60 days after any Extraordinary Resolution as hereafter mentioned, 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 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 a stock exchange and the rules of that exchange so require, published in accordance with the listing rules of that exchange. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

Upon receipt of notice from the Bank that the Final Conclusion (as such term is defined in the Subordinated Loan Agreement) has been received in respect of the Subordinated Loan, the Issuer shall promptly instruct the Principal Paying Agent to provide notice thereof to the Noteholders.

So long as any of the Notes are represented by the 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 relevant stock exchange on which the Notes are listed, if any, and given in accordance with the rules of such stock exchange.

15. 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 be consolidated and form a single series with the Notes. Any such further Notes shall be constituted by a deed supplemental to the Trust Deed. In relation to any issue of further Notes (i) the Issuer will enter into a further loan agreement with the Bank or an amendment or supplement to the Subordinated Loan Agreement on the same terms as the Subordinated 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 be materially prejudicial to 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 Subordinated 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.

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. GOVERNING LAW AND JURISDICTION

The Notes, the Trust Deed, the Agency Agreement and the Subordinated 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.

Each purchaser of a beneficial interest in the Notes, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is, or at the time the Notes are purchased it will be, the beneficial owner of such 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 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 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 acknowledges that the Issuer, CBM, the Registrar 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 Notes is no longer accurate, it shall promptly notify the Issuer and CBM. 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.
4. 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 Notes to, or for the account or benefit of, a U.S. person within the meaning of Regulation S.
5. It understands that the Global Note and any Definitive 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.

FORM OF THE NOTES

Global Notes

The Notes will be evidenced on issue by a Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

Beneficial interests in the Notes, as represented by the Global Note, may be held only through Euroclear or Clearstream, Luxembourg at any time. See “– *Book-Entry Procedures for the Global Notes*”. On acquisition of a beneficial interest in the Notes, as represented by the 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 Notes, as evidenced by the Global Note, will be subject to certain restrictions on transfer set forth thereon and in the Agency Agreement.

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 the Global Note will not be entitled to receive physical delivery of Definitive Note Certificates. The Notes are not issuable in bearer form.

Exchange

The Global Note will be exchangeable, in whole but not in part, for Definitive Note Certificates if: (i) interests in the relevant Global Note are held by or on behalf of Euroclear or Clearstream, Luxembourg as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent; or (ii) the Issuer 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 the 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 the holder, Euroclear and/or Clearstream, Luxembourg to the Registrar of 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. 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 United States Investment Company Act of 1940.

Book-Entry Procedures for the Global Notes

For the Global Note, custodial and depository links have been established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in the Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (**Direct Participants**) or indirectly (**Indirect Participants**, and together with Direct Participants, **Participants**) through organisations which are accountholders therein.

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.

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 the Global Note is held on behalf of Euroclear, Clearstream, Luxembourg 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 or Clearstream, Luxembourg (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, Luxembourg (as the case may be) or such Alternative Clearing System as aforesaid.

Payment

Payments of principal and interest in respect of Notes evidenced by the Global Note will be made to the person who appears on the register of the Noteholders as holder of the Notes represented by the 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 the 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 the 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 the Notes as well as taxation of interest payments on the corresponding Subordinated Loan. The summary is based on the laws of Russia in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date (possibly with retroactive effect). The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Nor does the summary seek to address the availability of double tax treaties and the eligibility of double tax treaty relief in respect of the Notes, and it should be noted that there may be practical difficulties, including satisfying certain documentation requirements, involved in claiming and obtaining such double tax treaty relief. Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes in their own particular circumstances. No representation with respect to the Russian tax consequences of investing, owning or disposing of the Notes to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty and lack interpretive guidance. Further, the substantive provisions of Russian tax law applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change (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) and which is not a Russian tax resident. Russian tax residence rules for organisations have been adopted in Federal Law N 376-FZ dated 24 November 2014 “On amending Parts I and II of the Tax code of the Russian Federation (in respect of taxation of profits of controlled foreign companies and income of foreign organizations)” (**Federal Law**) and will come into force from 1 January 2015. Generally, a foreign organisation should be recognized as a Russian tax resident pursuant to an applicable double tax treaty or if the place of actual management of such organisation is the Russian Federation (unless otherwise provided by an applicable double tax treaty).

A **Resident Noteholder** means any Noteholder (including any individual and any legal entity or organisation) who or which is not a Non-Resident Noteholder.

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 Subordinated 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.

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 “*Taxation of Non-Resident Holders – Legal Entities – Double 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 interest income received on the Notes by Non-Resident Noteholders should not be subject to Russian tax.

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.

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 on the Notes are received from a Russian source and are subject to Russian taxes, 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. 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 an 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 Subordinated 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 Subordinated Loan Agreement including, *inter alia*, interest payments CBM should be considered as the tax agent.

However, interest income payable by Russian organisations on debt obligations that originate from issuance of traded securities by foreign organisations (as defined by the Russian Tax Code) shall not be subject to withholding of the tax by the tax agent, if the foreign organisation 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 Russian Tax Code as securities and other debt obligations listed on a recognised stock exchange and/or settled through recognised depository-clearing organisations. The list of such recognised institutions has been approved by the Ministry of Finance of the Russian Federation. 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 and/or if such a link is contained in terms of issuance and/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 to apply, the Issuer will have to submit to CBM a confirmation of its tax residency (**Certificate**) certified by 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 Russian translation.

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.

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 payments under the Subordinated 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 Subordinated 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 Subordinated 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 Subordinated 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.

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 the Subordinated Loan.

Recent Changes in Russian Tax Legislation

Recently, Russian tax policy has focused on curtailing Russian businesses from using foreign companies purely for tax reasons and Russia has introduced policies to allow Russian tax authorities to tax foreign income attributable to Russian companies.

In the pursuit of such policies in November 2014 the Federal Law was adopted by the Russian government and the President. The provisions stipulated by the Federal Law are the result of the joint work undertaken by the Ministry of Finance and the Russian government to implement measures previously announced under the Russian government's action plan to counteract the offshorisation of the Russian economy.

The main provisions of the Federal Law cover rules governing the taxation of "controlled foreign corporations" (without establishing the exact list of jurisdictions which residents may fall under such definition), determination of the tax residency status of legal entities, definition of "beneficial owner" and taxation of capital gains derived from the sale of shares in real estate rich companies (more than 50% of the value of the assets of which directly or indirectly consists of real estate located in Russia).

Changes introduced by the Federal Law will come into force on 1 January 2015 and may complicate tax planning and related business decisions. These factors raise the risk of a sudden imposition of arbitrary or onerous taxes on operations in Russia and abroad, and the application of the abovementioned rules may result in the imposition of fines, penalties and enforcement measures which could have a material adverse effect on CBM's business, financial condition and results of operations.

It should be noted that the Federal Law provides for exemption of foreign companies which act as issuers of traded securities (as described in "*Taxation of Interest on the Subordinated Loan*" above) from recognition as Russian tax residents and imposition of Russian profits tax on their profits if they are recognized as controlled foreign companies, provided that interest income on the loan granted by the issuer of the securities in the framework of their issue comprises more than 90% of its total income for the relevant reporting period.

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 per cent.) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

- (a) the Notes are Quoted Eurobonds, i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as the Irish Stock Exchange) 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; (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 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
 - (iii) the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:
 - (A) from whom the Issuer has acquired assets;
 - (B) to whom the Issuer has made loans or advances; or
 - (C) with whom the Issuer has entered into a Swap Agreement,where the aggregate value of such assets, loans, advances or Swap Agreements represents not less than 75 per cent. of the assets of the Issuer, or
 - (iv) the Issuer is not aware at the time of the issue of any Notes that any Noteholder of those Notes is (A) a person of the type described in (c)(iii) above and (B) 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:

- (A) 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
- (B) 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; (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 per cent.) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, 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 Taxes Consolidation Act 1997 (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 or is a company not resident in Ireland which is 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 or is a company not resident in Ireland where the principal class of shares of the company or its 75% parent is substantially and regularly traded on a recognised stock exchange. For the purposes of these exemptions and where not specified otherwise, 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 per cent.) if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland)).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Irish Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

EU Directive on Taxation of Savings Income

Ireland has implemented the EC Council Directive 2003/48/EC on the taxation of savings income 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 Directive 2003/48/EC and Noteholders will be deemed by their subscription for Notes to have authorised the automatic disclosure of such information by the Issuer or any other person to the relevant tax authorities.

GENERAL INFORMATION

1. *Clearing Systems*

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN of the Global Note is XS1143363940.

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 14 January 2015.

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 Subordinated Loan. The issue of the Notes and the execution and performance of the Subordinated 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 21 November 2014. The execution and performance of the Subordinated 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 10 November 2014. The CBR issued its final approval and conclusion for inclusion of the Subordinated Loan in CBM's Tier 2 capital on 31 December 2014.

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 Subordinated 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 2014 and no material adverse change in the prospects of CBM (or of CBM together with its subsidiaries) since 31 December 2013. 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 2013. 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*

KPMG have audited, and rendered unqualified audit reports on, the Annual Financial Statements of CBM. The Interim Financial Information is unaudited.

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 Subordinated 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 Information, the 2013 Annual Financial Statements and the 2012 Annual Financial Statements;
- (e) the Directors report and audited financial statements of the Issuer dated 31 December 2013, 31 December 2012 and 31 December 2011;
- (f) the reports of KPMG in respect of the audited Annual Financial Statements;
- (g) the reports of KPMG in respect of the audited financial statements of the Issuer;
- (h) the Trust Deed;
- (i) the Subordinated Loan Agreement; and
- (j) the Agency Agreement.

10. Yield

The yield on the Notes is 16.50% per annum.

11. Interests in the Issue of the Notes

Save for the fees payable to, among others, 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 Irish Stock Exchange are expected to be approximately €3,300.

15. Post-Issuance Information

Neither the Issuer nor CBM intends to provide any post-issuance information.

INDEPENDENT AUDITORS

The Annual Financial Statements of CBM as at 31 December 2013 and 2012 and for the years then ended, included in the Prospectus have been audited by ZAO KPMG (**KPMG**), as stated in their reports appearing herein on pages F-4, F-44 and F-126 (the **Independent Auditors' Reports**). 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).

KPMG accepts responsibility for the information contained in each Independent Auditors' Report and, to the best of KPMG's knowledge, having taken all reasonable care to ensure that such is the case, the information contained in each Independent Auditors' Report is in accordance with the facts and does not omit anything likely to affect its import.

KPMG have given and not withdrawn their written consent to the inclusion of each Independent Auditors' Report, in the form and context in which it is included and have authorised the contents of each Independent Auditors' Report.

As the Notes have not been and will not be registered under the Securities Act, KPMG has not filed, and will not file, a consent under the Securities Act.

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CREDIT BANK OF MOSCOW
(open joint-stock company)

Consolidated Interim Condensed
Financial Statements
for the nine-month period
ended 30 September 2014

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Auditors' Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Supervisory Board 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) and its subsidiaries (the Group) as at 30 September 2014, and the related consolidated interim condensed statements of profit or loss and other comprehensive income for the three- and the nine-month periods ended 30 September 2014, and the related consolidated interim condensed statements of changes in equity and cash flows for the nine-month period ended 30 September 2014, and notes to the consolidated interim condensed 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 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.

Audited entity: CREDIT BANK OF MOSCOW (open joint-stock company).

Registered by the Central Bank of the Russian Federation on 18 August 1999, Registration No. 1978.

Entered in the Unified State Register of Legal Entities on 18 November 2002 by the Department of Federal Tax Service, Registration No. 1027739555282, Certificate series 77 No. 004840877.

Address of audited entity: 2 (bldg. 1), Lukov pereulok, Moscow, Russia, 107045.

Independent auditor: ZAO KPMG, a company incorporated under the laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss Entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Included in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

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 2014 and for the three- and the nine-month periods ended 30 September 2014 is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.



Malyutina M.S.

Director

Power of attorney dated 1 October 2013 No. 77/13

ZAO KPMG

Moscow, Russian Federation



3 December 2014

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Interim Condensed Statements of Profit or Loss and Other Comprehensive Income
for the three- and the nine-month periods ended 30 September 2014

	Notes	Nine-Month Period Ended 30 September 2014 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2013 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2014 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2013 RUB'000 (Unaudited)
Interest income	4	41 133 253	29 469 278	15 141 774	10 637 714
Interest expense	4	(23 512 980)	(17 654 084)	(8 406 450)	(6 553 197)
Net interest income	4	17 620 273	11 815 194	6 735 324	4 084 517
Provision for impairment of loans	12	(7 013 952)	(4 444 284)	(3 268 834)	(1 708 126)
Net interest income after provision for impairment of loans		10 606 321	7 370 910	3 466 490	2 376 391
Fee and commission income	5	6 318 731	5 090 359	2 292 484	2 009 874
Fee and commission expense	5	(1 144 040)	(449 151)	(419 577)	(179 178)
Net (loss) gain on financial instruments at fair value through profit or loss		(444 290)	77 512	(379 688)	(56 499)
Net realized (loss) gain on available-for-sale assets		(52 933)	46 561	18 090	19 770
Net foreign exchange gains (losses)		115 577	349 125	(123 834)	46 313
State deposit insurance scheme contributions		(415 370)	(358 389)	(145 807)	(126 715)
Other operating income, net		322 001	545 754	87 110	275 438
Non-interest income		4 699 676	5 301 771	1 328 778	1 989 003
Operating income		15 305 997	12 672 681	4 795 268	4 365 394
Salaries and employment benefits	6	(4 093 826)	(3 268 987)	(1 228 206)	(1 118 537)
Administrative expenses	6	(2 445 344)	(2 032 781)	(727 523)	(792 822)
Depreciation of property and equipment		(391 847)	(349 642)	(128 728)	(122 137)
Recovery of (provision for) impairment of other assets and credit related commitments		117 790	80 017	38 660	(49 250)
Operating expense		(6 813 227)	(5 571 393)	(2 045 797)	(2 082 746)
Profit before income taxes		8 492 770	7 101 288	2 749 471	2 282 648
Income tax	7	(2 122 013)	(1 475 523)	(622 132)	(482 365)
Profit for the period		6 370 757	5 625 765	2 127 339	1 800 283

The consolidated interim condensed statements of profit or loss and other comprehensive income are to be read in conjunction with the notes, forming an integral part of the consolidated interim condensed financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Interim Condensed Statements of Profit or Loss and Other Comprehensive Income
for the three- and the nine-month periods ended 30 September 2014

Notes	Nine-Month Period Ended 30 September 2014 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2013 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2014 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2013 RUB'000 (Unaudited)
Profit for the period	6 370 757	5 625 765	2 127 339	1 800 283
Other comprehensive income				
<i>Items that are or may be reclassified subsequently to profit or loss</i>				
Revaluation reserve for available-for- sale securities:				
- net change in fair value	(208 977)	(134 553)	(227 294)	(57 666)
- net change in fair value transferred to profit or loss	(17 825)	66 783	(597)	94 366
Income tax related to other comprehensive income	45 360	13 626	45 578	(7 358)
Other comprehensive income (loss) for the period, net of tax	(181 442)	(54 144)	(182 313)	29 432
Total comprehensive income for the period	6 189 315	5 571 621	1 945 026	1 829 715
Basic and diluted earnings per share (in RUB per share)	0.44	0.44	0.15	0.14
24				

Chairman of the Management Board

Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass

3 December 2014



The consolidated interim condensed statements of profit or loss and other comprehensive income are to be read in conjunction with the notes, forming an integral part of the consolidated interim condensed financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Interim Condensed Statement of Financial Position
as at 30 September 2014

	Notes	30 September 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000
ASSETS			
Cash and cash equivalents	8	55 697 055	67 064 920
Obligatory reserves with the Central Bank of the Russian Federation		3 241 624	2 798 987
Due from credit institutions	9	6 036 022	10 466 017
Financial instruments at fair value through profit or loss	10	44 806 172	37 412 185
Available-for-sale securities	11	15 337 695	18 533 564
Loans to customers	12	358 309 847	308 940 610
Property and equipment		7 487 510	6 079 029
Goodwill		301 089	301 089
Other assets		5 170 596	2 605 717
Total assets		496 387 610	454 202 118
LIABILITIES AND EQUITY			
Deposits by the Central Bank of the Russian Federation	13	8 100 216	14 566 171
Deposits by credit institutions	14	40 387 841	24 398 112
Deposits by customers	15	299 665 485	274 872 004
Debt securities issued	16	85 896 745	84 553 516
Deferred tax liability		2 761 878	1 880 127
Current tax liability		16 531	196 917
Other liabilities		2 711 552	3 077 224
Total liabilities		439 540 248	403 544 071
Equity			
Share capital	17	15 329 692	15 329 692
Additional paid-in capital		9 768 757	9 768 757
Revaluation surplus for buildings		1 115 928	1 115 928
Revaluation reserve for available-for-sale securities		(219 081)	(37 639)
Retained earnings		30 852 066	24 481 309
Total equity		56 847 362	50 658 047
Total liabilities and equity		496 387 610	454 202 118

Commitments and Contingencies

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Chairman of the Management Board

Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass



The consolidated interim condensed statement of financial position is to be read in conjunction with the notes, forming an integral part of the consolidated interim condensed financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Interim Condensed Statement of Cash Flows
for the nine-month period ended 30 September 2014

	Notes	Nine-Month Period Ended 30 September 2014 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2013 RUB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		6 370 757	5 625 765
Out of which:			
- Interest income received		39 401 746	28 307 377
- Interest expense paid		(21 662 446)	(16 933 169)
- Income tax paid		(1 375 287)	(1 093 202)
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for impairment of loans	12	7 013 952	4 444 284
Depreciation and amortization		391 847	349 642
Deferred taxation	7	927 112	416 543
Revaluation of financial instruments at fair value through profit or loss		486 611	(96 281)
Provision for impairment of other assets and credit related commitments		(117 790)	(80 017)
Change in accrued interest income		(1 731 507)	(1 161 901)
Change in accrued interest expense		1 850 534	720 915
Other		881 585	(161 287)
Operating cash flows before changes in operating assets and liabilities		16 073 101	10 057 663
(Increase) decrease in operating assets			
Obligatory reserves with the Central Bank of the Russian Federation		(442 637)	(1 188 970)
Due from credit institutions		4 419 642	1 557 949
Financial instruments at fair value through profit or loss		(7 510 758)	785 265
Loans to customers		(47 136 168)	(88 997 052)
Other assets		(832 592)	(331 896)
Increase (decrease) in operating liabilities			
Deposits by the Central Bank of the Russian Federation		(6 463 167)	4 500 000
Deposits by credit institutions		817 692	(11 436 565)
Deposits by customers		22 892 283	57 285 885
Promissory notes		(1 608 589)	(1 479 636)
Other liabilities		(210 884)	174 636
Net cash used in operations		(20 002 077)	(29 072 721)

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes, forming an integral part of the consolidated interim condensed financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Interim Condensed Statement of Cash Flows
for the nine-month period ended 30 September 2014

Notes	Nine-Month Period Ended 30 September 2014 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2013 RUB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sale (purchase) of available-for-sale securities	3 019 879	(5 447 016)
Net purchase of property and equipment and intangible assets	(1 795 407)	(336 525)
Net cash from/(used in) investing activities	1 224 472	(5 783 541)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock	-	2 539 391
Net repayment of subordinated deposits	-	(2 176 564)
Net proceeds from syndicated borrowings	13 001 811	528 611
Net proceeds from subordinated bonds	-	18 172 550
Net (repayment of) proceeds from other bonds	(7 343 740)	12 909 833
Net cash from financing activities	5 658 071	31 973 821
Effect of exchange rates changes on cash and cash equivalents	1 751 669	762 161
Change in cash and cash equivalents	(11 367 865)	(2 120 280)
Cash and cash equivalents, beginning of the period	67 064 920	47 459 075
Cash and cash equivalents, end of the period	55 697 055	45 338 795

Chairman of the Management Board

Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass



The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes, forming an integral part of the consolidated interim condensed financial statements.

*CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Interim Condensed Statement of Changes in Equity
for the nine-month period ended 30 September 2014*

	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
31 December 2012	13 539 763	9 019 295	1 115 928	16 061	15 601 246	39 292 293
Total comprehensive income for the period (unaudited)	-	-	-	(54 144)	5 625 765	5 571 621
Shares issued	1 789 929	5 745 671	-	-	-	7 535 600
Repayment of subordinated loans to the majority shareholder (net of deferred tax of RUB 1 249 052 thousand)	-	(4 996 209)	-	-	-	(4 996 209)
Total transaction with owners, recorded directly in equity (unaudited)	1 789 929	749 462	-	-	-	2 539 391
30 September 2013 (unaudited)	15 329 692	9 768 757	1 115 928	(38 083)	21 227 011	47 403 305
31 December 2013	15 329 692	9 768 757	1 115 928	(37 639)	24 481 309	50 658 047
Total comprehensive income for the period (unaudited)	-	-	-	(181 442)	6 370 757	6 189 315
30 September 2014 (unaudited)	15 329 692	9 768 757	1 115 928	(219 081)	30 852 066	56 847 362

Chairman of the Management Board

Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass



The consolidated interim condensed statement of changes in equity is to be read in conjunction with, 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 limited liability 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 (the CBR), renewed on 21 January 2013. In December 2004 the Bank was admitted to the state program for individual deposit insurance.

The Bank is among the 15 largest banks in Russia by assets and conducts its business in Moscow and the Moscow region with a branch network comprising 59 branches, more than 800 ATMs and more than 6 000 payment terminals.

The Group operates in industry where significant seasonal or cyclical variations in operating income are not experienced during the financial year.

The principal subsidiaries of the Group are as follows:

Name	Country of incorporation	Principal activities	Degree of control, %	
			30 September 2014 (Unaudited)	31 December 2013
CBOM Finance p.l.c.	Ireland	Raising finance	100%	100%
MKB-Invest	Russia	Transactions with securities	100%	100%
MKB-Leasing	Russia	Finance leasing	100%	100%
M-Leasing	Russia	Finance leasing	100%	100%
CJSC Mortgage Agent MKB	Russia	Raising finance	100%	-

The Bank does not have any direct or indirect shareholdings in the subsidiaries "CBOM Finance p.l.c.", "MKB-Invest" and CJSC "Mortgage Agent MKB". "CBOM Finance p.l.c." was established to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to the Bank. MKB-Invest is controlled by the Group through an option agreement. Mortgage Agent MKB was established for the purposes of the mortgage loans securitization program launched by the Bank in 2014.

Shareholders

The Bank's shareholders as at 30 September 2014 are:

Concern Rossium, LLC (Parent Company) – 85.00%

European Bank for Reconstruction and Development (EBRD) – 7.50%

RBOF Holding Company I Ltd. – 4.61%

International Finance Corporation (IFC) – 2.89%

The sole shareholder of Concern Rossium, LLC, is Roman I. Avdeev, who is ultimate controlling party of the Group.

As at 30 September 2014, the Supervisory Board includes:

William F. Owens – Chairman

Members:

Richard D. Glasspool

Andrew S. Gazitua

Roman I. Avdeev

Alexander N. Nikolashin

Anton R. Avdeev

Vladimir A. Chubar

Mikhail E. Kuznetsov

Nicholas D. Haag

Bernard D. Sucher

Brendan G. Walsh

Thomas G. Grasse

Related party transactions are detailed in note 20.

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 emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. In addition, the recent contraction in the capital and credit markets and the impact of this on the Russian economy further increased the level of economic uncertainty in the environment.

In 2014 the United States of America, the European Union and certain other countries imposed sanctions against some Russian public officials, entrepreneurs and companies. These actions, especially in the case of further tightening, may have a negative impact on the Russian economy caused by limited access of Russian business to foreign capital markets and exports, increase of capital outflows, Rouble devaluation and other negative consequences. At the current moment it is difficult to assess the impact of these events on the operations and financial position of the Group.

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 2013, 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 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 interim condensed financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

Use of estimates and judgments

The preparation of consolidated interim condensed 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 on-going 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 2013.

Certain amendments to IFRS became effective from 1 January 2014 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 2014 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2013 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2014 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2013 RUB'000 (Unaudited)
Interest income				
Loans to customers	35 999 377	25 799 708	13 223 830	9 476 800
Financial instruments at fair value through profit or loss and available- for-sale securities	3 834 012	2 809 039	1 360 136	914 750
Due from credit institutions and the Central Bank of the Russian Federation	1 299 864	860 531	557 808	246 164
	41 133 253	29 469 278	15 141 774	10 637 714

CREDIT BANK OF MOSCOW (open joint-stock company)
Notes to, and forming part of, the Consolidated Interim Condensed Financial Statements
for the nine-month period ended 30 September 2014

	Nine-Month Period Ended 30 September 2014 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2013 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2014 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2013 RUB'000 (Unaudited)
Interest expense				
Deposits by customers	(15 703 163)	(12 128 194)	(5 676 459)	(4 433 174)
Debt securities issued	(5 572 318)	(4 288 328)	(1 899 488)	(1 682 631)
Deposits by credit institutions and the Central Bank of the Russian Federation	(2 237 499)	(1 237 562)	(830 503)	(437 392)
	(23 512 980)	(17 654 084)	(8 406 450)	(6 553 197)
Net interest income	17 620 273	11 815 194	6 735 324	4 084 517

5 Net fee and commission income

	Nine-Month Period Ended 30 September 2014 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2013 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2014 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2013 RUB'000 (Unaudited)
Fee and commission income				
Insurance contracts processing	1 654 613	1 728 470	621 164	732 371
Settlements and wire transfers	1 175 086	835 508	428 194	362 605
Plastic cards	1 084 600	392 134	415 457	149 526
Guarantees and letters of credit	983 869	785 627	336 743	323 069
Cash handling	915 330	860 633	308 310	306 651
Other cash operations	228 716	153 183	81 746	66 086
Currency exchange commission	139 379	164 842	52 414	54 944
Other	137 138	169 962	48 456	14 622
	6 318 731	5 090 359	2 292 484	2 009 874
Fee and commission expense				
Settlements, wire transfers and plastic cards	(969 161)	(300 128)	(365 892)	(114 019)
Other	(174 879)	(149 023)	(53 685)	(65 159)
	(1 144 040)	(449 151)	(419 577)	(179 178)
Net fee and commission income	5 174 691	4 641 208	1 872 907	1 830 696

6 Salaries, employment benefits and administrative expenses

	Nine-Month Period Ended 30 September 2014 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2013 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2014 RUB'000 (Unaudited)	Three-Month Period Ended 30 September 2013 RUB'000 (Unaudited)
Salaries	3 241 011	2 572 526	990 802	908 471
Social security costs	771 129	625 207	205 427	190 648
Other	81 686	71 254	31 977	19 418
Salaries and employment benefits	4 093 826	3 268 987	1 228 206	1 118 537
Occupancy	695 836	545 678	240 707	188 464
Operating taxes	407 118	410 764	50 595	141 217
Advertising and business development	471 469	405 660	130 961	183 671
Property maintenance	244 332	161 019	78 777	65 238
Security	200 536	192 097	75 129	69 239
Write-off of low-value fixed assets	145 411	115 683	48 327	74 331
Transport	68 076	45 061	25 580	16 486
Computer maintenance and software expenses	75 085	56 434	35 993	17 096
Communications	59 399	40 202	25 558	15 350
Other	78 082	60 183	15 896	21 730
Administrative expenses	2 445 344	2 032 781	727 523	792 822

7 Income tax

	Nine-Month Period Ended 30 September 2014 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2013 RUB'000 (Unaudited)
Current tax charge	1 194 901	1 058 980
Deferred taxation	927 112	416 543
Income tax expense	2 122 013	1 475 523

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% in 2014 and 2013.

8 Cash and cash equivalents

	30 September 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000
Cash on hand	8 256 005	10 312 841
Correspondent account with the Central Bank of the Russian Federation	7 838 117	13 719 643
Nostro accounts with other banks		
rated from AA+ to AA-	537 750	721 960
rated from A+ to A-	3 029 795	3 168 085
rated from BBB+ to BBB-	5 191 281	1 548 056
rated from BB+ to BB-	81 606	1 412 775
rated from B+ to B-	30 916	58 601
not rated	211 392	478 463
Total nostro accounts with other banks	9 082 740	7 387 940
Due from credit institutions with maturity of less than 1 month		
Deposits with the Central Bank of the Russian Federation	-	12 000 000
rated from A+ to A-	4 744 539	6 689 761
rated from BBB+ to BBB-	1 178 867	2 500 437
rated from BB+ to BB-	1 562 506	-
rated from B+ to B-	16 865 146	11 441 144
not rated	6 169 135	3 013 154
Total due from credit institutions with maturity of less than 1 month	30 520 193	35 644 496
Total cash and cash equivalents	55 697 055	67 064 920

Ratings are based on Standard & Poor's rating system.

No 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 the period end.

As at 30 September 2014 receivables under reverse sale and repurchase agreements included in cash and cash equivalents are RUB 19 410 150 thousand (31 December 2013: RUB 13 876 923 thousand).

As at 30 September 2014, 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 5 817 041 thousand (31 December 2013: RUB 3 013 154 thousand).

9 Due from credit institutions

	30 September 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000
Term deposits		
rated from BBB+ to BBB-	256 091	-
rated from BB+ to BB-	392 932	-
rated from B+ to B-	5 386 999	9 134 652
not rated	-	1 331 365
Total due from credit institutions	6 036 022	10 466 017

No due from credit institutions are impaired or past due.

10 Financial instruments at fair value through profit or loss

	30 September 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000
<u>Held by the Group</u>		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	4 571 388	697 718
Moscow Government bonds	325 641	529 188
Regional authorities and municipal bonds	7 930 483	6 883 716
Corporate bonds		
rated AAA	808 517	152 669
from BBB+ to BBB-	8 130 444	5 003 704
from BB+ to BB-	6 074 488	1 974 860
from B+ to B-	9 302 005	9 812 311
from CCC+ to C-	51 846	-
not rated	6 767 833	4 606 902
Derivative financial instruments	781 480	197 313
Total held by the Group	44 744 125	29 858 381
<u>Pledged under sale and repurchase agreements</u>		
Regional authorities and municipal bonds	-	2 228 405
Corporate bonds		
from BBB+ to BBB-	-	2 974 542
from BB+ to BB-	20 472	2 142 751
from B+ to B-	41 575	-
not rated	-	208 106
Total pledged under sale and repurchase agreements	62 047	7 553 804
Total financial instruments at fair value through profit or loss	44 806 172	37 412 185

No financial instruments at fair value through profit or loss are impaired or past due.

As at 30 September 2014, debt instruments in the amount of RUB 37 368 862 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2013: RUB 25 583 495 thousand).

Derivative financial instruments

The table below summarises, by major currencies, the contractual amounts of spot and forward exchange contracts outstanding as at 30 September 2014 and 31 December 2013 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 unmaturing 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 or other liabilities, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	30 September 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000	30 September 2014 (Unaudited)	31 December 2013
Buy USD sell RUB				
Less than 3 months	859 551	4 058 439	39.3387	32.1414
Buy gold sell RUB				
Between 3 months and 6 months	225 582	-	1 516.7900	-
Buy EUR sell USD				
Less than 3 months	1 291	674	1.2609	1.3743
Buy RUB sell USD				
Less than 3 months	-	2 120 852	-	32.8823
Buy RUB sell EUR				
Less than 3 months	-	16 864	-	44.8600
Buy EUR sell RUB				
Less than 3 months	-	15 339	-	45.1134

11 Available-for-sale securities

	30 September 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000
<u>Held by the Group</u>		
Corporate bonds		
from BBB+ to BBB-	5 170 809	915 894
from BB+ to BB-	2 909 313	815 781
from B+ to B-	1 221 147	1 483 679
not rated	-	60 385
Promissory notes		
from BBB+ to BBB-	1 054 384	1 404 848
from BB+ to BB-	4 622 564	3 208 017

	30 September 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000
from B+ to B-	346 306	1 723 193
not rated	7 574	941 440
Equity investments	5 598	4 661
Total held by the Group	15 337 695	10 557 898
<u>Pledged under sale and repurchase agreements</u>		
Corporate bonds		
from BBB+ to BBB-	-	5 842 803
from BB+ to BB-	-	1 159 761
from B+ to B-	-	504 820
Total pledged under sale and repurchase agreements	-	7 507 384
<u>Pledged as collateral for interbank and other loans</u>		
Promissory notes		
from BBB+ to BBB-	-	468 282
Total pledged as collateral for interbank and other loans	-	468 282
Total available-for-sale securities	15 337 695	18 533 564

No available-for-sale securities are impaired or past due.

As at 30 September 2014, debt instruments in the amount of RUB 7 856 376 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2013: RUB 4 320 210 thousand).

12 Loans to customers

	30 September 2014 RUB'000 (Unaudited)	30 September 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000	31 December 2013 RUB'000
	Loans	Impairment allowance	Loans	Impairment allowance
Loans to corporate clients	247 884 173	(5 875 046)	220 010 070	(4 453 275)
Loans to individuals				
Auto loans	9 406 685	(128 867)	10 305 656	(111 366)
Mortgage loans	18 590 444	(216 463)	15 677 650	(186 329)
Credit card loans	4 990 885	(602 921)	3 680 456	(309 052)
Other loans to individuals	90 808 255	(6 547 298)	68 185 781	(3 858 981)
Total loans to individuals	123 796 269	(7 495 549)	97 849 543	(4 465 728)
Gross loans to customers	371 680 442	(13 370 595)	317 859 613	(8 919 003)
Net loans to customers	358 309 847		308 940 610	

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 30 September 2014:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Loans to customers				
- Not past due	351 661 257	(4 457 205)	347 204 052	1.3
- Not past due but impaired	4 549 889	(631 279)	3 918 610	13.9
- Overdue less than 31 days	3 317 574	(628 171)	2 689 403	18.9
- Overdue 31-60 days	1 121 143	(516 782)	604 361	46.1
- Overdue 61-90 days	1 453 690	(951 448)	502 242	65.5
- Overdue 91-180 days	3 831 155	(1 911 301)	1 919 854	49.9
- Overdue 181-360 days	4 257 440	(3 110 558)	1 146 882	73.1
- Overdue more than 360 days	1 488 294	(1 163 851)	324 443	78.2
Total loans to customers	371 680 442	(13 370 595)	358 309 847	3.6

The following table provides information on credit quality of the loan portfolio as at 31 December 2013:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Loans to customers				
- Not past due	303 860 751	(4 249 525)	299 611 226	1.4
- Not past due but impaired	6 161 291	(618 744)	5 542 547	10.0
- Overdue less than 31 days	2 138 075	(235 572)	1 902 503	11.0
- Overdue 31-60 days	832 030	(345 263)	486 767	41.5
- Overdue 61-90 days	673 036	(400 432)	272 604	59.5
- Overdue 91-180 days	1 576 806	(1 044 964)	531 842	66.3
- Overdue 181-360 days	1 765 664	(1 421 261)	344 403	80.5
- Overdue more than 360 days	851 960	(603 242)	248 718	70.8
Total loans to customers	317 859 613	(8 919 003)	308 940 610	2.8

As at 30 September 2014, the gross amount of overdue loans with payments that are overdue at least one day totals RUB 15 469 296 thousand, which represents 4.2% of the gross loan portfolio (31 December 2013: RUB 7 837 571 thousand and 2.5%, respectively).

Nonperforming loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 9 576 889 thousand or 2.6% of the gross loan portfolio (31 December 2013: RUB 4 194 430 thousand and 1.3 %, respectively).

NPLs together with restructured loans amount to RUB 11 949 597 thousand or 3.2% of the gross loan portfolio (31 December 2013: RUB 4 955 223 thousand and 1.6 %, respectively).

As at 30 September 2014, the ratio of total impairment allowance to overdue loans equals 86.4%, the ratio of total impairment allowance to NPLs equals 139.6% and the ratio of total impairment allowance to NPLs together with restructured loans equals 111.9% (31 December 2013: 113.8 %, 212.6 % and 180.0 %, respectively).

Movements in the loan impairment allowance for the nine-month periods ended 30 September 2014 and 30 September 2013 are as follows:

	2014 RUB'000 (Unaudited)	2013 RUB'000 (Unaudited)
Balance at the beginning of the period	8 919 003	4 698 726
Net charge	7 013 952	4 444 284
Net write-offs	(2 562 360)	(949 138)
Balance at the end of the period	13 370 595	8 193 872

As at 30 September 2014, interest accrued on overdue and impaired loans amounts to RUB 762 634 thousand (31 December 2013: RUB 547 321 thousand).

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 2014:

	Gross loans RUB'000 (Unaudited)	Impairment allowance RUB'000 (Unaudited)	Net loans RUB'000 (Unaudited)	Impairment to gross loans % (Unaudited)
Loans to corporate clients				
- Not past due	239 218 987	(3 840 324)	235 378 663	1.6
- Not past due but impaired	4 549 889	(631 279)	3 918 610	13.9
- Overdue less than 31 days	1 243 052	(401 611)	841 441	32.3
- Overdue 31-60 days	251 101	(155 553)	95 548	61.9
- Overdue 61-90 days	567 016	(418 230)	148 786	73.8
- Overdue 91-180 days	1 577 683	(348 998)	1 228 685	22.1
- Overdue 181-360 days	448 432	(68 375)	380 057	15.2
- Overdue more than 360 days	28 013	(10 676)	17 337	38.1
Total loans to corporate clients	247 884 173	(5 875 046)	242 009 127	2.4

The following table provides information on credit quality of loans to corporate clients as at 31 December 2013:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment to gross loans %
Loans to corporate clients				
- Not past due	213 315 950	(3 697 256)	209 618 694	1.7
- Not past due but impaired	6 161 291	(618 744)	5 542 547	10.0
- Overdue less than 31 days	120 135	(34 303)	85 832	28.6
- Overdue 31-60 days	24 475	(5 322)	19 153	21.7
- Overdue 61-90 days	29 566	(6 088)	23 478	20.6
- Overdue 91-180 days	239 256	(42 503)	196 753	17.8
- Overdue 181-360 days	96 508	(38 436)	58 072	39.8
- Overdue more than 360 days	22 889	(10 623)	12 266	46.4
Total loans to corporate clients	220 010 070	(4 453 275)	215 556 795	2.0

In 2014, the Group revised the methodology used to estimate the impairment allowance for loans to corporate clients for which no specific indications of impairment have been identified. The revised methodology is intended to provide a more accurate estimate of the impairment allowance. As at 30 September 2014, the Group estimates loan impairment for loans to corporate clients based on an analysis of the future cash flows for impaired loans and based on its internal credit rating adjusted for the value of collateral for portfolios of loans for which no indications of impairment have been identified.

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 plus/minus one percent, the impairment allowance as at 30 September 2014 would decrease/increase by RUB 2 420 091 thousand (31 December 2013: RUB 2 155 568 thousand).

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transaction: real estate (manufacturing premises, warehouses), equipment and motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes.

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 30 September 2014 and 31 December 2013:

	30 September 2014	31 December 2013
	RUB'000	RUB'000
	(Unaudited)	
Real estate	53 749 796	36 255 555
Securities	42 128 622	30 487 469
Goods in turnover	27 222 234	29 305 369
Claims for contract receivables	20 385 925	16 822 515
Equipment and motor vehicles	11 745 369	8 374 778
Bank's own debt securities	218 276	1 787 670
Corporate guarantees and no collateral	86 558 905	92 523 439
	242 009 127	215 556 795

The Group generally does not consider corporate guarantees for impairment assessment purposes.

The amounts in the table above represent the carrying value of the related loan, and do not necessarily represent the fair value of the collateral.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

Management estimates that the impairment allowance for loans to corporate customers would have been approximately RUB 6 383 629 thousand higher without any collateral (31 December 2013: RUB 5 542 547 thousand).

Collateral obtained

During the nine-month period ended 30 September 2014, the Group obtained certain assets by taking possession of collateral for loans to corporate customers. The carrying amount of these assets, as at 30 September 2014, was RUB 1 979 514 thousand (31 December 2013: RUB 2 996 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 2014 and 30 September 2013 are as follows:

	2014 RUB'000 (Unaudited)	2013 RUB'000 (Unaudited)
Balance at the beginning of the period	4 453 275	3 058 623
Net charge	2 308 073	1 715 539
Net write-offs	(886 302)	(262 535)
Balance at the end of the period	5 875 046	4 511 627

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 30 September 2014:

	Gross loans RUB'000 (Unaudited)	Impairment allowance RUB'000 (Unaudited)	Net loans RUB'000 (Unaudited)	Impairment to gross loans % (Unaudited)
Auto loans				
- Not past due	9 108 627	(7 839)	9 100 788	0.1
- Overdue less than 31 days	61 997	(3 531)	58 466	5.7
- Overdue 31-60 days	21 770	(4 455)	17 315	20.5
- Overdue 61-90 days	19 491	(5 868)	13 623	30.1
- Overdue 91-180 days	57 677	(23 588)	34 089	40.9
- Overdue 181-360 days	101 836	(59 283)	42 553	58.2
- Overdue more than 360 days	35 287	(24 303)	10 984	68.9
Total auto loans	9 406 685	(128 867)	9 277 818	1.4

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	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Mortgage loans				
- Not past due	17 663 847	(13 380)	17 650 467	0.1
- Overdue less than 31 days	270 775	(2 794)	267 981	1.0
- Overdue 31-60 days	105 787	(4 783)	101 004	4.5
- Overdue 61-90 days	33 311	(2 264)	31 047	6.8
- Overdue 91-180 days	111 105	(15 279)	95 826	13.8
- Overdue 181-360 days	120 250	(36 972)	83 278	30.7
- Overdue more than 360 days	285 369	(140 991)	144 378	49.4
Total mortgage loans	18 590 444	(216 463)	18 373 981	1.2
Credit card loans				
- Not past due	4 075 385	(54 739)	4 020 646	1.3
- Overdue less than 31 days	112 392	(10 184)	102 208	9.1
- Overdue 61-90 days	71 496	(37 002)	34 494	51.8
- Overdue 91-180 days	230 505	(137 173)	93 332	59.5
- Overdue 181-360 days	377 380	(266 360)	111 020	70.6
- Overdue more than 360 days	123 727	(97 463)	26 264	78.8
Total credit card loans	4 990 885	(602 921)	4 387 964	12.1
Other loans to individuals				
- Not past due	81 594 411	(540 923)	81 053 488	0.7
- Overdue less than 31 days	1 629 358	(210 051)	1 419 307	12.9
- Overdue 31-60 days	742 485	(351 991)	390 494	47.4
- Overdue 61-90 days	762 376	(488 084)	274 292	64.0
- Overdue 91-180 days	1 854 185	(1 386 263)	467 922	74.8
- Overdue 181-360 days	3 209 542	(2 679 568)	529 974	83.5
- Overdue more than 360 days	1 015 898	(890 418)	125 480	87.6
Total other loans to individuals	90 808 255	(6 547 298)	84 260 957	7.2
Total loans to individuals	123 796 269	(7 495 549)	116 300 720	6.1

The following table provides information on the credit quality of loans to individuals as at 31 December 2013:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Auto loans				
- Not past due	10 004 501	(2 513)	10 001 988	0.03
- Overdue less than 31 days	63 942	(1 016)	62 926	1.6
- Overdue 31-60 days	23 243	(655)	22 588	2.8
- Overdue 61-90 days	27 721	(2 247)	25 474	8.1
- Overdue 91-180 days	45 339	(17 798)	27 541	39.3
- Overdue 181-360 days	97 141	(56 789)	40 352	58.5
- Overdue more than 360 days	43 769	(30 348)	13 421	69.3
Total auto loans	10 305 656	(111 366)	10 194 290	1.1

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	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Mortgage loans				
- Not past due	15 096 667	(11 880)	15 084 787	0.1
- Overdue less than 31 days	114 877	(698)	114 179	0.6
- Overdue 31-60 days	34 942	(274)	34 668	0.8
- Overdue 61-90 days	32 312	(600)	31 712	1.9
- Overdue 91-180 days	19 383	(2 473)	16 910	12.8
- Overdue 181-360 days	45 867	(12 859)	33 008	28.0
- Overdue more than 360 days	333 602	(157 545)	176 057	47.2
Total mortgage loans	15 677 650	(186 329)	15 491 321	1.2
Credit card loans				
- Not past due	2 637 275	(23 943)	2 613 332	0.9
- Overdue less than 31 days	620 353	(39 046)	581 307	6.3
- Overdue 31-60 days	92 872	(26 959)	65 913	29.0
- Overdue 61-90 days	55 190	(28 285)	26 905	51.3
- Overdue 91-180 days	141 249	(88 370)	52 879	62.6
- Overdue 181-360 days	110 698	(83 326)	27 372	75.3
- Overdue more than 360 days	22 819	(19 123)	3 696	83.8
Total credit card loans	3 680 456	(309 052)	3 371 404	8.4
Other loans to individuals				
- Not past due	62 806 358	(513 933)	62 292 425	0.8
- Overdue less than 31 days	1 218 768	(160 509)	1 058 259	13.2
- Overdue 31-60 days	656 498	(312 053)	344 445	47.5
- Overdue 61-90 days	528 247	(363 212)	165 035	68.8
- Overdue 91-180 days	1 131 579	(893 820)	237 759	79.0
- Overdue 181-360 days	1 415 450	(1 229 851)	185 599	86.9
- Overdue more than 360 days	428 881	(385 603)	43 278	89.9
Total other loans to individuals	68 185 781	(3 858 981)	64 326 800	5.7
Total loans to individuals	97 849 543	(4 465 728)	93 383 815	4.6

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 plus/minus one percent, the impairment allowance as at 30 September 2014 would decrease/increase by RUB 1 163 007 thousand (31 December 2013: RUB 933 838 thousand).

In June 2014 the Bank transferred certain retail mortgage loans to a special purpose entity (SPE) Mortgage Agent MKB. SPE issued bonds that are collateralized by the purchased assets. When the Group sells the assets to the consolidated SPE the transfer is in the form of the Group assuming an obligation to pass cash flows from the underlying assets to investors in the bonds. Although the Group does not own more than half of the voting power, the Group controls the SPE because it is exposed to the majority of risks and rewards of the SPE and hence, this SPE is consolidated. The investors in the bonds, have recourse only to the cash flows from the transferred assets.

	30 September 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000
Carrying amount of loans pledged	4 091 652	-
Carrying amount of associated liabilities – mortgage-backed bonds (Note 16)	3 791 805	-

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 other loans to individuals are not secured.

For the allowance on a portfolio basis, management does not estimate loan impairment based on a specific analysis of the fair value of collateral but instead applies actual historical loss experience. 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 2014, impaired mortgage loans in the gross amount of RUB 926 597 thousand are secured by collateral with a fair value of RUB 717 040 thousand (31 December 2013: RUB 580 983 thousand and RUB 484 151 thousand, respectively). As at 30 September 2014, the Group estimates the fair value of private real estate undergoing foreclosure to be RUB 212 141 thousand (31 December 2013: RUB 113 342 thousand).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans to individuals for the nine-month period ended 30 September 2014 are as follows:

	Auto loans RUB'000 (Unaudited)	Mortgage loans RUB'000 (Unaudited)	Credit card loans RUB'000 (Unaudited)	Other loans to individuals RUB'000 (Unaudited)	Total RUB'000 (Unaudited)
Balance at the beginning of the period	111 366	186 329	309 052	3 858 981	4 465 728
Net charge	137 135	30 134	395 319	4 143 291	4 705 879
Net write-offs	(119 634)	-	(101 450)	(1 454 974)	(1 676 058)
Balance at the end of the period	128 867	216 463	602 921	6 547 298	7 495 549

Movements in the loan impairment allowance by classes of loans to individuals for the nine-month period ended 30 September 2013 are as follows:

	Auto loans RUB'000 (Unaudited)	Mortgage loans RUB'000 (Unaudited)	Credit card loans RUB'000 (Unaudited)	Other loans to individuals RUB'000 (Unaudited)	Total RUB'000 (Unaudited)
Balance at the beginning of the period	56 800	219 648	81 576	1 282 079	1 640 103
Net charge	105 946	97 541	167 739	2 357 519	2 728 745
Net write-offs	(30 445)	-	(43 939)	(612 219)	(686 603)
Balance at the end of the period	132 301	317 189	205 376	3 027 379	3 682 245

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 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000
Loans to individuals	123 796 269	97 849 543
Residential and commercial construction and development	30 119 672	23 347 068
Services	24 223 865	12 589 630
Automotive, motorcycles and spare parts	22 451 885	19 114 136
Oil and industrial chemicals	20 441 213	14 935 835
Metallurgical	19 896 079	20 133 322
Food and farm products	19 356 841	28 148 042
Consumer electronics, appliances and computers	17 485 780	26 902 297
Clothing, shoes, textiles and sporting goods	15 844 732	11 121 156
Financial	15 347 193	6 245 239
Industrial and infrastructure construction	12 820 010	8 342 728
Property rental	11 350 213	5 545 992
Pharmaceutical and medical products	9 531 044	11 774 075
Industrial equipment and machinery	6 817 277	6 341 601
Construction and decorative materials, furniture	5 574 147	6 581 178
Paper, stationery and packaging products	4 026 262	7 692 161
Consumer chemicals, perfumes and hygiene products	2 031 038	2 235 989
Equipment leasing	1 443 734	1 748 930
Telecommunications	1 221 664	1 241 131
Gardening and pet products	974 876	970 578
Products for home, gifts, jewelry and business accessories	722 079	560 088
Electric utility	636 279	1 310 007
Books, video, print and copy	432 073	282 476
Other	5 136 217	2 846 411
	371 680 442	317 859 613
Impairment allowance	(13 370 595)	(8 919 003)
	358 309 847	308 940 610

13 Deposits by the Central Bank of the Russian Federation

	30 September 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000
Term deposits	8 100 216	8 513 459
Payables under repurchase agreements or collateralized loans	-	6 052 712
Total deposits by the Central Bank of the Russian Federation	8 100 216	14 566 171

14 Deposits by credit institutions

	30 September 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000
Demand deposits	425 619	335 793
Term deposits	23 213 995	15 832 104
Payables under repurchase agreements or collateralized loans	57 333	6 909 639
Syndicated loans	15 898 976	650 756
Subordinated debt	791 918	669 820
Total deposits by credit institutions	40 387 841	24 398 112

15 Deposits by customers

	30 September 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000
Corporate customers		
Demand	24 303 242	42 456 110
Term	126 167 177	96 342 152
Term notes	391 350	1 607 146
Total corporate customers	150 861 769	140 405 408
Individuals		
Demand	12 320 345	9 682 192
Term	136 483 371	124 784 404
Total individuals	148 803 716	134 466 596
Total deposits by customers	299 665 485	274 872 004

16 Debt securities issued

	30 September 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000
Promissory notes issued at nominal value	4 956 778	6 925 845
Accrued interest	-	7 118
Unamortized discount	(107 884)	(274 384)
Total promissory notes issued	4 848 894	6 658 579
Subordinated bonds	25 401 540	21 562 286
Bonds	55 646 311	56 332 651
Total bonds issued	81 047 851	77 894 937
Total debt securities issued	85 896 745	84 553 516

All coupon payments are made semi-annually, and selected coupon rates are subject to change in accordance with terms of the issuance within a predetermined range.

As at 30 September 2014 issued bonds include RUB 3 791 805 thousand of mortgage-backed bonds.

17 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 14 467 761 735 shares (31 December 2013: 14 467 761 735 shares) with par value of 1 RUB per share. In addition, at 30 September 2014 the Bank has 21 808 396 273 authorized but unissued ordinary shares with an aggregate nominal value of RUB 21 808 000 thousand. The total hyperinflation adjustment related to equity that was last assessed as at 31 December 2002 was RUB 861 930 thousand.

18 Commitments

	30 September 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000
Guarantees and letters of credit	57 434 661	70 165 586
Undrawn loan commitments	6 104 623	5 745 077
Other contingent liabilities	245 761	225 573
	63 785 045	76 136 236

19 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 continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

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

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.

20 Related party transactions

The outstanding balances with related parties and related average interest rates as at 30 September 2014 and 31 December 2013 are as follows:

	30 September 2014 (Unaudited)		31 December 2013	
	Amount RUB'000	Average effective interest rate %	Amount RUB'000	Average effective interest rate %
Loans to customers				
Under control of majority shareholder	529 804	13.7	713 175	13.6
Management and Supervisory Board	74 054	14.0	187 581	14.0
Total loans to customers	603 858		900 756	
Deposits by customers				
Majority shareholder	744 690	7.5	3 773 757	8.2
Parent company	26 675	8.4	41 350	11.0
Under control of majority shareholder	139 341	7.5	18 838	14.8
Management and Supervisory Board	161 561	8.0	167 823	7.1
Total deposits by customers	1 072 267		4 001 768	
Guarantees issued				
Under control of majority shareholder	1 875 862		4 606 435	
Total guarantees issued	1 875 862		4 606 435	

Amounts included in profit or loss and other comprehensive income for the nine-month periods ended 30 September 2014 and 30 September 2013 in relation to transactions with related parties are as follows:

	Nine-Month Period Ended 30 September 2014 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2013 RUB'000 (Unaudited)
Interest income on loans to customers		
Majority shareholder	737	1 981
Under control of majority shareholder	63 170	5 013
Management and Supervisory Board	5 145	2 940
Total interest income	69 052	9 934
Interest expense on deposits by customers		
Majority shareholder	59 878	4 957
Parent company	2 004	9 641
Under control of majority shareholder	925	23 844
Management and Supervisory Board	7 921	2 507
Total interest expense	70 728	40 949

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the Nine-Month periods ended 30 September 2014 and 30 September 2013 (refer to note 6) is as follows:

	Nine-Month Period Ended 30 September 2014 RUB'000 (Unaudited)	Nine-Month Period Ended 30 September 2013 RUB'000 (Unaudited)
Members of the Supervisory Board	33 300	23 207
Members of the Management Board	205 989	98 641
	239 289	121 848

21 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 CBR, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 30 September 2014 this minimum level is 10%. The Bank was in compliance with the statutory capital ratio as at 30 September 2014 and 31 December 2013.

Beginning 1 April 2013 the Bank calculates the amount of capital and capital adequacy ratios in accordance with the CBR requirements based on the Basel III methodology and using financial statements prepared in accordance with Russian Accounting Principles. Beginning 1 January 2014, the CBR uses the new capital adequacy rules based on the Basel III methodology for supervision purposes.

Under new CBR regulations the minimum level of base capital adequacy ratio, core capital adequacy ratio and total capital adequacy (own funds) ratio calculated based on Russian Accounting Principles are 5%, 5.5% and 10%, respectively. In addition, the new capital adequacy rules in accordance with Basel III result in accelerated amortisation of the capital treatment of

certain subordinated debt. The Bank was in compliance with the statutory Basel III capital ratio as at 30 September 2014.

As per the Basel III requirements as adopted in the Russian Federation, the capital adequacy ratio of the Group based on IFRS financial statements as at 30 September 2014 and 31 December 2013 is as follows:

	30 September 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000
<i>Tier 1 capital</i>		
Share capital and additional paid-in capital	25 098 449	25 098 449
Retained earnings	30 852 066	24 481 310
Goodwill	(301 089)	(301 089)
Intangible assets	(120 425)	(150 680)
Core tier 1 capital	55 529 001	49 127 990
Total tier 1 capital	55 529 001	49 127 990
<i>Tier 2 capital</i>		
Revaluation surplus for buildings	1 115 928	1 115 928
Revaluation reserve for investments available-for-sale	(219 081)	(37 639)
Subordinated loans		
Subordinated loans from Black Sea Trade And Development Bank	283 584	353 475
Subordinated bonds	19 819 305	20 504 600
Total tier 2 capital	20 999 736	21 936 364
Total capital	76 528 737	71 064 354
Risk-weighted assets		
Banking book	418 244 905	383 956 170
Trading book	64 390 544	65 310 150
Operational risk	32 943 246	32 943 246
Total risk weighted assets	515 578 695	482 209 566
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	14.8 %	14.7 %
Core tier 1 capital expressed as a percentage of risk-weighted assets (Core tier 1 capital ratio)	10.8 %	10.2 %
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	10.8 %	10.2 %

Included in subordinated bonds in tier 2 capital are subordinated bonds in the amount of RUB 16 739 305 thousand (31 December 2013: RUB 16 461 421 thousand) which are fully in compliance with Basel III requirements as adopted in the Russian Federation. Other subordinated loans are subject to accelerated amortization beginning in April 2013, following the transition rules applied by the CBR for inclusion in tier 2 capital of subordinated loans received before June 2013.

22 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 other loans to individuals, 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 operations: comprises all operations connected with cash, cash handling, 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 2014 RUB'000 (Unaudited)	31 December 2013 RUB'000
ASSETS		
Corporate banking	243 640 961	217 129 590
Retail banking	117 910 510	94 755 319
Treasury	113 620 939	123 163 845
Cash operations	8 256 005	10 312 841
Unallocated assets	12 959 195	8 840 523
Total assets	496 387 610	454 202 118
LIABILITIES		
Corporate banking	150 861 769	140 405 408
Retail banking	148 803 716	134 466 596
Treasury	75 236 437	75 244 548
International business	59 148 365	48 273 251
Unallocated liabilities	5 489 961	5 154 268
Total liabilities	439 540 248	403 544 071

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Segment information for the main reportable segments for the nine-month period ended 30 September 2014 is set below:

RUB'000 (Unaudited)	Corporate banking	Retail banking	Treasury	International business	Cash operations	Unallocated	Total
External interest income	21 711 264	14 288 113	5 133 876	-	-	-	41 133 253
Fee and commission income	1 678 168	3 462 914	34 123	-	1 143 526	-	6 318 731
Net loss on securities	-	-	(497 223)	-	-	-	(497 223)
Net foreign exchange gains	(4 612)	23 267	96 922	-	-	-	115 577
Other operating income, net	91 336	215 169	15 496	-	-	-	322 001
(Expenses) revenue from other segments	(7 782 515)	2 126 500	1 647 678	3 851 120	157 217	-	-
Revenue	15 693 641	20 115 963	6 430 872	3 851 120	1 300 743	-	47 392 339
Impairment losses on loans	(2 308 073)	(4 705 879)	-	-	-	-	(7 013 952)
Interest expense	(6 644 116)	(9 059 047)	(4 744 575)	(3 065 242)	-	-	(23 512 980)
Fee and commission expense	(943 803)	(144 487)	(54 961)	-	(789)	-	(1 144 040)
General administrative and other expenses	(915 842)	(3 054 181)	(145 037)	(46 567)	(1 083 183)	(1 983 787)	(7 228 597)
Expense	(10 811 834)	(16 963 594)	(4 944 573)	(3 111 809)	(1 083 972)	(1 983 787)	(38 899 569)
Segment result	4 881 807	3 152 369	1 486 299	739 311	216 771	(1 983 787)	8 492 770

Segment information for the main reportable segments for the nine-month period ended 30 September 2013 is set below:

RUB'000 (Unaudited)	Corporate banking	Retail banking	Treasury	International business	Cash operations	Unallocated	Total
External interest income	17 766 146	8 033 562	3 669 570	-	-	-	29 469 278
Fee and commission income	1 443 619	2 606 178	26 868	-	1 013 694	-	5 090 359
Net gain on securities	-	-	124 073	-	-	-	124 073
Net foreign exchange gains	201 456	35 284	112 385	-	-	-	349 125
Other operating income, net	264 960	268 797	11 997	-	-	-	545 754
(Expenses) revenue from other segments	(8 737 643)	4 789 582	575 925	3 255 410	116 726	-	-
Revenue	10 938 538	15 733 403	4 520 818	3 255 410	1 130 420		35 578 589
Impairment losses on loans	(1 715 539)	(2 728 745)	-	-	-	-	(4 444 284)
Interest expense	(3 753 227)	(8 374 967)	(3 598 015)	(1 927 875)	-	-	(17 654 084)
Fee and commission expense	(314 004)	(107 152)	(12 245)	(15 298)	(452)	-	(449 151)
General administrative and other expenses	(752 068)	(2 560 644)	(64 858)	(46 019)	(889 274)	(1 616 919)	(5 929 782)
Expense	(6 534 838)	(13 771 508)	(3 675 118)	(1 989 192)	(889 726)	(1 616 919)	(28 477 301)
Segment result	4 403 700	1 961 895	845 700	1 266 218	240 694	(1 616 919)	7 101 288

Information about major customers and geographical areas

The majority of revenues from external customers relate to residents of the Russian Federation. The majority of non-current assets are located in the Russian Federation.

23 Financial assets and liabilities: fair values and accounting classifications

The estimates of fair value are intended to approximate the amount that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market-observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates used in estimating discount rates and foreign currency exchange rates.

The Group uses widely recognised valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter derivatives such as interest rate swaps.

Management estimated that the carrying values for all financial assets and liabilities approximates their fair values at the reporting date.

The Group measures fair values for financial instruments recorded in the consolidated interim condensed 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 tables show an analysis of financial instruments recorded at fair value in the consolidated interim condensed statement of financial position 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 30 September 2014 and 31 December 2013:

	Level 1 RUB'000	Level 2 RUB'000	Total RUB'000
30 September 2014 (Unaudited)			
Financial assets at fair value through profit or loss			
Government, municipal and corporate bonds	44 024 692	-	44 024 692
Derivative financial instruments	-	781 480	781 480
Total	44 024 692	781 480	44 806 172
Available-for-sale securities			
Corporate bonds	9 104 336	196 933	9 301 269
Promissory notes	-	6 030 828	6 030 828
Total	9 104 336	6 227 761	15 332 097
31 December 2013			
Financial assets at fair value through profit or loss			
Government, municipal and corporate bonds	37 214 872	-	37 214 872
Derivative financial instruments	-	197 313	197 313
Total	37 214 872	197 313	37 412 185
Available-for-sale securities			
Corporate bonds	10 783 123	-	10 783 123
Promissory notes	-	7 745 780	7 745 780
Total	10 783 123	7 745 780	18 528 903

The fair value of unquoted equity securities available-for-sale with a carrying value of RUB 5 598 thousand (31 December 2013: RUB 4 661 thousand) cannot be determined.

As at 30 September 2014 the discount rates used for fair value calculation of Level 2 derivative financial instruments are 0.24%-0.45% for financial instruments in USD, 0.08%-0.25% for financial instruments in EUR and 9.96%-10.59% for financial instruments in RUB (31 December 2013: 0.21%-0.28% in USD, 6.11%-6.58% in RUB).

During the nine-month period ended 30 September 2014 there were no transfers of financial instruments between Level 1 and Level 2.

As at 30 September 2014 and 31 December 2013 the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of unobservable inputs (Level 3).

24 Earnings per share

Basic earnings per share are calculated by dividing profit for the period by the weighted average number of ordinary shares in issue during the year.

Basic earnings per share are calculated as follows:

	30 September 2014 RUB'000 (Unaudited)	30 September 2013 RUB'000 (Unaudited)
Profit for the period	6 370 757	5 625 765
Weighted average number of ordinary shares in issue	14 467 761 735	12 677 832 952
Basic earnings per share (in RUB per share)	0.44	0.44

The Group has no dilutive potential ordinary shares.

25 Events subsequent to the reporting date

In October 2014 the Bank paid out the ninth coupon in the amount of RUB 129.35 million or RUB 43.13 per bond on domestic bonds series 08. The issue was originally placed on 14 April 2010 in the amount of RUB 3 billion with a maturity of 5 years.

In October 2014 the Bank paid out the second coupon in the amount of RUB 224.35 million or RUB 44.87 per bond on domestic bonds series BO-06. The issue was originally placed on 24 October 2013 in the amount of RUB 5 billion with a maturity of 5 years.

In October 2014 the Bank paid out the fifth coupon in the amount of RUB 188.52 million or RUB 47.13 per bond on domestic bonds series BO-03. The issue was originally placed on 27 April 2012 in the amount of RUB 4 billion with a maturity of 3 years.

In October 2014 the Bank paid out the second coupon in the amount of RUB 228.10 million or RUB 45.62 per bond on domestic bonds series BO-07. The issue was originally placed on 30 October 2013 in the amount of RUB 5 billion with a maturity of 5 years.

In November 2014 CBOM Finance p.l.c. paid out the third coupon in the amount of USD 21.75 million on subordinated Loan Participation Notes issue placed in May 2013 in the amount of USD 500 million with a maturity of 5.5 years.

In November 2014 Anton R. Avdeev, Richard D. Glasspool and Brendan G. Walsh, previously Members of the Supervisory Board, left the Supervisory Board. Alexey A. Stepanenko was appointed Member of the Supervisory Board.

Chairman of the Management Board



Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass

3 December 2014

CREDIT BANK OF MOSCOW
(open joint-stock company)

Consolidated Financial Statements
for the year ended 31 December 2013

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Auditors' Report

To the Shareholders and Supervisory Board 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 2013, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2013, 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 the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and 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 express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: Credit Bank of Moscow (open joint-stock company).

Registered by the Central Bank of the Russian Federation on 18 August 1999, Registration No.1978.

Entered in the Unified State Register of Legal Entities on 18 November 2002 by the Department of Federal Tax Service, Registration No. 1027739555282, Certificate series 77 No. 004640677.

Address of audited entity: 2 (bldg. 1), Lukov pereulok, Moscow, Russia, 107045.

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Included in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.



Kolosov A.E.

Director

Power of attorney dated 3 October 2011 No. 37/11

ZAO KPMG

Moscow, Russian Federation

12 March 2014

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2013

	Notes	31 December 2013 RUB'000	31 December 2012 RUB'000
Interest income	4	42 012 905	28 466 331
Interest expense	4	(24 632 660)	(16 224 968)
Net interest income	4	17 380 245	12 241 363
Provision for impairment of loans	13	(5 498 815)	(1 864 717)
Net interest income after provision for impairment of loans		11 881 430	10 376 646
Fee and commission income	5	7 205 235	4 283 129
Fee and commission expense	5	(779 625)	(428 053)
Net gain on financial instruments at fair value through profit or loss		59 075	353 703
Net realized gain on available-for-sale assets		18 686	14 704
Net foreign exchange gains (losses)		407 456	(385 136)
State deposit insurance scheme contributions		(490 583)	(370 287)
Other operating income, net		738 629	243 007
Non-interest income		7 158 873	3 711 067
Operating income		19 040 303	14 087 713
Salaries and employment benefits	6	(4 468 191)	(3 513 896)
Administrative expenses	6	(2 723 215)	(2 630 010)
Depreciation of property and equipment	14	(470 891)	(407 903)
Other provisions	7	(184 177)	(288 856)
Operating expense		(7 846 474)	(6 840 665)
Profit before income taxes		11 193 829	7 247 048
Income tax	8	(2 313 766)	(1 469 166)
Profit for the period		8 880 063	5 777 882

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2013

	Notes	31 December 2013 RUB'000	31 December 2012 RUB'000
Profit for the period		8 880 063	5 777 882
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation reserve for buildings		-	769 380
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Revaluation reserve for available-for-sale securities			
- Net change in fair value		(44 329)	131 726
- Net change in fair value transferred to profit or loss		(22 796)	(45 379)
Income tax related to other comprehensive income		13 425	(171 145)
Other comprehensive (loss) income for the year, net of tax		(53 700)	684 582
Total comprehensive income for the year		8 826 363	6 462 464
Basic earnings per share (in RUB per share)	33	0.68	0.51

Chairman of the Management Board

Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass



The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Financial Position
as at 31 December 2013

	Notes	31 December 2013 RUB'000	31 December 2012 RUB'000
ASSETS			
Cash and cash equivalents	9	67 064 920	47 459 075
Obligatory reserves with the Central Bank of the Russian Federation		2 798 987	2 545 772
Due from credit institutions	10	10 466 017	12 520 791
Financial instruments at fair value through profit or loss	11	37 412 185	31 684 816
Available-for-sale securities	12	18 533 564	5 447 594
Loans to customers	13	308 940 610	201 234 522
Property and equipment	14	6 079 029	6 079 620
Goodwill	32	301 089	-
Other assets	15	2 605 717	1 755 195
Total assets		454 202 118	308 727 385
LIABILITIES AND EQUITY			
Deposits by the Central Bank of the Russian Federation	16	14 566 171	-
Deposits by credit institutions	17	24 398 112	35 183 733
Deposits by customers	18	274 872 004	189 014 104
Debt securities issued	19	84 553 516	40 013 790
Deferred tax liability	8	1 880 127	2 608 594
Current tax liability	8	196 917	125 817
Other liabilities	20	3 077 224	2 489 054
Total liabilities		403 544 071	269 435 092
Equity			
Share capital	21	15 329 692	13 539 763
Additional paid-in capital		9 768 757	9 019 295
Revaluation surplus for buildings		1 115 928	1 115 928
Revaluation reserve for available-for-sale securities		(37 639)	16 061
Retained earnings		24 481 309	15 601 246
Total equity		50 658 047	39 292 293
Total liabilities and equity		454 202 118	308 727 385

Commitments and Contingencies

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Chairman of the Management Board



Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Cash Flows
for the year ended 31 December 2013

	Notes	31 December 2013 RUB'000	31 December 2012 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		8 880 063	5 777 882
Out of which:			
- Interest income received	41 103 313		29 020 623
- Interest expense paid	(16 328 369)		(16 328 369)
- Income tax paid	(1 707 078)		(1 120 573)
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for impairment of loans	13	5 498 815	1 864 717
Depreciation and amortization		471 001	408 007
Deferred taxation	8	534 010	1 910
Revaluation of financial instruments at fair value through profit or loss		(102 428)	(693 185)
Provision for impairment of other assets and credit related commitments	7	184 177	288 856
Change in accrued interest income		(909 592)	554 292
Change in accrued interest expense		2 184 346	125 671
Other		124 041	(76 257)
Operating cash flows before changes in operating assets and liabilities		16 864 433	8 251 893
(Increase) decrease in operating assets			
Obligatory reserves with the Central Bank of the Russian Federation		(253 215)	(286 602)
Due from credit institutions		2 041 014	(7 501 432)
Financial instruments at fair value through profit or loss		(5 390 966)	(8 267 817)
Loans to customers		(110 006 159)	(47 401 634)
Other assets		(994 428)	(495 664)
Increase (decrease) in operating liabilities			
Deposits by the Central Bank of the Russian Federation		14 566 171	-
Deposits by credit institutions		(1 489 466)	7 554 193
Deposits by customers		84 633 748	44 767 553
Promissory notes		(1 497 313)	1 628 721
Other liabilities		422 476	(21 910)
Net cash used in operations		(1 103 705)	(1 772 699)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchase of available-for-sale securities		(13 010 970)	(3 369 770)
Net purchase of property and equipment and intangible assets		(572 730)	(612 644)
Net payment on acquisition of subsidiary	32	(99 180)	-
Net cash used in investing activities		(13 682 880)	(3 982 414)

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Cash Flows
for the year ended 31 December 2013

Notes	31 December 2013 RUB'000	31 December 2012 RUB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock	7 535 600	5 762 075
Proceeds from subordinated deposits	-	1 316 216
Repayment of subordinated deposits	(7 393 842)	(625 076)
Proceeds from syndicated borrowings	-	9 493 638
Repayment of syndicated borrowings	(9 580 768)	(4 360 792)
Proceeds from issuance of subordinated bonds	17 722 171	3 000 000
Proceeds from issuance of other bonds	26 071 484	8 122 989
Repayment of other bonds	(856 101)	(3 602 205)
Net cash from financing activities	33 498 544	19 106 845
Effect of exchange rates changes on cash and cash equivalents	893 886	(326 076)
Change in cash and cash equivalents	19 605 845	13 025 656
Cash and cash equivalents, beginning of the period	47 459 075	34 433 419
Cash and cash equivalents, end of the period	67 064 920	47 459 075

Chairman of the Management Board

Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass



The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Changes in Equity
for the year ended 31 December 2013

	Share capital	Additional paid-in capital	Revaluation surplus for buildings	Revaluation reserve for available-for-sale	Retained earnings	Total equity
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
1 January 2012	11 638 088	3 699 047	500 424	(53 017)	9 823 364	25 607 906
Total comprehensive income for the year	-	-	615 504	69 078	5 777 882	6 462 464
Transactions with owners, recorded directly in equity						
Shares issued	1 901 675	3 860 400	-	-	-	5 762 075
Contribution from the majority shareholder (net of deferred tax of RUB 364 962 thousand) (note 21)	-	1 459 848	-	-	-	1 459 848
Total transactions with owners, recorded directly in equity	1 901 675	5 320 248	-	-	-	7 221 923
31 December 2012	13 539 763	9 019 295	1 115 928	16 061	15 601 246	39 292 293
Total comprehensive income for the year	-	-	-	(53 700)	8 880 063	8 826 363
Transactions with owners, recorded directly in equity						
Shares issued (note 21)	1 789 929	5 745 671	-	-	-	7 535 600
Repayment of subordinated loans to the majority shareholder (net of deferred tax of RUB 1 249 052 thousand) (note 21)	-	(4 996 209)	-	-	-	(4 996 209)
Total transactions with owners, recorded directly in equity	1 789 929	749 462	-	-	-	2 539 391
31 December 2013	15 329 692	9 768 757	1 115 928	(37 639)	24 481 309	50 658 047

Chairman of the Management Board

Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass



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 limited liability 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 (the CBR), renewed on 21 January 2013. In December 2004 the Bank was admitted to the state program for individual deposit insurance.

The Bank is among the 15 largest banks in Russia by assets and conducts its business in Moscow and the Moscow region with a branch network comprising 60 branches, 710 ATMs and 5 200 payment terminals.

The principal subsidiaries of the Group are as follows:

Name	Country of incorporation	Principal activities	Degree of control, %	
			31 December 2013	31 December 2012
CBOM Finance p.l.c.	Ireland	Raising finance	100%	100%
MKB-Invest	Russia	Transactions with securities	100%	100%
MKB-Leasing	Russia	Finance leasing	100%	100%
M-Leasing	Russia	Finance leasing	100%	0%

The Bank does not have any direct or indirect shareholdings in the subsidiaries "CBOM Finance p.l.c." and "MKB Invest". "CBOM Finance p.l.c." was established to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to the Bank. MKB-Invest is controlled by the Group through an option agreement. In 2013 the Bank exercised its option and acquired 100% of the shares of MKB-Leasing. During 2013 the Group also acquired 100% of the shares of M-Leasing.

Shareholders

In September 2013 there was an additional share issue subscribed by the existing shareholders.

As a result, the stake of each shareholder in the capital remained unchanged.

The Bank's shareholders as at 31 December 2013 are:

Concern Rossium, LLC – 85.00%

European Bank for Reconstruction and Development (EBRD) – 7.50%

RBOF Holding Company I Ltd. – 4.61%

International Finance Corporation (IFC) – 2.89%

The sole shareholder of Concern Rossium, LLC, is Roman I. Avdeev, who is ultimate controlling party of the Group.

Related party transactions are detailed in note 26.

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 emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. In addition, the contraction felt after the 2008 economic downturn in the capital and credit markets and the impact of this on the Russian economy 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 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 note 13 in respect of loan impairment estimates, in note 31 in respect of estimates of fair values of financial assets and liabilities and in note 3 in section "income and expense recognition" in respect of commission income on insurance contracts processing.

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 except changes which are described at the end of this note.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

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.

Goodwill

Goodwill arises on acquisitions of subsidiaries.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

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 includes cash and nostro accounts with the Central Bank of the Russian Federation, and due from credit institutions with maturity of less than one month in 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 foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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 transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at the bid price and liabilities and short positions at the ask price.

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 consolidated 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 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.

Leases

Finance leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognized at the commencement of the lease term are determined.

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. The commencement of the lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with interest in the transaction, and should specifically set forth the principal terms of the transaction. However, if the property covered by the lease has yet to be constructed, installed or has not been acquired by the Group at the date of the lease agreement or commitment, the commencement of the lease is deemed to be the date when construction and installation of the property is completed or the property is acquired by the Group.

On commencement of the lease term, when the Group enters into a finance lease as a lessor, the present value of the lease payments ("net investment in leases") is recorded as part of loans to customers. The difference between the gross receivable and the present value of the receivable is unearned finance income. Finance income is recognized over the term of the lease using the effective interest method, which reflects a constant periodic rate of return.

Any advance payments made by the lessee prior to commencement of the lease are recorded as a reduction in the net investment in the lease.

Operating leases

Where the Group is the lessee, the total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

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	4-6
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, typically between 1 and 5 years.

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

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Group determines the amount of any impairment loss.

A financial asset or a group of financial assets 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 financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets 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 financial asset or group of financial assets 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 related 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.

In addition, 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.

Financial assets carried at amortized cost

Financial assets carried at amortised 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.

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 or receivable 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 related to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised 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 cannot 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. An impairment loss in respect of goodwill is not reversed.

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. 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 Group 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.

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.

The Bank acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Bank from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognized based on the Bank's contractual arrangements with the insurance provider rather than with the borrower. The Bank does not participate in the insurance risk, which is entirely borne by the partner; commission income from insurance is recognized in profit or loss when the Bank provides the agency service to the insurance company. The borrowers have a choice whether to purchase the insurance policy. A consumer loan customer's decision whether or not to purchase an insurance policy does not effect the stated interest rate offered to that customer.

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 the 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 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 fee and commission income, foreign exchange gains (losses), net other operating income and administrative expenses was changed for the year ended 31 December 2013 in comparison with the year ended 31 December 2012 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:

	31 December 2012 as previously reported RUB'000	Reclassification amounts RUB'000	31 December 2012 as currently reported RUB'000
Reclassification of foreign exchange transaction related fees from "Foreign exchange gains (losses), net" to "Fee and commission income"			
Fee and commission income	4 106 221	176 908	4 283 129
Net foreign exchange gains (losses)	(208 228)	(176 908)	(385 136)
Reclassification of write-off of low-value fixed assets from "Other operating expenses" to "Administrative expenses" and presentation of other operating income and expense in one line "Other operating income, net"			
Other operating expenses	(366 543)	366 543	-
Other operating income	467 248	(467 248)	-
Other operating income, net	-	243 007	243 007
Administrative expenses	(2 487 708)	(142 302)	(2 630 010)

Changes in accounting policies and presentation

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 10 *Consolidated Financial Statements*

Subsidiaries, including structured entities

As a result of adoption of IFRS 10, the Group changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees, including structured entities.

In accordance with the transitional provisions of IFRS 10, the Group reassessed the control conclusion for its investees as at 1 January 2013. The Group determined that its consolidated group structure remained unchanged under IFRS 10, and as a result, the consolidated financial statements are unaffected.

- *IFRS 12 Disclosure of Interests in Other Entities*

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, which expose an entity to a variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable 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. IFRS 12 does not have a significant impact on the consolidated financial statements.

- *IFRS 13 Fair Value Measurements*

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRS requirements. In particular, it unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRS requirements, including IFRS 7 *Financial Instruments: Disclosures* (see note 31).

As a result, the Group adopted a new definition of fair value, as set out in note 3. The change did not have a significant impact on the measurements of assets and liabilities. However, the Group included new disclosures in the consolidated financial statements that are required under IFRS 13.

- *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1 Presentation of Financial Statements)*

As a result of the amendments to IAS 1, the Group modified the presentation of items of other comprehensive income in its consolidated statement of profit or loss and other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information is also re-presented accordingly.

- *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)*

Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* introduced new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

The Group included new disclosures in the consolidated financial statements that are required under amendments to IFRS 7 and provided comparative information for new disclosures (see note 29).

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 2013, 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 new standards on its financial position or performance.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 will be effective for annual periods beginning on or after 1 January 2018. 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 the classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates general hedge accounting. The standard is expected to be finalized in 2014. The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the 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.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.
- Various *Improvements to IFRS* are 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 2014. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	31 December 2013 RUB'000	31 December 2012 RUB'000
Interest income		
Loans to customers	37 055 112	24 742 808
Financial instruments at fair value through profit or loss and available-for-sale securities	3 837 720	2 968 379
Due from credit institutions and the Central Bank of the Russian Federation	1 120 073	755 144
	42 012 905	28 466 331
Interest expense		
Deposits by customers	(16 810 152)	(11 600 160)
Debt securities issued	(6 116 438)	(2 970 572)
Deposits by credit institutions and the Central Bank of the Russian Federation (incl. international programmers)	(1 706 070)	(1 654 236)
	(24 632 660)	(16 224 968)
Net interest income	17 380 245	12 241 363

5 Net fee and commission income

	31 December 2013 RUB'000	31 December 2012 RUB'000
Fee and commission income		
Insurance contracts processing	2 319 732	770 246
Settlements and wire transfers	1 211 626	852 401
Cash handling	1 183 623	1 003 921
Guarantees and letters of credit	1 154 130	739 994
Plastic cards	671 001	354 122
Other cash operations	229 213	132 861
Currency exchange commission	219 208	176 985
Other	216 702	252 597
	7 205 235	4 283 129
Fee and commission expense		
Settlements and wire transfers	(550 314)	(325 348)
Other	(229 311)	(102 705)
	(779 625)	(428 053)
Net fee and commission income	6 425 610	3 855 076

6 Salaries, employment benefits and administrative expenses

	31 December 2013 RUB'000	31 December 2012 RUB'000
Salaries	3 530 518	2 843 875
Social security costs	843 989	636 429
Other	93 684	33 592
Salaries and employment benefits	4 468 191	3 513 896
Occupancy	755 171	848 172
Advertising and business development	570 957	507 380
Operating taxes	351 782	453 733
Security	262 392	211 153
Property maintenance	245 214	199 645
Write-off of low-value fixed assets	213 896	142 302
Computer maintenance and software expenses	71 860	43 488
Transport	64 277	59 210
Communications	57 149	53 555
Other	130 517	111 372
Administrative expenses	2 723 215	2 630 010

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 profit or loss in the period the related compensation is earned by the employee.

7 Provision for impairment of other assets and credit related commitments

	31 December 2013 RUB'000	31 December 2012 RUB'000
Provision for impairment of credit related commitments	12 900	203 057
Provision for impairment of other assets	171 277	85 799
	184 177	288 856

8 Income tax

	31 December 2013 RUB'000	31 December 2012 RUB'000
Current tax charge	1 779 756	1 471 076
Deferred taxation	534 010	(1 910)
Income tax expense	2 313 766	1 469 166

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The statutory income tax rate for the Bank is 20% in 2013 and 2012.

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 2013 RUB'000	%	31 December 2012 RUB'000	%
Income before tax	11 193 829		7 247 048	
Applicable statutory tax rate	20%		20%	
Income tax using the applicable tax rate	2 238 766	20.0%	1 449 410	20.0%
Income taxed at lower rates	(33 059)	(0.3%)	(31 876)	(0.4%)
Net non-deductible costs	108 059	1.0%	51 632	0.7%
Income tax expense	2 313 766	20.7%	1 469 166	20.3%

Income tax liabilities are recorded in the consolidated statement of financial position as follows:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Current tax liability	196 917	125 817
Deferred tax liability	1 880 127	2 608 594
Income tax liability	2 077 044	2 734 411

Movements in temporary differences during the years ended 31 December 2013 and 2012 are presented as follows.

RUB'000	Balance 1 January 2013	Recognised in profit or loss	Recognised in other comprehensive income and equity	Balance 31 December 2013
Due from credit institutions	2 100	11 469	-	13 569
Financial instruments at fair value through profit or loss	17 059	53 451	-	70 510
Available-for-sale securities	(5 171)	4 982	(13 425)	(13 614)
Loans to customers	958 180	675 348	-	1 633 528
Property and equipment	406 641	18 559	-	425 200
Other assets	(49 498)	10 041	-	(39 457)
Deposits by credit institutions	34 809	(32 531)	-	2 278
Deposits by customers	1 215 249	33 803	(1 249 052)	-
Debt securities issued	14 015	32 380	-	46 395
Other liabilities	15 210	(273 492)	-	(258 282)
Total deferred tax liability (deferred tax asset)	2 608 594	534 010	(1 262 477)	1 880 127

RUB'000	Balance 1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income and equity	Balance 31 December 2012
Due from credit institutions	(5 772)	7 872	-	2 100
Financial instruments at fair value through profit or loss	(9 653)	26 712	-	17 059
Available-for-sale securities	2 225	(24 665)	17 269	(5 171)
Loans to customers	832 348	125 832	-	958 180
Property and equipment	265 806	(13 041)	153 876	406 641
Other assets	673	(50 171)	-	(49 498)
Deposits by credit institutions	22 592	12 217	-	34 809
Deposits by customers	876 864	(26 577)	364 962	1 215 249
Debt securities issued	24 556	(10 541)	-	14 015
Other liabilities	64 758	(49 548)	-	15 210
	2 074 397	(1 910)	536 107	2 608 594

Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income comprise the following:

RUB'000	2013			2012		
	Amount before tax	Tax benefit	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Revaluation reserve for available-for-sale securities	(67 125)	13 425	(53 700)	86 347	(17 269)	69 078
Revaluation of property and equipment	-	-	-	769 380	(153 876)	615 504
Other comprehensive income	(67 125)	13 425	(53 700)	855 727	(171 145)	684 582

9 Cash and cash equivalents

	31 December 2013 RUB'000	31 December 2012 RUB'000
Cash on hand	10 312 841	10 829 487
Correspondent account with the Central Bank of the Russian Federation	13 719 643	7 380 087
Nostro accounts with other banks		
rated from AA+ to AA-	721 960	2 356 479
rated from A+ to A-	3 168 085	3 661 702
rated from BBB+ to BBB-	1 548 056	2 772 663
rated from BB+ to BB-	1 412 775	11 150
rated from B+ to B-	58 601	54 111
not rated	478 463	169 090
Total nostro accounts with other banks	7 387 940	9 025 195

	31 December 2013 RUB'000	31 December 2012 RUB'000
Due from credit institutions with maturity of less than 1 month		
Deposits with the Central Bank of the Russian Federation	12 000 000	-
rated from A+ to A-	6 689 761	3 057 049
rated from BBB+ to BBB-	2 500 437	12 003 049
rated from B+ to B-	11 441 144	2 727 184
not rated	3 013 154	2 437 024
Total due from credit institutions with maturity of less than 1 month	35 644 496	20 224 306
Total cash and cash equivalents	67 064 920	47 459 075

Ratings are based on Standard & Poor's rating system.

No 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 the period end.

As at 31 December 2013 receivables under reverse sale and repurchase agreements included in cash and cash equivalents are RUB 13 876 923 thousand (31 December 2012: RUB 3 337 412 thousand).

Balances with stock exchanges are included in not rated nostro accounts in the amount of RUB 52 777 thousand as at 31 December 2013 (31 December 2012: RUB 25 914 thousand).

As at 31 December 2013, 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 3 013 154 thousand (31 December 2012: RUB 610 228 thousand).

As at 31 December 2013, the Group has one counterparty (31 December 2012: two counterparties) 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 balances as at 31 December 2013 is RUB 25 719 643 thousand (31 December 2012: RUB 10 813 160 thousand).

Information about the currency and maturity of cash and cash equivalents is presented in note 29.

10 Due from credit institutions

	31 December 2013 RUB'000	31 December 2012 RUB'000
Term deposits		
rated from B+ to B-	9 134 652	8 634 326
not rated	1 331 365	3 886 465
Total due from credit institutions	10 466 017	12 520 791

No due from credit institutions are impaired or past due.

As at 31 December 2013, the Group has two counterparties (31 December 2012: three counterparties) whose deposit balances exceed 10% of total due from credit institutions. The gross value of these balances as at 31 December 2013 is RUB 7 036 270 thousand (31 December 2012: RUB 9 391 730 thousand).

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 2013 RUB'000	31 December 2012 RUB'000
<u>Held by the Group</u>		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	697 718	3 575 134
Moscow Government bonds	529 188	384 119
Regional authorities and municipal bonds	6 883 716	3 770 072
Russian Government Eurobonds	-	72
Corporate bonds		
rated AAA	152 669	151 919
from BBB+ to BBB-	5 003 704	6 514 582
from BB+ to BB-	1 974 860	8 646 144
from B+ to B-	9 812 311	7 877 210
not rated	4 606 902	746 721
Derivative financial instruments	197 313	18 826
Equity investments	-	17
Total held by the Group	29 858 381	31 684 816
<u>Pledged under sale and repurchase agreements</u>		
Regional authorities and municipal bonds	2 228 405	-
Corporate bonds		
from BBB+ to BBB-	2 974 542	-
from BB+ to BB-	2 142 751	-
not rated	208 106	-
Total pledged under sale and repurchase agreements	7 553 804	-
Total financial instruments at fair value through profit or loss	37 412 185	31 684 816

No financial instruments at fair value through profit or loss are impaired or past due.

As at 31 December 2013, debt instruments in the amount of RUB 25 583 495 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2012: RUB 25 419 690 thousand).

Derivative financial instruments

The table below summarises, by major currencies, the contractual amounts of spot and forward exchange contracts outstanding as at 31 December 2013 and 2012 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 financial instruments at fair value through profit or loss or other liabilities, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2013 RUB'000	2012 RUB'000	2013	2012
Buy USD sell RUB				
Less than 3 months	4 058 439	8 835 418	32.1414	30.3639
Buy RUB sell USD				
Less than 3 months	2 120 852	8 048 766	32.8823	30.3354
Buy RUB sell EUR				
Less than 3 months	16 864	522 972	44.8600	40.3054
Buy EUR sell RUB				
Less than 3 months	15 339	-	45.1134	-
Buy EUR sell USD				
Less than 3 months	674	-	1.3743	-
Buy gold sell RUB				
Between 3 months and 1 year	-	1 294 848	-	1 619.78

12 Available-for-sale securities

	31 December 2013 RUB'000	31 December 2012 RUB'000
<u>Held by the Group</u>		
Corporate bonds		
from BBB+ to BBB-	915 894	1 005 788
from BB+ to BB-	815 781	1 727 976
from B+ to B-	1 483 679	320 678
not rated	60 385	62 032
Promissory notes		
from BBB+ to BBB-	1 404 848	1 175 991
from BB+ to BB-	3 208 017	688 723
from B+ to B-	1 723 193	-
not rated	941 440	-
Equity investments	4 661	26 006
Total held by the Group	10 557 898	5 007 194
<u>Pledged under sale and repurchase agreements</u>		
Corporate bonds		
from BBB+ to BBB-	5 842 803	-
from BB+ to BB-	1 159 761	-
from B+ to B-	504 820	-
Total pledged under sale and repurchase agreements	7 507 384	-

	31 December 2013 RUB'000	31 December 2012 RUB'000
<u>Pledged as collateral for interbank and other loans</u>		
Promissory notes		
from BBB+ to BBB-	468 282	440 400
Total pledged as collateral for interbank and other loans	468 282	440 400
Total available-for-sale securities	18 533 564	5 447 594

No available-for-sale securities are impaired or past due.

As at 31 December 2013, debt instruments in the amount of RUB 4 230 210 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2012: RUB 2 893 914 thousand).

13 Loans to customers

	31 December 2013 RUB'000	31 December 2013 RUB'000	31 December 2012 RUB'000	31 December 2012 RUB'000
	Loans	Impairment allowance	Loans	Impairment allowance
Loans to corporate clients	220 010 070	(4 453 275)	155 540 928	(3 058 623)
Loans to individuals				
Auto loans	10 305 656	(111 366)	10 978 394	(56 800)
Mortgage loans	15 677 650	(186 329)	10 442 450	(219 648)
Credit card loans	3 680 456	(309 052)	1 089 835	(81 576)
Other loans to individuals	68 185 781	(3 858 981)	27 881 641	(1 282 079)
Total loans to individuals	97 849 543	(4 465 728)	50 392 320	(1 640 103)
Gross loans to customers	317 859 613	(8 919 003)	205 933 248	(4 698 726)
Net loans to customers	308 940 610		201 234 522	

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 December 2013:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment to gross loans %
Loans to customers				
- Not past due	303 860 751	(4 249 525)	299 611 226	1.4
- Not past due but impaired	6 161 291	(618 744)	5 542 547	10.0
- Overdue less than 31 days	2 138 075	(235 572)	1 902 503	11.0
- Overdue 31-60 days	832 030	(345 263)	486 767	41.5
- Overdue 61-90 days	673 036	(400 432)	272 604	59.5
- Overdue 91-180 days	1 576 806	(1 044 964)	531 842	66.3
- Overdue 181-360 days	1 765 664	(1 421 261)	344 403	80.5
- Overdue more than 360 days	851 960	(603 242)	248 718	70.8
Total loans to customers	317 859 613	(8 919 003)	308 940 610	2.8

The following table provides information on credit quality of the loan portfolio as at 31 December 2012:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Loans to customers				
- Not past due	202 820 574	(2 885 123)	199 935 451	1.4
- Overdue less than 31 days	683 080	(137 607)	545 473	20.1
- Overdue 31-60 days	261 210	(127 177)	134 033	48.7
- Overdue 61-90 days	201 221	(113 965)	87 256	56.6
- Overdue 91-180 days	528 310	(343 851)	184 459	65.1
- Overdue 181-360 days	678 840	(537 605)	141 235	79.2
- Overdue more than 360 days	760 013	(553 398)	206 615	72.8
Total loans to customers	205 933 248	(4 698 726)	201 234 522	2.3

As at 31 December 2013, the gross amount of overdue loans with payments that are overdue at least one day totals RUB 7 837 571 thousand, which represents 2.5% of the gross loan portfolio (31 December 2012: RUB 3 112 674 thousand and 1.5%, respectively).

Nonperforming loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 4 194 430 thousand or 1.3% of the gross loan portfolio (31 December 2012: RUB 1 967 163 thousand and 1.0%, respectively).

NPLs together with restructured loans amount to RUB 4 955 223 thousand or 1.6% of the gross loan portfolio (31 December 2012: RUB 2 192 308 thousand and 1.1%, respectively).

As at 31 December 2013, the ratio of total impairment allowance to overdue loans equals 113.8%, the ratio of total impairment allowance to NPLs equals 212.6% and the ratio of total impairment allowance to NPLs together with restructured loans equals 180.0% (31 December 2012: 151.0%, 238.9% and 214.3%, respectively).

Movements in the loan impairment allowance for the years ended 31 December 2013 and 31 December 2012 are as follows:

	2013 RUB'000	2012 RUB'000
Balance at the beginning of the period	4 698 726	3 682 432
Net charge	5 498 815	1 864 717
Net write-offs	(1 278 538)	(848 423)
Balance at the end of the period	8 919 003	4 698 726

As at 31 December 2013, interest accrued on overdue and impaired loans amounts to RUB 547 321 thousand (31 December 2012: RUB 350 243 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 2013:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Loans to corporate clients				
- Not past due	213 315 950	(3 697 256)	209 618 694	1.7
- Not past due but impaired	6 161 291	(618 744)	5 542 547	10.0
- Overdue less than 31 days	120 135	(34 303)	85 832	28.6
- Overdue 31-60 days	24 475	(5 322)	19 153	21.7
- Overdue 61-90 days	29 566	(6 088)	23 478	20.6
- Overdue 91-180 days	239 256	(42 503)	196 753	17.8
- Overdue 181-360 days	96 508	(38 436)	58 072	39.8
- Overdue more than 360 days	22 889	(10 623)	12 266	46.4
Total loans to corporate clients	220 010 070	(4 453 275)	215 556 795	2.0

The following table provides information on credit quality of loans to corporate clients as at 31 December 2012:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Loans to corporate clients				
- Not past due	155 137 958	(2 739 712)	152 398 246	1.8
- Overdue less than 31 days	8 060	(1 105)	6 955	13.7
- Overdue 31-60 days	4 313	(1 220)	3 093	28.3
- Overdue 61-90 days	38 224	(16 958)	21 266	44.4
- Overdue 91-180 days	92 045	(56 689)	35 356	61.6
- Overdue 181-360 days	124 602	(107 414)	17 188	86.2
- Overdue more than 360 days	135 726	(135 525)	201	99.9
Total loans to corporate clients	155 540 928	(3 058 623)	152 482 305	2.0

Included in not past due loans to corporate clients as at 31 December 2013 are loans in the amount of RUB 6 472 157 thousand for which there have been some indications of impairment following certain negative developments in financial position of the borrower during 2013. Management estimated loan impairment allowance rate for these loans as 4% in accordance with the Group's methodology. Management monitors the situation and based on the understanding of the current developments, analysis of collateral and other factors believes that impairment allowance is appropriate. Also as the Group is the largest lender to this company, it has the ability to monitor operating activities of this borrower in order to protect its rights as a lender.

During 2013, management revised the methodology used to estimate the impairment allowance for the finance lease portfolio. The revised methodology is intended to provide a more accurate estimate of the impairment allowance by using historical data specific to the finance lease portfolio. As a result of applying this new methodology, the impairment allowance for the finance lease portfolio is approximately RUB 165 676 thousand higher than it would have been if the previous methodology had been applied.

The following table represents information about concentration of loans to corporate clients as at 31 December 2013 and 31 December 2012:

	31 December 2013		31 December 2012	
	RUB'000	% of total loan portfolio	RUB'000	% of total loan portfolio
Top 5 clients	30 093 795	9.5	23 020 203	11.2
Top 10 clients	53 166 671	16.7	40 757 027	19.8
Top 20 clients	87 790 694	27.6	61 793 777	30.0

The Group 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 relies on market prices and professional judgment of internal appraisers, applying discount where appropriate.

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 at 31 December 2013 would increase/decrease by RUB 2 155 568 thousand (31 December 2012: RUB 1 524 823 thousand).

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transaction: real estate (manufacturing premises, warehouses), equipment and motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes.

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2013 and 31 December 2012:

	31 December 2013	31 December 2012
	RUB'000	RUB'000
Real estate	36 255 555	28 114 584
Securities	30 487 469	13 970 269
Goods in turnover	29 305 369	23 412 380
Claims for contract receivables	16 822 515	12 034 429
Equipment and motor vehicles	8 374 778	6 128 842
Bank's own debt securities	1 787 670	-
Guarantees by other banks	-	344 878
Corporate guarantees and no collateral	92 523 439	68 476 922
	215 556 795	152 482 304

The Group generally does not consider corporate guarantees for impairment assessment purposes.

The amounts in the table above represent the carrying value of the related loan, and do not necessarily represent the fair value of the collateral.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

Management estimates that the impairment allowance for loans to corporate customers would have been approximately RUB 5 542 547 thousand higher without any collateral (31 December 2012: RUB 821 839 thousand).

Collateral obtained

During the year ended 31 December 2013, the Group obtained certain assets by taking possession of collateral for loans to corporate customers. As at 31 December 2013, the carrying amount of such assets was RUB 2 996 thousand (31 December 2012: RUB 4 572 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 2013 and 31 December 2012 are as follows:

	2013 RUB'000	2012 RUB'000
Balance at the beginning of the period	3 058 623	2 624 407
Net charge	1 804 774	642 917
Net write-offs	(410 122)	(208 701)
Balance at the end of the period	4 453 275	3 058 623

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2013:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment to gross %
Auto loans				
- Not past due	10 004 501	(2 513)	10 001 988	0.03
- Overdue less than 31 days	63 942	(1 016)	62 926	1.6
- Overdue 31-60 days	23 243	(655)	22 588	2.8
- Overdue 61-90 days	27 721	(2 247)	25 474	8.1
- Overdue 91-180 days	45 339	(17 798)	27 541	39.3
- Overdue 181-360 days	97 141	(56 789)	40 352	58.5
- Overdue more than 360 days	43 769	(30 348)	13 421	69.3
Total auto loans	10 305 656	(111 366)	10 194 290	1.1

	Gross loans	Impairment allowance	Net loans	Impairment to gross
	RUB'000	RUB'000	RUB'000	%
Mortgage loans				
- Not past due	15 096 667	(11 880)	15 084 787	0.1
- Overdue less than 31 days	114 877	(698)	114 179	0.6
- Overdue 31-60 days	34 942	(274)	34 668	0.8
- Overdue 61-90 days	32 312	(600)	31 712	1.9
- Overdue 91-180 days	19 383	(2 473)	16 910	12.8
- Overdue 181-360 days	45 867	(12 859)	33 008	28.0
- Overdue more than 360 days	333 602	(157 545)	176 057	47.2
Total mortgage loans	15 677 650	(186 329)	15 491 321	1.2
Credit card loans				
- Not past due	2 637 275	(23 943)	2 613 332	0.9
- Overdue less than 31 days	620 353	(39 046)	581 307	6.3
- Overdue 31-60 days	92 872	(26 959)	65 913	29.0
- Overdue 61-90 days	55 190	(28 285)	26 905	51.3
- Overdue 91-180 days	141 249	(88 370)	52 879	62.6
- Overdue 181-360 days	110 698	(83 326)	27 372	75.3
- Overdue more than 360 days	22 819	(19 123)	3 696	83.8
Total credit card loans	3 680 456	(309 052)	3 371 404	8.4
Other loans to individuals				
- Not past due	62 806 358	(513 933)	62 292 425	0.8
- Overdue less than 31 days	1 218 768	(160 509)	1 058 259	13.2
- Overdue 31-60 days	656 498	(312 053)	344 445	47.5
- Overdue 61-90 days	528 247	(363 212)	165 035	68.8
- Overdue 91-180 days	1 131 579	(893 820)	237 759	79.0
- Overdue 181-360 days	1 415 450	(1 229 851)	185 599	86.9
- Overdue more than 360 days	428 881	(385 603)	43 278	89.9
Total other loans to individuals	68 185 781	(3 858 981)	64 326 800	5.7
Total loans to individuals	97 849 543	(4 465 728)	93 383 815	4.6

The following table provides information on the credit quality of loans to individuals as at 31 December 2012:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Auto loans				
- Not past due	10 816 865	(3 883)	10 812 982	0.04
- Overdue less than 31 days	59 753	(4 250)	55 503	7.1
- Overdue 31-60 days	20 388	(4 415)	15 973	21.7
- Overdue 61-90 days	19 289	(5 814)	13 475	30.1
- Overdue 91-180 days	23 182	(9 822)	13 360	42.4
- Overdue 181-360 days	26 855	(17 298)	9 557	64.4
- Overdue more than 360 days	12 062	(11 318)	744	93.8
Total auto loans	10 978 394	(56 800)	10 921 594	0.5

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Mortgage loans				
- Not past due	9 894 216	(10 195)	9 884 021	0.1
- Overdue less than 31 days	35 018	(792)	34 226	2.3
- Overdue 31-60 days	8 572	(738)	7 834	8.6
- Overdue 61-90 days	4 454	(582)	3 872	13.1
- Overdue 91-180 days	53 376	(9 265)	44 111	17.4
- Overdue 181-360 days	63 681	(10 847)	52 834	17.0
- Overdue more than 360 days	383 133	(187 229)	195 904	48.9
Total mortgage loans	10 442 450	(219 648)	10 222 802	2.1
Credit card loans				
- Not past due	990 263	(4 801)	985 462	0.5
- Overdue less than 31 days	201	(45)	156	22.4
- Overdue 31-60 days	19 356	(10 259)	9 097	53.0
- Overdue 61-90 days	8 831	(5 746)	3 085	65.1
- Overdue 91-180 days	20 890	(15 607)	5 283	74.7
- Overdue 181-360 days	33 592	(29 128)	4 464	86.7
- Overdue more than 360 days	16 702	(15 990)	712	95.7
Total credit card loans	1 089 835	(81 576)	1 008 259	7.5
Other loans to individuals				
- Not past due	25 981 272	(126 533)	25 854 740	0.5
- Overdue less than 31 days	580 048	(131 415)	448 633	22.7
- Overdue 31-60 days	208 581	(110 545)	98 036	53.0
- Overdue 61-90 days	130 423	(84 865)	45 558	65.1
- Overdue 91-180 days	338 817	(252 468)	86 349	74.5
- Overdue 181-360 days	430 110	(372 918)	57 192	86.7
- Overdue more than 360 days	212 390	(203 336)	9 054	95.7
Total other loans to individuals	27 881 641	(1 282 079)	26 599 562	4.6
Total loans to individuals	50 392 320	(1 640 103)	48 752 217	3.3

During 2013, management revised the methodology used to estimate the impairment allowance for loans to individuals. The revised methodology is intended to provide a more precise estimate of the impairment allowance by using historical data specific to the individual portfolios. As a result of applying this new methodology the impairment allowance for loans to individuals is RUB 420 078 thousand lower than it would have been if the previous methodology had been applied.

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 the fair value of collateral. The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- loss migration rates and recovery rates are stable and can be estimated based on the historic loss migration pattern for the past 24 months
- in respect of mortgage loan loss migration rates and recovery rates, a decrease of 50% is applied as these loans are collateralised with real estate for which the fair value of collateral is estimated on a regular basis.

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 at 31 December 2013 would increase/decrease by RUB 933 838 thousand (31 December 2012: RUB 487 522 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 other loans to individuals are not secured.

For the allowance on a portfolio basis, management does not estimate loan impairment based on a specific analysis of the fair value of collateral but instead applies actual historical loss experience. However once a loan becomes impaired, management considers the fair value of collateral when assessing the impairment allowance for each individual loan.

As at 31 December 2013, impaired mortgage loans in the gross amount of RUB 580 983 thousand are secured by collateral with a fair value of RUB 484 151 thousand (31 December 2012: RUB 548 234 thousand and RUB 451 018 thousand, respectively). As at 31 December 2013, the Group estimates the fair value of private real estate undergoing foreclosure to be RUB 113 342 thousand (31 December 2012: RUB 137 708 thousand).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2013 are as follows:

	Auto loans	Mortgage loans	Credit card loans	Other loans to individuals	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
Balance at the beginning of the period	56 800	219 648	81 576	1 282 079	1 640 103
Net charge (recovery)	99 125	(33 319)	281 106	3 347 129	3 694 041
Net write-offs	(44 559)	-	(53 630)	(770 227)	(868 416)
Balance at the end of the period	111 366	186 329	309 052	3 858 981	4 465 728

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2012 are as follows:

	Auto loans	Mortgage loans	Credit card loans	Other loans to individuals	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
Balance at the beginning of the period	23 778	261 229	63 980	709 038	1 058 025
Net charge (recovery)	46 175	(41 581)	71 942	1 145 264	1 221 800
Net write-offs	(13 153)	-	(54 346)	(572 223)	(639 722)
Balance at the end of the period	56 800	219 648	81 576	1 282 079	1 640 103

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 2013 RUB'000	31 December 2012 RUB'000
Loans to individuals	97 849 543	50 392 320
Food and farm products	28 148 042	17 920 338
Consumer electronics, appliances and computers	26 902 297	25 737 636
Residential and commercial construction and development	23 347 068	17 411 616
Metallurgical	20 133 322	8 071 462
Automotive, motorcycles and spare parts	19 114 136	5 264 206
Oil and industrial chemicals	14 935 835	4 083 585
Services	12 589 630	9 708 122
Pharmaceutical and medical products	11 774 075	6 859 278
Clothing, shoes, textiles and sporting goods	11 121 156	10 189 443
Paper, stationery and packaging products	7 692 161	5 233 871
Industrial and infrastructure construction	8 342 728	2 660 923
Construction and decorative materials, furniture	6 581 178	10 608 236
Industrial equipment and machinery	6 341 601	9 714 082
Financial	6 245 239	2 946 641
Property rental	5 545 992	5 622 270
Consumer chemicals, perfumes and hygiene products	2 235 989	4 250 319
Equipment leasing	1 748 930	2 649 336
Electric utility	1 310 007	1 117 228
Telecommunications	1 241 131	392 750
Gardening and pet products	970 578	1 032 346
Products for home, gifts, jewelry and business accessories	560 088	404 207
Books, video, print and copy	282 476	531 924
Other	2 846 411	3 131 109
	317 859 613	205 933 248
Impairment allowance	(8 919 003)	(4 698 726)
	308 940 610	201 234 522

Finance lease

Finance lease receivables included in loans to customers are as follows:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Gross investment in finance lease	7 843 462	5 130 373
Unearned interest income	(1 803 523)	(1 121 566)
Net investment in finance lease before allowance	6 039 939	4 008 807
Impairment allowance	(319 888)	(110 706)
Net investment in finance lease	5 720 051	3 898 101

The contractual maturity of the net investment in leases is as follows:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Less than 1 year	2 911 102	1 903 526
Between 1 and 5 years	2 483 340	1 915 664
More than 5 years	325 609	78 911
	5 720 051	3 898 101

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 2013 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 2013	4 755 123	369 460	341 639	1 321 655	62 716	6 850 593
Additions	15 692	106 714	45 008	230 433	99 115	496 962
Disposals	-	(21 431)	(13 463)	(59 820)	(1 508)	(96 222)
Transfers	-	2 498	(112 386)	163 808	(53 920)	-
At 31 December 2013	4 770 815	457 241	260 798	1 656 076	106 403	7 251 333
Accumulated depreciation						
At 1 January 2013	-	112 198	137 930	520 845	-	770 973
Depreciation charge	103 623	82 204	45 345	239 719	-	470 891
Disposals	-	(17 460)	(13 421)	(38 679)	-	(69 560)
Transfers	-	1 051	(15 587)	14 536	-	-
At 31 December 2013	103 623	177 993	154 267	736 421	-	1 172 304
Carrying value						
At 31 December 2013	4 667 192	279 248	106 531	919 655	106 403	6 079 029

The movement in property and equipment for the year ended 31 December 2012 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 2012	2 230 452	255 891	259 371	1 113 697	1 757 962	5 617 373
Additions	62 137	134 860	85 859	249 915	239 065	771 836
Disposals	(1 523)	(21 291)	(3 591)	(41 957)	-	(68 362)
Transfers	1 934 311	-	-	-	(1 934 311)	-
Revaluation	769 380	-	-	-	-	769 380
Elimination of accumulated depreciation on revalued buildings	(239 634)	-	-	-	-	(239 634)
At 31 December 2012	4 755 123	369 460	341 639	1 321 655	62 716	6 850 593
Accumulated depreciation						
At 1 January 2012	141 348	68 232	78 910	358 951	-	647 441
Depreciation charge	98 461	60 709	62 611	186 122	-	407 903
Disposals	(175)	(16 743)	(3 591)	(24 228)	-	(44 737)
Elimination of accumulated depreciation on revalued buildings	(239 634)	-	-	-	-	(239 634)
At 31 December 2012	-	112 198	137 930	520 845	-	770 973
Carrying value						
At 31 December 2012	4 755 123	257 262	203 709	800 810	62 716	6 079 620

Revalued assets

At 31 December 2012 buildings were revalued based on the results of an independent appraisal performed by OOO "MEF-Audit". The basis used for the appraisal was the market approach. The market approach is based upon an analysis of the results of comparable sales and/or offers of similar buildings. The carrying value of buildings as of 31 December 2013, if the buildings would not have been revalued, would be RUB 3 272 281 thousand (31 December 2012: RUB 3 360 213 thousand).

15 Other assets

	31 December 2013 RUB'000	31 December 2012 RUB'000
Receivables and settlements with suppliers	1 306 302	925 797
Receivables for commissions	415 232	200 405
Impairment allowance	(102 445)	(56 983)
Total other financial assets	1 619 089	1 069 219
Advance for purchase of building	472 000	-
Real estate held for sale	187 728	190 411
Intangible assets	150 680	74 870
Deferred expenses	113 712	329 746

	31 December 2013 RUB'000	31 December 2012 RUB'000
Profit tax receivable	-	1 578
Other	62 508	89 371
Total other non-financial assets	986 628	685 976
Total other assets	2 605 717	1 755 195

In December 2013, the Group agreed to purchase a building in Moscow and paid RUB 472 000 thousand. The title to the building was transferred to the Group in January 2014.

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the years ended 31 December 2013 and 2012 are as follows:

	2013 RUB'000	2012 RUB'000
Balance at the beginning of the year	56 983	44 196
Net charge	171 277	85 799
Write-offs	(125 815)	(73 012)
Balance at the end of the year	102 445	56 983

16 Deposits by the Central Bank of the Russian Federation

	31 December 2013 RUB'000	31 December 2012 RUB'000
Term deposits	8 513 459	-
Payables under repurchase agreements or collateralised loans	6 052 712	-
Total deposits by the Central Bank of the Russian Federation	14 566 171	-

Information about the currency and maturity and effective interest rates on deposits by the Central Bank of Russian Federation is presented in note 29.

17 Deposits by credit institutions

	31 December 2013 RUB'000	31 December 2012 RUB'000
Demand deposits	335 793	949 181
Term deposits	15 832 104	23 377 902
Payables under repurchase agreements or collateralised loans	6 909 639	-
Syndicated loans	650 756	10 231 524
Subordinated debt	669 820	625 126
Total deposits by credit institutions	24 398 112	35 183 733

Syndicated loans represent loans denominated in USD with an effective interest rate of 5.1% (31 December 2012: from 4.8% to 5.2%) and maturity from 2014 to 2015 (31 December 2012: from 2013 to 2015).

Subordinated debt represents loans denominated in USD with an effective interest rate of 7.0% (31 December 2012: 8.9%) and maturity in 2017 (31 December 2012: from 2016 to 2017).

The Group is required to meet certain covenants attached to syndicated loans, subordinated debt and bilateral loans from the IFC, EBRD and the Black Sea Trade And Development Bank. As at 31 December 2013 and 2012, the Group fully meets all covenants of the loan agreements.

As at 31 December 2013, the Group has two counterparties (31 December 2012: one counterparty) whose deposits balance exceed 10% of deposits by credit institutions. The gross value of this balance as at 31 December 2013 is RUB 7 036 270 thousand (31 December 2012: RUB 6 482 959 thousand).

Information about the currency and maturity and effective interest rates on deposits by credit institutions is presented in note 29.

18 Deposits by customers

		31 December 2013 RUB'000	31 December 2012 RUB'000
Corporate customers	Demand	42 456 110	24 212 584
	Term	96 342 152	52 344 888
	Subordinated	-	2 219 428
	Term notes	1 607 146	3 225 262
Total corporate customers		140 405 408	82 002 162
Individuals	Demand	9 682 192	7 285 758
	Term	124 784 404	99 726 184
Total individuals		134 466 596	107 011 942
Total deposits by customers		274 872 004	189 014 104

Industry analysis of the deposit portfolio

	31 December 2013 RUB'000	31 December 2012 RUB'000
Deposits by individuals	134 466 596	107 011 942
Financial	58 348 702	32 030 998
Oil and industrial chemicals	23 457 877	1 173 250
Residential and commercial construction and development	14 805 435	2 201 562
Metallurgical	9 872 121	8 799 501
Services	8 018 748	7 008 374
Food and farm products	4 041 971	1 690 508
Consumer electronics, appliances and computers	3 933 489	8 434 799
Clothing, shoes, textiles and sporting goods	2 092 184	3 186 241
Electric utility	1 797 045	1 887 741
Industrial equipment and machinery	1 451 196	1 046 415
Industrial and infrastructure construction	1 125 409	863 545
Telecommunications	765 418	79 589
Construction and decorative materials, furniture	591 878	527 188
Automotive, motorcycles and spare parts	577 086	263 413
Pharmaceutical and medical products	558 279	973 649

	31 December 2013 RUB'000	31 December 2012 RUB'000
Property rental	550 404	213 594
Consumer chemicals, perfumes and hygiene products	514 253	303 028
Products for home, gifts, jewelry and business accessories	270 965	364 501
Books, video, print and copy	88 435	96 483
Equipment leasing	84 673	87 968
Gardening and pet products	24 373	65 253
Paper, stationery and packaging products	23 455	403 877
Other	7 412 012	10 300 685
	274 872 004	189 014 104

The following table represents information about concentration of deposits from corporate clients as at 31 December 2013 and 31 December 2012:

	31 December 2013		31 December 2012	
	RUB'000	% of total deposits	RUB'000	% of total deposits
Top 5 clients	50 277 334	18.3	21 550 842	11.4
Top 10 clients	68 684 183	25.0	32 894 377	17.4
Top 20 clients	88 474 620	32.2	46 080 283	24.4

As at 31 December 2013 and 2012, 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 29.

19 Debt securities issued

	31 December 2013 RUB'000	31 December 2012 RUB'000
Promissory notes issued at nominal value	6 925 845	8 420 770
Accrued interest	7 118	18 723
Unamortized discount	(274 384)	(283 601)
Total promissory notes issued	6 658 579	8 155 892
Subordinated bonds	21 562 286	3 015 000
Bonds	56 332 651	28 842 898
Total bonds issued	77 894 937	31 857 898
Total debt securities issued	84 553 516	40 013 790

The table below provides a summary of bonds issued as at 31 December 2013 and 2012:

	Nominal amount of the initial issue RUB'000/ USD'000	Amount of the issue outstanding		Issue date	Maturity date	Coupon rate	Next early redemption date
		31 December 2013 RUB'000	31 December 2012 RUB'000				
RUB denominated bonds issue 07	2 000 000	2 077 196	2 081 065	20.07.2010	14.07.2015	10.25%	18.01.2014
RUB denominated bonds issue 08	3 000 000	2 908 262	1 696 892	14.04.2010	08.04.2015	8.65%	At maturity
RUB denominated subordinated bonds issue 11	3 000 000	3 016 965	3 015 000	11.12.2012	05.06.2018	12.25%*	At maturity
RUB denominated bonds issue BO-01	3 000 000	3 073 630	2 942 475	22.02.2011	22.02.2014	9.50%	At maturity
RUB denominated bonds issue BO-02	3 000 000	2 615 549	3 073 907	25.09.2012	25.09.2015	8.85%	At maturity
RUB denominated bonds issue BO-03	4 000 000	3 696 947	4 061 554	27.04.2012	27.04.2015	9.4%	At maturity
RUB denominated bonds issue BO-04	5 000 000	4 800 584	3 943 020	15.04.2011	15.04.2014	10.25%	At maturity
RUB denominated bonds issue BO-05	5 000 000	4 973 059	5 002 327	23.06.2011	23.06.2014	9.20%	At maturity
RUB denominated bonds issue BO-06	5 000 000	5 049 858	-	24.10.2013	24.10.2018	8.95%	28.10.2015
RUB denominated bonds issue BO-07	5 000 000	4 991 669	-	30.10.2013	30.10.2018	9.1%	26.10.2016
RUB denominated subordinated bonds issue 12	2 000 000	2 083 900	-	27.02.2013	22.08.2018	12.25%*	At maturity
USD denominated Eurobonds issue	200 000	5 959 479	6 041 658	28.07.2011	05.08.2014	8.25%*	At maturity
USD denominated Eurobonds issue	500 000	16 186 418	-	01.02.2013	01.02.2018	7.7%*	At maturity
USD denominated subordinated Eurobonds issue	500 000	16 461 421	-	13.05.2013	13.11.2018	8.7%*	At maturity
		77 894 937	31 857 898				

* Fixed coupon rate

Bondholders are entitled to demand early redemption of certain bonds at their nominal value.

All coupon payments are made semi-annually, and selected coupon rates are subject to change in accordance with terms of the issuance within a predetermined range.

Information about the currency and maturity and effective interest rates on debt securities issued is presented in note 29.

20 Other liabilities

	31 December 2013 RUB'000	31 December 2012 RUB'000
Payables to suppliers	688 584	206 990
Cash collection payables	317 843	411 036
Other liabilities	114 998	194 006
Total other financial liabilities	1 121 425	812 032
Allowance for credit related commitments	700 354	687 454
Deferred income	536 118	403 044
Payable to employees	323 001	186 160
Taxes payable	263 768	180 062
Payables to Deposit Insurance Agency	132 194	99 923
Other liabilities	364	120 379
Total other non-financial liabilities	1 955 799	1 677 022
Total other liabilities	3 077 224	2 489 054

21 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 14 467 761 735 shares (31 December 2012: 12 677 832 952 shares) with par value of 1 RUB per share. In addition, at 31 December 2013 the Bank has 21 808 396 273 authorized but unissued ordinary shares with an aggregate nominal value of RUB 21 808 million. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUB 861 930 thousand.

On 25 September 2013 the CBR registered the Bank's additional share issue. The issue comprised 1 789 928 783 ordinary shares with a par value of 1 RUB per share. The share issue is part of a series of related transactions, which also included subsequent sale by the majority shareholder of part of his shares to EBRD, RBOF Holding Company I Ltd. and IFC in October 2013. The shareholder structure remained the same: Concern Rossium, LLC – 85.0% of shares, EBRD – 7.5%, RBOF Holding Company I Ltd. – 4.9%, IFC – 2.6%. The shares were acquired at a price above par value, and proceeds totaled RUB 7 536 million. The majority shareholder of the Bank, Mr. Roman I. Avdeev, acquired new shares using funds raised from early repayment by the Bank of the subordinated loans previously granted by Mr. Avdeev via Wellcreek Corporation. A fair value adjustment on subordinated loans from the majority shareholder received in 2011 and 2012 was recognised as additional paid-in-capital due to the fact that the interest rates applicable to these loans were substantially lower than the market rates. These subordinated loans were fully repaid in August 2013 before the contractual maturity date.

22 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 2013 RUB'000	31 December 2012 RUB'000
Guarantees and letters of credit	70 165 586	40 586 746
Undrawn loan commitments	5 745 077	1 968 320
Other contingent liabilities	225 573	216 175
	76 136 236	42 771 241

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

23 Operating leases

Leases as lessee

Future minimum lease payments on non-cancellable lease agreements are as follows:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Less than 1 year	496 963	346 301
Between 1 and 5 years	754 773	646 944
More than 5 years	86 011	79 380
	1 337 747	1 072 625

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 continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

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

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 with related parties and related average interest rates as at 31 December 2013 and 2012 are as follows:

	31 December 2013		31 December 2012	
	Amount RUB'000	Average effective interest rate	Amount RUB'000	Average effective interest rate
Loans to customers				
Majority shareholder	-	-	350 110	15.0
Under control of majority shareholder	713 175	13.6	1 006	16.0
Management	187 581	14.0	88 892	11.2
Total loans	900 756		440 008	
Deposits by customers				
Majority shareholder	3 773 757	8.2	320 310	8.6
Parent company	41 350	11.0	265 752	8.0
Under control of majority shareholder	18 838	14.8	2 342 880	6.7
Management	167 823	7.1	89 066	6.7
Total deposits	4 001 768		3 018 008	
Guarantees issued				
Under control of majority shareholder	4 606 435		-	
Total guarantees	4 606 435		-	

Amounts included in profit or loss and other comprehensive income for the years ended 31 December 2013 and 2012 in relation to transactions with related parties are as follows:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Interest income on loans to customers		
Majority shareholder	8 926	4 563
Under control of majority shareholder	68 922	5 085
Management	8 025	8 049
Total interest income	85 873	17 697
Interest expense on deposits by customers		
Majority shareholder	33 304	17 738
Parent company	36 017	22 252
Under control of majority shareholder	60 796	95 058
Management	9 336	2 697
Total interest expense	139 453	137 745

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the years ended 31 December 2013 and 2012 (refer to note 6) is as follows:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Members of the Supervisory Board	76 735	33 088
Members of the Management Board	154 407	186 064
	231 142	219 152

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 CBR, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2013 and 2012, this minimum level is 10%. The Bank was in compliance with the statutory capital ratio as at the years ended 31 December 2013 and 2012.

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 2013 RUB'000	31 December 2012 RUB'000
Tier 1 capital		
Share capital and additional paid-in capital	25 098 449	22 559 058
Retained earnings	24 481 309	15 601 246
Goodwill	(301 089)	-
Total tier 1 capital	49 278 669	38 160 304
Tier 2 capital		
Revaluation surplus for buildings	1 115 928	1 115 928
Revaluation reserve for investments available-for-sale	(37 639)	16 061
Subordinated loans		
Subordinated loans from Black Sea Trade And Development Bank	392 750	485 963
Subordinated loans from Wellcreek Corporation	-	2 217 635
Subordinated bonds	21 156 395	3 000 000
Total tier 2 capital	22 627 434	6 835 587
Total capital	71 906 103	44 995 891
Risk-weighted assets		
Banking book	383 956 170	245 565 378
Trading book	65 310 150	40 067 912
Total risk weighted assets	449 266 320	285 633 290
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	16.0	15.8
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	11.0	13.4

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 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 Basel I established by covenants in borrowing agreements. The Group complied with all externally imposed capital requirements during the years ended 31 December 2013 and 2012.

Beginning 1 April 2013 the Bank calculates the amount of capital and capital adequacy ratios in accordance with the CBR requirements based on Basel III methodology and using financial statements prepared in accordance with Russian Accounting Principles. The amount of capital and capital adequacy ratios were used by the CBR in 2013 for informational purposes and not for supervision purposes.

Beginning 1 January 2014, the CBR will use the new capital adequacy rules based on Basel III methodology for supervision purposes. Under new CBR regulations minimum level of base capital adequacy ratio, core capital adequacy ratio and total capital adequacy (own funds) ratio calculated based on Russian Accounting Principles are 5%, 5.5% and 10%, respectively. In addition, the new capital adequacy rules in accordance with Basel III result in accelerated amortisation of the capital treatment of certain subordinated debt.

Management does not expect these changes to result in material requirements for additional capital or any failure to meet applicable requirements.

As per the Basel III requirements as adopted in the Russian Federation, the capital adequacy ratio of the Group based on IFRS financial statements as at 31 December 2013 is as follows:

	31 December 2013
	RUB'000
Tier 1 capital	
Share capital and additional paid-in capital	25 098 449
Retained earnings	24 481 310
Goodwill	(301 089)
Intangible assets	(150 680)
Core tier 1	49 127 990
Additional capital	-
Total tier 1 capital	49 127 990
Tier 2 capital	
Revaluation surplus for buildings	1 115 928
Revaluation reserve for investments available-for-sale	(37 639)
Subordinated loans	
Subordinated loans from Black Sea Trade And Development Bank	353 475
Subordinated bonds	20 504 600
Total tier 2 capital	21 936 365
Total capital	71 064 355
Risk-weighted assets	
Banking book	383 956 170
Trading book	65 310 150
Operational risk	32 943 246
Total risk weighted assets	482 209 566

Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	14.8
Total tier 1 capital expressed as a percentage of risk-weighted assets (Core tier 1 capital ratio)	10.2
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	10.2

Included in subordinated bonds in tier 2 capital are subordinated bonds in the amount of RUB 16 461 421 thousand which are fully in compliance with Basel III requirements as adopted in the Russian Federation. Other subordinated loans are subject to accelerated amortization beginning in April 2013, following the transition rules applied by the CBR for inclusion in tier 2 capital of subordinated loans received before March 2013.

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 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 other loans to individuals, 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 operations: comprises all operations connected with cash, cash handling, 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:

	31 December 2013 RUB'000	31 December 2012 RUB'000
<hr/>		
ASSETS		
Corporate banking	217 129 590	153 576 987
Retail banking	94 755 319	50 203 307
Treasury	123 163 845	86 282 788
Cash operations	10 312 841	10 829 487
Unallocated assets	8 840 523	7 834 816
Total assets	454 202 118	308 727 385
<hr/>		
LIABILITIES		
Corporate banking	140 405 408	82 002 162
Retail banking	134 466 596	107 011 942
Treasury	75 244 548	46 927 405
International business	48 273 251	28 270 118
Unallocated liabilities	5 154 268	5 223 465
Total liabilities	403 544 071	269 435 092
<hr/>		

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Segment information for the main reportable segments for the year ended 31 December 2013 is set below:

RUB'000	Corporate banking	Retail banking	Treasury	International business	Cash operations	Unallocated	Total
External interest income	25 180 471	11 874 640	4 957 794	-	-	-	42 012 905
Fee and commission income	2 053 608	3 683 815	54 587	-	1 413 225	-	7 205 235
Net gain on securities	-	-	77 761	-	-	-	77 761
Net foreign exchange gains	192 223	40 034	175 199	-	-	-	407 456
Other operating income	227 887	445 215	65 527	-	-	-	738 629
(Expenses) revenue from other segments	(9 742 512)	5 012 552	1 207 885	3 358 534	163 541	-	-
Revenue	17 911 677	21 056 256	6 538 753	3 358 534	1 576 766	-	50 441 986
Impairment losses on loans	(1 804 774)	(3 694 041)	-	-	-	-	(5 498 815)
Interest expense	(5 513 172)	(11 296 980)	(5 004 530)	(2 817 978)	-	-	(24 632 660)
Fee and commission expense	(583 251)	(160 126)	(19 806)	(15 763)	(679)	-	(779 625)
General administrative and other expenses	(924 938)	(3 548 580)	(74 298)	(68 505)	(1 240 738)	(2 479 998)	(8 337 057)
Expense	(8 826 135)	(18 699 727)	(5 098 634)	(2 902 246)	(1 241 417)	(2 479 998)	(39 248 157)
Segment result	9 085 542	2 356 529	1 440 119	456 288	335 349	(2 479 998)	11 193 829

CREDIT BANK OF MOSCOW (open joint-stock company)
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Segment information for the main reportable segments for the year ended 31 December 2012 is set below:

RUB'000	Corporate banking	Retail banking	Treasury	International business	Cash operations	Unallocated	Total
External interest income	17 891 104	6 851 704	3 723 523	-	-	-	28 466 331
Fee and commission income	1 538 737	1 374 341	233 269	-	1 136 782	-	4 283 129
Net loss on securities	-	-	368 407	-	-	-	368 407
Net foreign exchange gains	-	-	(385 136)	-	-	-	(385 136)
Other operating income, net	115 087	121 487	6 433	-	-	-	243 007
(Expenses) revenue from other segments	(6 658 926)	4 238 716	526 656	1 797 275	96 279	-	-
Revenue	12 886 002	12 586 248	4 473 152	1 797 275	1 233 061	-	32 975 738
Impairment losses on loans	(642 917)	(1 221 800)	-	-	-	-	(1 864 717)
Interest expense	(3 391 846)	(8 208 314)	(3 523 688)	(1 101 120)	-	-	(16 224 968)
Fee and commission expense	(101 446)	(257 640)	(65 398)	(2 991)	(578)	-	(428 053)
General administrative and other expenses	(658 553)	(2 213 701)	(25 931)	(22 556)	(982 688)	(3 307 523)	(7 210 952)
Expense	(4 794 762)	(11 901 455)	(3 615 017)	(1 126 667)	(983 266)	(3 307 523)	(25 728 690)
Segment result	8 091 240	684 793	858 135	670 608	249 795	(3 307 523)	7 247 048

Information about major customers and geographical areas

The majority of revenues from external customers relate to residents of the Russian Federation. The majority of non-current assets are located in the Russian Federation.

29 Risk management, corporate governance and internal control

Corporate governance framework

The Bank is established as an open joint-stock company in accordance with Russian law. The supreme governing body of the Bank is the general shareholders' meeting that is called for annual or extraordinary meetings. The general shareholders' meeting makes strategic decisions on the Bank's operations.

The general shareholders' meeting elects the Supervisory Board. The Supervisory Board is responsible for overall governance of the Bank's activities.

Russian legislation and the charter of the Bank establish decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Supervisory Board.

As at 31 December 2013, the Supervisory Board includes:

William F. Owens – Chairman

Members:

Richard D. Glasspool

Genadi Lewinski

Andrew S. Gazitua

Vadim N. Sorokin

Roman I. Avdeev

Alexander N. Nikolashin

Anton R. Avdeev

Nikolay V. Kosarev

Vladimir A. Chubar

Mikhail E. Kuznetsov

Nicholas D. Haag

During the year ended 31 December 2013 the following changes occurred in the composition of the Supervisory Board:

Sandy Vaci – resigned

Mustafa Boran – resigned

Mikhail E. Kuznetsov – new member

Nicholas D. Haag – new member

General activities of the Bank are managed by the sole executive body of the Bank (Chairman of the Management Board) and collective executive body of the Bank (Management Board). The Supervisory Board meeting elects the Chairman of the Management Board. The executive bodies are responsible for implementation of decisions of the general shareholders' meeting and the Supervisory Board. Executive bodies report to the Supervisory Board and to the general shareholders' meeting.

As at 31 December 2013, the Management Board includes:

Vladimir A. Chubar – Chairman of the Management Board

Dmitry A. Eremin – First Deputy Chairman of the Management Board

Yury A. Ubeev – Deputy Chairman of the Management Board

Yulia B. Podobrazhnykh – Deputy Chairperson of the Management Board

Alexey V. Kosyakov – Deputy Chairman of the Management Board

Daria A. Galkina – Deputy Chairperson of the Management Board

Marina M. Nastashkina – Deputy Chairperson of the Management Board

Evgeny V. Sandler – Deputy Chairman of the Management Board

Svetlana Sass – Chief Accountant, Member of the Management Board

During the year ended 31 December 2013 the following changes occurred in composition of the Management Board:

Alexey V. Kosyakov – new member

Internal control policies and procedures

The Supervisory Board and the Management Board have responsibility for the development, implementation and maintenance of internal controls in the Bank that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.
- reliability of IT-systems, data and systems integrity and protection
- prevention of fraudulent or illegal activities, including misappropriation of assets
- compliance with laws and regulations

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Bank developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks, and the adequacy of controls and procedures to address the risks identified

- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards, and
- risk mitigation, including insurance where this is effective

Compliance with Bank standards is supported by a program of periodic reviews undertaken by Internal Audit. The Internal Audit function is independent from management and reports directly to the Supervisory Board. The results of Internal Audit reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and Supervisory Board and senior management of the Group.

Russian legislation, including the Federal Law dated 2 December 1990 No 395-1 *On banks and banking activity*, establishes the professional qualifications, business reputation and other requirements for members of the Board of Directors, Management Board, Head of internal audit function and other key management personnel. All members of the Bank's governing and management bodies meet these requirements.

Management believes that the Bank complies with the CBR requirements related to risk management and internal control systems, including requirements related to the internal audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

Risk management policies and procedures

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 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.

Retail loan credit applications are reviewed by the Retail Lending Division through the use of scoring models and procedures to evaluate borrowers' credit worthiness 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 31 December 2013 and 2012 is as follows:

	31 December 2013 RUB'000	31 December 2012 RUB'000
ASSETS		
Cash and cash equivalents	56 752 079	36 629 588
Obligatory reserves with the Central Bank of the Russian Federation	2 798 987	2 545 772
Due from credit institutions	10 466 017	12 520 791
Financial instruments at fair value through profit or loss	37 214 872	31 665 973
Available-for-sale securities	18 528 903	5 421 588
Loans to customers	308 940 610	201 234 522
Other financial assets	1 619 089	1 069 219
Total maximum exposure to credit risk on statement of financial position	436 320 557	291 087 453

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 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.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements. Similar financial instruments include derivatives, sales and repurchase agreements, and reverse sale and repurchase agreements.

The Group's derivative transactions that are not transacted on an exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are

terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

Sale and repurchase, reverse sale and repurchase transactions are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

These ISDA and similar master netting arrangements do not meet the offsetting criteria in the consolidated statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The tables below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2013 and 2012:

31 December 2013

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability RUB'000	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position RUB'000	Net amount of financial assets/liabilities presented in the consolidated statement of financial position RUB'000	Related amounts subject to offset under specific conditions		
				Financial instruments RUB'000	Cash collateral received RUB'000	Net amount RUB'000
Reverse sale and repurchase agreements	15 757 655	-	15 757 655	15 757 655	-	-
Derivative financial instruments - assets	197 313	-	197 313	3 514	-	193 799
Total financial assets	15 954 968	-	15 954 968	15 761 169	-	193 799
Sale and repurchase agreements	12 962 351	-	12 962 351	12 962 351	-	-
Derivative financial instruments - liabilities	3 514	-	3 514	3 514	-	-
Total financial liabilities	12 965 865	-	12 965 865	12 965 865	-	-

31 December 2012

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability RUB'000	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position RUB'000	Net amount of financial assets/liabilities presented in the consolidated statement of financial position RUB'000	Related amounts subject to offset under specific conditions		
				Financial instruments RUB'000	Cash collateral received RUB'000	Net amount RUB'000
Reverse sale and repurchase agreements	7 335 094	-	7 335 094	7 335 094	-	-
Derivative financial instruments - assets	18 826	-	18 826	18 826	-	-
Total financial assets	7 353 920	-	7 353 920	7 353 920	-	-
Derivative financial instruments - liabilities	26 110	-	26 110	18 826	-	7 284
Total financial liabilities	26 110	-	26 110	18 826	-	7 284

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- derivative assets and liabilities – fair value
- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortised cost

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2013.

Types of financial assets/liabilities	Net amount RUB'000	Line item in the consolidated statement of financial position RUB'000	Carrying amount in the consolidated statement of financial position RUB'000	Financial asset/liability not in the scope of offsetting disclosure RUB'000	Note
	13 876 923	Cash and cash equivalents	67 064 920	53 187 997	9
Reverse sale and repurchase agreements	1 880 732	Due from credit institutions	10 466 017	8 585 285	10
	6 052 712	Deposits by the Central Bank of the Russian Federation	14 566 171	8 513 459	16
Sale and repurchase agreements	6 909 639	Deposits by credit institutions	24 398 112	17 488 473	17
		Financial instruments at fair value through profit or loss			
Derivative financial instruments - assets	197 313		37 412 185	37 214 872	11
Derivative financial instruments - liabilities	3 514	Other liabilities	3 077 224	3 073 709	20

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2012.

Types of financial assets/liabilities	Net amount RUB'000	Line item in the consolidated statement of financial position RUB'000	Carrying amount in the consolidated statement of financial position RUB'000	Financial asset/liability not in the scope of offsetting disclosure RUB'000	Note
	3 337 412	Cash and cash equivalents	47 459 075	44 121 663	9
Reverse sale and repurchase agreements	3 997 682	Due from credit institutions	12 520 791	8 523 108	10
		Financial instruments at fair value through profit or loss			
Derivative financial instruments - assets	18 826		31 684 816	31 665 990	11
Derivative financial instruments - liabilities	26 110	Other liabilities	2 489 054	2 462 944	20

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 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 the Group will be used for money laundering and financing of terrorist activities.

The Group's Operational Risk Management Policy is based on Russian statutory requirements, recommendations of the CBR and the Basel Committee on Banking Supervision, and internationally recognised principles. The Group gathers data on operational risk occurrences and monitors key risk indicators, and organisational units carry out self-assessment of risk and subsequently provide operational risk mapping across the Group.

The Group also seeks to manage its operational risks by recruiting qualified staff, provides training, regularly updating operational procedures, monitoring the security of its IT systems and ensuring that its infrastructure systems are robust.

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 Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The 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 CBR. 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 2013 and 2012.

The following tables as at 31 December 2013 and 2012 show 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.

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31 December 2013	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
LIABILITIES						
Deposits by the CBR	6 066 569	3 558 323	5 195 115	-	14 820 007	14 566 171
Deposits by credit institutions	4 933 634	5 014 512	9 629 839	6 701 733	26 279 718	24 398 112
Deposits by customers	85 899 016	58 409 609	74 006 663	75 915 235	294 230 523	274 872 004
Debt securities issued	625 501	18 870 039	13 078 087	73 093 306	105 666 933	84 553 516
Other financial liabilities	1 001 143	81 185	39 097	-	1 121 425	1 121 425
Total contractual future payments for financial obligations as at 31 December 2013	98 525 863	85 933 668	101 948 801	155 710 274	442 118 606	399 511 228
Guarantees and letters of credit	70 165 586	-	-	-	70 165 586	
Credit related commitments	5 745 077	-	-	-	5 745 077	
31 December 2012	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
LIABILITIES						
Deposits by credit institutions	2 244 139	9 942 417	17 590 603	7 449 609	37 226 768	35 183 733
Deposits by customers	65 778 158	45 930 212	53 275 369	36 852 290	201 836 029	189 014 104
Debt securities issued	3 175 259	12 049 741	8 038 267	21 244 152	44 507 419	40 013 790
Other financial liabilities	721 567	69 121	21 344	-	812 032	812 032
Total contractual future payments for financial obligations as at 31 December 2012	71 919 123	67 991 491	78 925 583	65 546 051	284 382 248	265 023 659
Guarantees and letters of credit	40 586 746	-	-	-	40 586 746	
Credit related commitments	1 968 320	-	-	-	1 968 320	

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Management believes term deposits from individuals to be a stable source of funding based on the past experience, thus classifying them in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Demand and less than 1 month	9 861 156	7 570 437
From 1 to 6 months	31 588 153	32 475 794
From 6 to 12 months	32 086 641	36 813 219
More than 1 year	51 248 454	22 866 734
	124 784 404	99 726 184

In accordance with terms of issuance of bonds and promissory notes the holders are entitled to demand early redemption of bonds and promissory notes at their nominal value at certain dates. Management believes debt securities issued to be a stable source of funding based on the past experience, thus classifying them in accordance with their stated maturity dates. Maturity based on early redemption dates for 31 December 2013 and 2012 is shown in the tables below:

31 December 2013	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
Promissory notes issued	530 932	2 790 331	3 337 316	-	-	-	-	6 658 579
Bonds issued	2 077 196	12 847 273	5 959 479	19 262 285	37 748 704	-	-	77 894 937

31 December 2012	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
Promissory notes issued	1 081 497	4 091 297	2 399 572	583 526	-	-	-	8 155 892
Bonds issued	2 081 065	7 004 029	4 770 799	14 987 005	-	3 015 000	-	31 857 898

The following tables show all assets and liabilities as at 31 December 2013 and 2012 by their remaining contractual maturities, including term deposits with individuals and debt securities issued, 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 2013 and 2012 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 2013	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	766 131	3 169 199	5 890 731	12 499 667	13 807 416	1 279 041	-	37 412 185
Available-for-sale securities	1 990 647	3 452 409	3 414 644	3 204 647	5 155 984	1 310 572	4 661	18 533 564
31 December 2012	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	18 826	1 562 877	3 194 256	14 053 183	7 183 554	5 672 103	17	31 684 816
Available-for-sale securities	-	1 864 715	687 633	1 887 854	760 771	220 615	26 006	5 447 594

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31 December 2013	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 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	RUB'000	RUB'000	RUB'000	RUB'000
ASSETS												
Cash and cash equivalents	67 064 920	-	-	-	-	-	-	-	-	-	-	67 064 920
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	2 798 987	-	2 798 987
Due from credit institutions	2 521 799	7 841 121	103 097	-	-	-	-	-	-	-	-	10 466 017
Financial instruments at fair value through profit or loss	25 593 349	477 336	401 986	187 460	-	2 028 775	352 951	8 370 328	-	-	-	37 412 185
Available-for-sale securities	6 220 857	1 492 740	1 570 102	134 896	2 617 780	141 245	1 669 164	3 584 180	1 097 939	4 661	-	18 533 564
Loans to customers	14 809 970	58 596 040	47 411 689	24 999 029	15 418 199	42 652 781	26 951 612	40 867 026	33 447 427	-	3 786 837	308 940 610
Property and equipment	-	-	-	-	-	-	-	-	-	6 079 029	-	6 079 029
Goodwill	-	-	-	-	-	-	-	-	-	301 089	-	301 089
Other assets	<u>773 813</u>	<u>249 535</u>	<u>847 417</u>	<u>336 284</u>	<u>398 668</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2 605 717</u>
	<u>116 984 708</u>	<u>68 656 772</u>	<u>50 334 291</u>	<u>25 657 669</u>	<u>18 434 647</u>	<u>44 822 801</u>	<u>28 973 727</u>	<u>52 821 534</u>	<u>34 545 366</u>	<u>9 183 766</u>	<u>3 786 837</u>	<u>454 202 118</u>
LIABILITIES												
Deposits by the CBR	6 052 712	3 504 531	-	4 507 798	501 130	-	-	-	-	-	-	14 566 171
Deposits by credit institutions	4 930 001	3 775 209	1 189 886	1 795 745	7 216 320	1 468 023	788 646	2 619 368	614 914	-	-	24 398 112
Deposits by customers	85 800 492	21 367 042	35 574 530	35 830 042	33 800 466	20 831 174	32 225 438	9 442 820	-	-	-	274 872 004
Debt securities issued	530 933	4 261 993	11 375 612	7 987 198	1 309 599	11 297 954	-	47 790 227	-	-	-	84 553 516
Income tax liability	-	196 917	-	-	-	-	-	-	-	1 880 127	-	2 077 044
Other liabilities	<u>1 441 375</u>	<u>222 680</u>	<u>162 713</u>	<u>162 713</u>	<u>162 514</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>925 229</u>	<u>-</u>	<u>3 077 224</u>
	<u>98 755 513</u>	<u>33 328 372</u>	<u>48 302 741</u>	<u>50 283 496</u>	<u>42 990 029</u>	<u>33 597 151</u>	<u>33 014 084</u>	<u>59 852 415</u>	<u>614 914</u>	<u>2 805 356</u>	<u>-</u>	<u>403 544 071</u>
Net position	<u>18 229 195</u>	<u>35 328 400</u>	<u>2 031 550</u>	<u>(24 625 827)</u>	<u>(24 555 382)</u>	<u>11 225 650</u>	<u>(4 040 357)</u>	<u>(7 030 881)</u>	<u>33 930 452</u>	<u>6 378 410</u>	<u>3 786 837</u>	<u>50 658 047</u>
Cumulative position	<u>18 229 195</u>	<u>53 557 595</u>	<u>55 589 145</u>	<u>30 963 318</u>	<u>6 407 936</u>	<u>17 633 586</u>	<u>13 593 229</u>	<u>6 562 348</u>	<u>40 492 800</u>	<u>46 871 210</u>	<u>50 658 047</u>	

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31 December 2012	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 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	RUB'000	RUB'000	RUB'000	RUB'000
ASSETS												
Cash and cash equivalents	47 459 075	-	-	-	-	-	-	-	-	-	-	47 459 075
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	2 545 772	-	2 545 772
Due from credit institutions	2 536 527	1 508 415	1 502 705	3 370 390	602 754	3 000 000	-	-	-	-	-	12 520 791
Financial instruments at fair value through profit or loss	25 438 516	-	401 448	148 332	1 715 575	735 758	467 427	2 677 065	100 678	17	-	31 684 816
Available-for-sale securities	2 893 914	1 576 703	288 011	51 950	440 400	62 032	108 578	-	-	26 006	-	5 447 594
Loans to customers	13 149 864	45 218 291	28 329 898	18 037 254	17 417 652	27 448 151	19 511 111	20 604 008	10 219 222	-	1 299 071	201 234 522
Property and equipment	-	-	-	-	-	-	-	-	-	6 079 620	-	6 079 620
Other assets	979 047	144 178	185 595	214 898	231 477	-	-	-	-	-	-	1 755 195
	92 456 943	48 447 587	30 707 657	21 822 824	20 407 858	31 245 941	20 087 116	23 281 073	10 319 900	8 651 415	1 299 071	308 727 385
LIABILITIES												
Deposits by credit institutions	2 242 563	2 660 566	7 060 489	3 541 251	13 333 972	2 034 905	2 413 372	1 691 156	205 459	-	-	35 183 733
Deposits by customers	65 679 680	23 468 706	21 471 840	22 263 078	27 278 714	10 316 432	13 582 461	4 033 344	919 849	-	-	189 014 104
Debt securities issued	1 081 497	2 834 560	1 256 736	1 939 099	460 474	18 513 007	10 913 417	-	3 015 000	-	-	40 013 790
Income tax liability	-	125 817	-	-	-	-	-	-	-	2 608 594	-	2 734 411
Other liabilities	1 030 522	298 492	120 954	120 954	120 956	-	-	-	-	797 176	-	2 489 054
	70 034 262	29 388 141	29 910 019	27 864 382	41 194 116	30 864 344	26 909 250	5 724 500	4 140 308	3 405 770	-	269 435 092
Net position	22 422 681	19 059 446	797 638	(6 041 558)	(20 786 258)	381 597	(6 822 134)	17 556 573	6 179 592	5 245 645	1 299 071	39 292 293
Cumulative position	22 422 681	41 482 127	42 279 765	36 238 207	15 451 949	15 833 546	9 011 412	26 567 985	32 747 577	37 993 222	39 292 293	

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 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 2013						
Interest-bearing assets	47 009 850	120 085 189	49 525 290	181 176 172	3 786 837	401 583 338
Interest-bearing liabilities	44 512 830	79 857 920	92 594 137	126 984 425	-	343 949 312
Net interest sensitivity gap as at 31 December 2013	2 497 020	40 227 269	(43 068 847)	54 191 747	3 786 837	57 634 026
31 December 2012						
Interest-bearing assets	35 910 697	79 986 901	43 309 939	110 560 570	1 299 071	271 067 178
Interest-bearing liabilities	39 233 012	65 756 926	73 587 387	53 866 131	-	232 443 456
Net interest sensitivity gap as at 31 December 2012	(3 322 315)	14 229 975	(30 277 448)	56 694 439	1 299 071	38 623 722

An analysis of sensitivity of profit or loss and equity to changes in market interest rates based on a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2013 and 2012 is as follows:

	2013		2012	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
100 bp parallel rise	102 073	102 073	(5 811)	(5 811)
100 bp parallel fall	(102 073)	(102 073)	5 811	5 811

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 through profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2013		2012	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
100 bp parallel rise	(740 293)	(875 522)	(263 831)	(299 027)
100 bp parallel fall	740 293	875 522	263 831	299 027

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 2013 and 2012 and a simplified scenario of a 10% change in USD to RUB exchange rates is as follows:

	2013		2012	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
10% appreciation of USD against RUB	81 544	81 544	53 674	53 674
10% depreciation of USD against RUB	(81 544)	(81 544)	(53 674)	(53 674)

Equity price risk

Price risk is the risk that the value of an equity 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 an equity 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 2013 and 2012 and a simplified scenario of a 5% change in all securities prices is as follows:

	2013		2012	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
5% increase in securities prices	-	186	1	1 040
5% decrease in securities prices	-	(186)	(1)	(1 040)

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 2013			31 December 2012		
	USD	RUB	Other foreign currencies	USD	RUB	Other foreign currencies
Interest bearing assets						
Cash and cash equivalents	0.4%	6.6%	-	-	6.3%	-
Due from credit institutions	3.7%	9.2%	-	3.9%	11.4%	-
Financial instruments at fair value through profit or loss						
– government bonds	-	7.9%	-	2.7%	6.3%	-
– corporate notes and municipal bonds	3.3%	10.2%	-	-	9.5%	-
Available-for-sale securities						
– corporate notes and municipal bonds	5.7%	8.8%	4.5%	4.8%	9.5%	-
Loans to customers	8.7%	14.6%	9.9%	9.5%	14.5%	9.3%
Interest bearing liabilities						
Deposits by the CBR	-	6.0%	-	-	-	-
Deposits by credit institutions						
– term deposits	2.6%	8.3%	2.6%	4.2%	8.2%	3.0%
– syndicated loans	5.1%	-	-	4.9%	-	-
– subordinated debt	7.0%	-	-	8.9%	-	-
Term deposits by customers	3.8%	9.5%	4.3%	5.0%	10.2%	5.1%
Debt securities issued	8.2%	9.5%	4.0%	8.3%	9.5%	5.2%

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 2013				31 December 2012			
	USD	RUB	Other	Total	USD	RUB	Other	Total
	RUB'000	RUB'000	currencies RUB'000	RUB'000	RUB'000	RUB'000	currencies RUB'000	RUB'000
ASSETS								
Cash and cash equivalents	10 356 327	54 061 089	2 647 504	67 064 920	6 526 493	36 895 421	4 037 161	47 459 075
Obligatory reserves with the Central Bank of the Russian Federation	-	2 798 987	-	2 798 987	-	2 545 772	-	2 545 772
Due from credit institutions	4 018 358	6 447 659	-	10 466 017	3 027 050	9 493 741	-	12 520 791
Financial instruments at fair value through profit or loss	563 620	36 848 565	-	37 412 185	1 835 687	29 849 129	-	31 684 816
Available-for-sale securities	4 681 234	12 956 148	896 182	18 533 564	2 234 037	3 213 557	-	5 447 594
Loans to customers	50 834 296	253 305 358	4 800 956	308 940 610	28 419 960	166 113 500	6 701 062	201 234 522
Property and equipment	-	6 079 029	-	6 079 029	-	6 079 620	-	6 079 620
Goodwill	-	301 089	-	301 089	-	-	-	-
Other assets	32 957	2 527 328	45 432	2 605 717	32 264	1 688 149	34 782	1 755 195
	70 486 792	375 325 252	8 390 074	454 202 118	42 075 491	255 878 889	10 773 005	308 727 385

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	31 December 2013				31 December 2012			
	USD	RUB	Other	Total	USD	RUB	Other	Total
	RUB'000	RUB'000	currencies RUB'000	RUB'000	RUB'000	RUB'000	currencies RUB'000	RUB'000
LIABILITIES								
Deposits by the CBR	-	14 566 171	-	14 566 171	-	-	-	-
Deposits by credit institutions	9 076 297	13 053 025	2 268 790	24 398 112	21 701 901	10 459 968	3 021 864	35 183 733
Deposits by customers	23 386 492	244 810 247	6 675 265	274 872 004	14 271 818	167 087 563	7 654 723	189 014 104
Debt securities issued	38 697 552	45 846 249	9 715	84 553 516	6 043 178	33 959 910	10 702	40 013 790
Income tax liability	-	2 077 044	-	2 077 044	-	2 734 411	-	2 734 411
Other liabilities	244 066	2 795 001	38 157	3 077 224	171 752	2 178 774	138 528	2 489 054
	71 404 407	323 147 737	8 991 927	403 544 071	42 188 649	216 420 626	10 825 817	269 435 092
Net position before hedging	(917 615)	52 177 515	(601 853)	50 658 047	(113 158)	39 458 263	(52 812)	39 292 293
Derivative financial instruments	1 936 913	(1 936 062)	(851)	-	786 652	(1 558 528)	771 876	-
Net position	1 019 298	50 241 453	(602 704)	50 658 047	673 494	37 899 735	719 064	39 292 293

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 2013 and 2012 is disclosed in the table below:

	31 December 2013				31 December 2012			
	Russia RUB'000	OECD RUB'000	Other non- OECD RUB'000	Total RUB'000	Russia RUB'000	OECD RUB'000	Other non- OECD RUB'000	Total RUB'000
ASSETS								
Cash and cash equivalents	55 958 355	10 369 448	737 117	67 064 920	37 194 041	10 261 265	3 769	47 459 075
Obligatory reserves with the Central Bank of the Russian Federation	2 798 987	-	-	2 798 987	2 545 772	-	-	2 545 772
Due from credit institutions	8 678 154	822 412	965 451	10 466 017	11 012 376	763 114	745 301	12 520 791
Financial instruments at fair value through profit or loss	37 412 185	-	-	37 412 185	31 532 897	151 919	-	31 684 816
Available-for-sale securities	18 533 564	-	-	18 533 564	5 447 594	-	-	5 447 594
Loans to customers	294 449 218	4 417 611	10 073 781	308 940 610	196 582 729	2 362 253	2 289 540	201 234 522
	417 830 463	15 609 471	11 776 349	445 216 283	284 315 409	13 538 551	3 038 610	300 892 570
LIABILITIES								
Deposits by the CBR	14 566 171	-	-	14 566 171	-	-	-	-
Deposits by credit institutions	14 710 970	9 665 933	21 209	24 398 112	12 984 941	22 198 792	-	35 183 733
Deposits by customers	271 431 196	459 722	2 981 086	274 872 004	185 721 020	81 319	3 211 765	189 014 104
Debt securities issued	45 946 198	38 607 318	-	84 553 516	37 350 929	2 273 174	389 687	40 013 790
	346 654 535	48 732 973	3 002 295	398 389 803	236 056 890	24 553 285	3 601 452	264 211 627
Net position	71 175 928	(33 123 502)	8 774 054	46 826 480	48 258 519	(11 014 734)	(562 842)	36 680 943

30 Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

2013 RUB'000	Financial assets at fair value through profit or loss	Financial assets available for sale
Carrying amount of assets	7 553 804	7 507 384
Carrying amount of associated liabilities	7 276 108	4 959 865

Securities

The Group has transactions to sell securities under agreements to repurchase and to purchase securities under agreements to resell. Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date.

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognised them. These securities are presented as “pledged under sale and repurchase agreements” in notes 11 and 12. The cash received is recognised as a financial liability for the obligation to repay the purchase price for this collateral, and is included in deposits by the Central Bank of Russian Federation (note 16) and deposits by credit institutions (note 17). Because the Group sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

These transactions are conducted under terms that are usual and customary to standard lending activities, as well as the requirements determined by exchanges where the Group acts as intermediary.

There were no transfers of financial assets that are not derecognized in their entirety in 2012.

31 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2013:

RUB'000	Designated at fair value	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	67 064 920	-	-	67 064 920	67 064 920
Obligatory reserves with the CBR	-	2 798 987	-	-	2 798 987	2 798 987
Due from credit institutions	-	10 466 017	-	-	10 466 017	10 466 017
Financial instruments at fair value through profit or loss	37 412 185	-	-	-	37 412 185	37 412 185
Available-for-sale financial assets	-	-	18 533 564	-	18 533 564	18 533 564
Loans to customers	-	308 940 610	-	-	308 940 610	313 331 013
Other financial assets	-	1 619 089	-	-	1 619 089	1 619 089
	37 412 185	390 889 623	18 533 564	-	446 835 372	451 225 775

RUB'000	Designated at fair value	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
Deposits by the CBR	-	-	-	14 566 171	14 566 171	14 566 171
Deposits by credit institutions	-	-	-	24 398 112	24 398 112	24 398 112
Deposits by customers	-	-	-	274 872 004	274 872 004	275 378 789
Debt securities issued	-	-	-	84 553 516	84 553 516	86 022 257
Other financial liabilities	-	-	-	1 121 425	1 121 425	1 121 425
	-	-	-	399 511 228	399 511 228	401 486 754

The main assumptions are used by management to estimate the fair values of financial instruments as at 31 December 2013:

- discount rates of 12.0% (roubles) and 7.4% (foreign currency) are used for discounting future cash flows from corporate loans
- discount rates of 17.0% (roubles) and 10.9% (foreign currency) are used for discounting future cash flows from loans to individuals
- discount rates of 9.8% (roubles) and 3.7% (foreign currency) are used for discounting future cash flows from retail deposits.

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2012:

RUB'000	Designated at fair value	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	47 459 075	-	-	47 459 075	47 459 075
Obligatory reserves with the CBR	-	2 545 772	-	-	2 545 772	2 545 772
Due from credit institutions		12 520 791			12 520 791	12 520 791
Financial instruments at fair value through profit or loss	31 684 816	-	-	-	31 684 816	31 684 816
Available-for-sale financial assets	-	-	5 447 594	-	5 447 594	5 447 594
Loans to customers		201 234 522			201 234 522	199 151 689
Other financial assets	-	1 069 219	-	-	1 069 219	1 069 219
	31 684 816	264 829 379	5 447 594	-	301 961 789	299 878 956
Deposits by credit institutions	-	-	-	35 183 733	35 183 733	35 183 733
Deposits by customers	-	-	-	189 014 104	189 014 104	189 367 830
Debt securities issued	-	-	-	40 013 790	40 013 790	40 274 945
Other financial liabilities	-	-	-	812 032	812 032	812 032
	-	-	-	265 023 659	265 023 659	265 638 540

The main assumptions are used by management to estimate the fair values of financial instruments as 31 December 2012:

- discount rates of 14.0% (roubles) and 8.5 % (foreign currency) are used for discounting future cash flows from corporate loans
- discount rates of 17.0% (roubles) and 12.2% (foreign currency) are used for discounting future cash flows from loans to individuals
- discount rates of 10.0% (roubles) and 4.4% (foreign currency) are used for discounting future cash flows from retail deposits.

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market-observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates used in estimating discount rates and foreign currency exchange rates.

The Group uses widely recognised valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter derivatives such as interest rate swaps.

There is no active market for loans to customers. The estimation of fair value for loans to customers is based on management's assumptions.

The fair value of unquoted equity securities available-for-sale with a carrying value of RUB 4 661 thousand (31 December 2012: RUB 26 000 thousand) cannot be determined.

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 tables below analyse assets measured at fair value on recurring basis as at 31 December 2013 and 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position.

31 December 2013	Level 1 RUB'000	Level 2 RUB'000	Valuation technique used for Level 2	Total RUB'000
Financial assets at fair value through profit or loss	37 214 872	197 313	Discounted cash flows	37 412 185
Available-for-sale securities	10 783 123	7 745 780	Discounted cash flows	18 528 903
Buildings included in property and equipment	-	4 667 192	Market approach	4 667 192

31 December 2012	Level 1 RUB'000	Level 2 RUB'000	Valuation technique used for Level 2	Total RUB'000
Financial assets at fair value through profit or loss	31 444 556	240 260	Discounted cash flows	31 684 816
Available-for-sale securities	3 007 896	2 413 692	Discounted cash flows	5 421 588
Buildings included in property and equipment	-	4 755 123	Market approach	4 755 123

During 2013 there were no transfers of assets between Level 1 and Level 2.

The following tables analyse the fair value of financial assets and liabilities not measured at fair value and for which the carrying value does not approximate fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2013 and 2012:

RUB'000	Level 1	Level 2	Level 3	Fair value	Total carrying amount
Loans to customers	-	-	313 331 013	313 331 013	308 940 610
	-	-	313 331 013	313 331 013	308 940 610
Deposits by customers	-	275 378 789	-	275 378 789	274 872 004
Debt securities issued	79 363 678	6 658 579	-	86 022 257	84 553 516
	79 363 678	282 037 368	-	361 401 046	359 425 520

RUB'000	Level 1	Level 2	Level 3	Fair value	Total carrying amount
Loans to customers	-	-	199 151 689	199 151 689	201 234 522
	-	-	199 151 689	199 151 689	201 234 522
Deposits by customers	-	189 367 830	-	189 367 830	189 014 104
Debt securities issued	32 119 053	8 155 892	-	40 274 945	40 013 790
	32 119 053	197 523 722	-	229 642 775	229 027 894

32 Acquisitions and disposals

On 8 October 2013 the Group acquired 100% of the shares in M-Leasing, a company operating in financial leasing. The purchase consideration was RUB 310 000 thousand, which was settled in cash.

Taking control of M-Leasing will enable the Group to reinforce its position in the market of financial leasing services.

The fair value amounts of assets and liabilities of the acquired subsidiary were provisionally recognized in the consolidated financial statements were as follows at the date of acquisition:

	Recognized amounts on acquisition RUB'000
ASSETS	
Cash and cash equivalents	210 820
Loans to customers	1 563 507
Deferred tax assets	2 128
Other assets	105 997
LIABILITIES	
Deposits and balances from banks	(1 299 411)
Other liabilities	(574 130)
Net identifiable assets and liabilities	8 911
Goodwill on acquisition	301 089
Consideration paid	(310 000)
Cash acquired	210 820
Net cash outflow	(99 180)

The goodwill is attributable mainly to the skills and technical talent of the work force, and the synergies expected to be achieved from integrating the company into the Group's existing leasing business. None of the goodwill recognized is expected to be deductible for income tax purposes.

The amounts of revenue and profit or loss of M-Leasing since the acquisition date and for the year ended 31 December 2013 as though the acquisition had been as of the beginning of the reporting year do not have a significant effect on consolidated revenue and profit or loss.

33 Earnings per share

Basic earnings per share are calculated by dividing profit for the period by the weighted average number of ordinary shares in issue during the year.

Basic earnings per share are calculated as follows:

	31 December 2013 RUB'000	31 December 2012 RUB'000
Profit for the period	8 880 063	5 777 882
Weighted average number of ordinary shares in issue	13 125 315 148	11 410 049 656
Basic earnings per share (in RUB per share)	0.68	0.51

The Group has no dilutive potential ordinary shares.

34 Events subsequent to the reporting date

In January 2014 the Bank paid out the seventh coupon in the amount of RUB 10 220 thousand or RUB 51.11 per bond on domestic bonds series 07. The issue was originally placed on 20 July 2010 in the amount of RUB 2 000 000 thousand with a maturity of 5 years.

In January 2014, debt instruments held by the Group on 31 December 2013 in the amount of RUB 10 432 664 thousand became qualified to be pledged against borrowings from the CBR.

In February 2014 the Bank redeemed its domestic exchange bonds series BO-01. The issue was placed on 22 February 2011 in the amount of RUB 3 000 000 thousand with a maturity of 3 years.

In February 2014 the Bank paid out the second coupon in the amount of RUB 122 160 thousand or RUB 61.08 per bond on domestic subordinated bonds series 12. The issue was placed on 27 February 2013 in the amount of RUB 2 000 000 thousand with a maturity of 5.5 years.

In January 2014 the Bank announced a decision to increase its share capital by placement of 9 645 174 490 additional ordinary registered shares with par value of 1 RUB per share by way of a public offering.

In February 2014 the Bank announced a decision to apply to the Moscow Exchange for listing of its ordinary registered shares.

In February 2014 the Bank applied to the CBR for permission to place, and (or) arrange for trading of, its securities outside of the Russian Federation at the London Stock Exchange plc.

Chairman of the Management Board



Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass

12 March 2014

CREDIT BANK OF MOSCOW
(open joint-stock company)

Consolidated Financial Statements
for the year ended 31 December 2012

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Auditors' Report

To the Shareholders and Supervisory Board 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 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for 2012, 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 the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and 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 express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: Credit Bank of Moscow (open joint-stock company).

Registered by the Central Bank of the Russian Federation on 18 August 1999, Registration No.1978.

Entered in the Unified State Register of Legal Entities on 18 November 2002 by the Department of Federal Tax Service, Registration No. 1027739555282, Certificate series 77 No. 004840877.

Address of audited entity: 2 (bldg. 1), Lukov pereulok, Moscow, Russia, 107045.

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Included in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for 2012 in accordance with International Financial Reporting Standards.



Kolosov A.E., Director, power of attorney dated 3 October 2011 No. 37/11, licence No. 01-000130
ZAO KPMG
29 March 2013
Moscow, Russian Federation

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2012

	Notes	31 December 2012 RUB'000	31 December 2011 RUB'000
Interest income	4	28 466 331	20 980 864
Interest expense	4	(16 224 968)	(12 257 202)
Net interest income	4	12 241 363	8 723 662
Provision for impairment of loans	13	(1 864 717)	(1 283 719)
Net interest income after provision for impairment of loans		10 376 646	7 439 943
Fee and commission income	5	4 106 221	2 936 928
Net gain (loss) on financial instruments at fair value through profit or loss		353 703	(856 946)
Net realized gain on available-for-sale assets		14 704	39 994
Foreign exchange (losses) gains, net		(208 228)	255 021
Other operating income		467 248	182 455
Non-interest income		4 733 648	2 557 452
Salaries and employment benefits	6	(3 513 896)	(2 126 118)
Administrative expenses	6	(2 487 708)	(1 862 731)
Provision for impairment of other assets and credit related commitments	7	(288 856)	(247 039)
Depreciation of property and equipment	14	(407 903)	(242 048)
Fee and commission expense		(428 053)	(192 366)
State deposit insurance scheme contributions		(370 287)	(269 583)
Other operating expenses		(366 543)	(199 170)
Non-interest expense		(7 863 246)	(5 139 055)
Profit before income taxes		7 247 048	4 858 340
Income tax	8	(1 469 166)	(972 806)
Profit for the period		5 777 882	3 885 534
Other comprehensive income			
Revaluation reserve for buildings		769 380	-
Revaluation reserve for available-for-sale securities			
- Net change in fair value		131 726	(137 169)
- Net change in fair value transferred to profit or loss		(45 379)	35 814
Income tax related to other comprehensive income		(171 145)	20 271
Other comprehensive income (loss) for the year, net of tax		684 582	(81 084)
Total comprehensive income for the year		6 462 464	3 804 450

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.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Financial Position
as at 31 December 2012


	Notes	31 December 2012 RUB'000	31 December 2011 RUB'000
ASSETS			
Cash and cash equivalents	9	47 459 075	34 433 419
Obligatory reserves with the Central Bank of the Russian Federation		2 545 772	2 259 170
Due from credit institutions	10	12 520 791	5 301 412
Financial instruments at fair value through profit or loss	11	31 684 816	22 868 251
Available-for-sale securities	12	5 447 594	2 030 678
Loans to customers	13	201 234 522	159 019 821
Property and equipment	14	6 079 620	4 969 932
Other assets	15	1 755 195	1 488 070
Total assets		308 727 385	232 370 753
LIABILITIES AND EQUITY			
Deposits by credit institutions	16	35 183 733	24 964 128
Deposits by customers	17	189 014 104	146 690 886
Debt securities issued	18	40 013 790	31 118 869
Deferred tax liability	8	2 608 594	2 074 397
Current tax liability	8	125 817	15 870
Other liabilities	19	2 489 054	1 898 697
Total liabilities		269 435 092	206 762 847
Equity			
Share capital	20	13 539 763	11 638 088
Additional paid-in capital		9 019 295	3 699 047
Revaluation surplus for buildings		1 115 928	500 424
Revaluation reserve for available-for-sale securities		16 061	(53 017)
Retained earnings		15 601 246	9 823 364
Total equity		39 292 293	25 607 906
Total liabilities and equity		308 727 385	232 370 753

Commitments and Contingencies 21-23

Chairman of the Management Board


 Vladimir A. Chubar

Chief Accountant


 Svetlana V. Sass


The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Cash Flows
for the year ended 31 December 2012

	Notes	31 December 2012 RUB'000	31 December 2011 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		5 777 882	3 885 534
Out of which:			
- Interest income received		29 020 623	21 206 266
- Interest expense paid		(16 328 369)	(11 133 384)
- Income tax paid		(1 120 573)	(327 181)
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for impairment of loans	13	1 864 717	1 283 719
Depreciation and amortization		408 007	242 884
Deferred tax	8	1 910	716 676
Revaluation of financial instruments at fair value through profit or loss		(693 185)	735 120
Provision for impairment of other assets and credit related commitments	7	288 856	247 039
Change in accrued interest income		554 292	159 472
Change in accrued interest expense		125 671	678 917
Other		(76 257)	301 462
Operating cash flows before changes in operating assets and liabilities		8 251 893	8 250 823
(Increase) decrease in operating assets			
Obligatory reserves with the Central Bank of the Russian Federation		(286 602)	(1 502 586)
Due from credit institutions		(7 501 432)	(4 478 956)
Financial instruments at fair value through profit or loss		(8 267 817)	3 735 101
Loans to customers		(47 401 634)	(55 657 388)
Other assets		(495 664)	(676 254)
Increase (decrease) in operating liabilities			
Deposits by credit institutions		7 554 193	(3 025 179)
Deposits by customers		44 767 553	55 243 039
Promissory notes		1 628 721	(10 551 690)
Other liabilities		(21 910)	400 211
Net cash used in operations		(1 772 699)	(8 262 879)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (purchase) sale of available-for-sale securities		(3 369 770)	2 395 388
Net purchase of property and equipment and intangible assets		(612 644)	(806 212)
Net cash (used in) from investing activities		(3 982 414)	1 589 176

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Cash Flows
for the year ended 31 December 2012

Notes	31 December 2012 RUB'000	31 December 2011 RUB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock	5 762 075	4 500 000
Proceeds from subordinated borrowings	1 316 216	982 398
Repayment of subordinated borrowings	(625 076)	-
Proceeds from syndicated borrowings	9 493 638	4 864 375
Repayment of syndicated borrowings	(4 360 792)	(5 022 958)
Proceeds from issuance of subordinated bonds	3 000 000	-
Proceeds from issuance of other bonds	8 122 989	16 315 336
Repayment of other bonds	(3 602 205)	(4 103 013)
Net cash from financing activities	19 106 845	17 536 138
Effect of exchange rates changes on cash and cash equivalents	(326 076)	234 558
Change in cash and cash equivalents	13 025 656	11 096 993
Cash and cash equivalents, beginning of the period	34 433 419	23 336 426
Cash and cash equivalents, end of the period 9	47 459 075	34 433 419
Chairman of the Management Board		
Chief Accountant		
		Vladimir A. Chubar
		Svetlana V. Sass

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Changes in Equity
for the year ended 31 December 2012

	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	-	-	-	(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 majority 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
Total comprehensive income for the period	-	-	615 504	69 078	5 777 882	6 462 464
Transactions with owners, recorded directly in equity						
Shares issued	1 901 675	3 860 400	-	-	-	5 762 075
Contribution from the majority shareholder (net of deferred tax of RUB 364 962 thousand) (note 20)	-	1 459 848	-	-	-	1 459 848
Total transactions with owners, recorded directly in equity	1 901 675	5 320 248	-	-	-	7 221 923
31 December 2012	13 539 763	9 019 295	1 115 928	16 061	15 601 246	39 292 293

Chairman of the Management Board

Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass



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 20 largest banks in Russia by assets and conducts its business in Moscow and the Moscow region with a branch network comprising 60 branches, 694 ATMs and 3 906 payment terminals.

The principal subsidiaries of the Group are as follows:

Name	Date of incorporation	Country of incorporation	Principal activities	Degree of control, %	
				31 December 2012	31 December 2011
CBOM Finance p.l.c.	17 August 2006	Ireland	Raising finance	100%	100%
MKB-Invest	4 June 2007	Russia	Operations with securities	100%	100%
MKB-Leasing	20 September 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 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, LLC, former sole shareholder, reduced to 85.00%, and European Bank for Reconstruction and Development (EBRD) and International Finance Corporation (IFC) each acquired 7.50% of the total number of the Bank's outstanding voting shares. In December 2012 the IFC transferred 583.8 million shares (4.61% of the Bank'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 sole shareholder of Concern Rossium, LLC, is Roman I. Avdeev, who is ultimate controlling party of the Group.

The Bank's shareholders as at 31 December 2012 are:

Concern Rossium, LLC – 85.00%

European Bank for Reconstruction and Development – 7.50%

RBOF Holding Company I Ltd. – 4.61%

International Finance Corporation – 2.89%

As at the date of these consolidated financial statements, the members of the Supervisory Board are as follows:

Supervisory Board

Sandy Vaci	Chairman
Richard Glasspool	Member
Genadi Lewinski	Member
Andrew Gazitua	Member
Mustafa Boran	Member
William Owens	Member
Vadim N. Sorokin	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 note 13 in respect of loan impairment estimates.

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 includes cash and nostro accounts with the Central Bank of the Russian Federation, and due from credit institutions with maturity of less than one month in 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 foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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 arm'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 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, typically between 1 and 5.

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 cannot 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. 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 Bank 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.

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 the 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 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 derivative financial instruments, fee and commission income and foreign exchange gains (losses) was changed as at 31 December 2012 in comparison with 31 December 2011 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:

	2011 as previously reported RUB'000	2011 as currently reported RUB'000
Reclassification of derivative financial instruments from statement of financial position caption "Other assets" to "Financial instruments at fair value through profit or loss"		
Financial instruments at fair value through profit or loss	22 783 760	22 868 251
Other assets	1 572 561	1 488 070

	2011 as previously reported RUB'000	2011 as currently reported RUB'000
Reclassification of foreign exchange operations related fees from statement of comprehensive income caption "Foreign exchange (losses) gains, net" to "Fee and commission income"		
Fee and commission income	2 718 563	2 936 928
Foreign exchange (losses) gains, net	473 386	255 021

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 2012, 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 new standards on its financial position or performance.

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.
- 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 2013. 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 the 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 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.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- 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 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	31 December 2012 RUB'000	31 December 2011 RUB'000
Interest income		
Loans to customers	24 742 808	17 790 664
Financial instruments at fair value through profit or loss and available-for-sale securities	2 968 379	2 892 224
Due from credit institutions and the Central Bank of the Russian Federation	755 144	297 976
	28 466 331	20 980 864
Interest expense		
Deposits by customers	(11 600 160)	(8 249 337)
Debt securities issued	(2 970 572)	(2 717 073)
Deposits by credit institutions and the Central Bank of the Russian Federation	(1 654 236)	(1 290 792)
	(16 224 968)	(12 257 202)
Net interest income	12 241 363	8 723 662

5 Fee and commission income

	31 December 2012 RUB'000	31 December 2011 RUB'000
Cash collection delivery	1 003 921	750 537
Settlements and wire transfers	852 401	764 428
Insurance contracts processing	770 246	213 063
Guarantees and letters of credit	739 994	533 983
Plastic cards	354 122	273 704
Currency exchange commission	176 985	218 365
Other cash operations	132 861	104 558
Other	75 691	78 290
Fee and commission income	4 106 221	2 936 928

6 Salaries, employment benefits and administrative expenses

	31 December 2012 RUB'000	31 December 2011 RUB'000
Salaries	2 843 875	1 701 338
Social security costs	636 429	402 778
Other	33 592	22 002
Salaries and employment benefits	3 513 896	2 126 118

	31 December 2012 RUB'000	31 December 2011 RUB'000
Occupancy	848 172	580 825
Advertising and business development	507 380	413 006
Operating taxes	453 733	368 852
Security	211 153	159 485
Property maintenance	199 645	147 781
Transport	59 210	42 331
Communications	53 555	49 433
Computer maintenance and software expenses	43 488	43 027
Other	111 372	57 991
Administrative expenses	2 487 708	1 862 731

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 2012 RUB'000	31 December 2011 RUB'000
Provision for impairment of credit related commitments	203 057	223 978
Provision for impairment of other assets	85 799	23 061
	288 856	247 039

8 Income tax

	31 December 2012 RUB'000	31 December 2011 RUB'000
Current tax charge	1 471 076	256 131
Deferred taxation	(1 910)	716 675
Income tax expense	1 469 166	972 806

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:

	31 December 2012 RUB'000	31 December 2011 RUB'000
Income before tax	7 247 048	4 858 340
Applicable statutory tax rate	20%	20%
Income tax using the applicable tax rate	1 449 410	971 668
Income taxed at lower rate	(31 876)	(46 071)
Net non-deductible costs	51 632	47 209
Income tax expense	1 469 166	972 806

Income tax liabilities are recorded in the consolidated statement of financial position as follows:

	31 December 2012 RUB'000	31 December 2011 RUB'000
Current tax liability	125 817	15 870
Deferred tax liability	2 608 594	2 074 397
Income tax liability	2 734 411	2 090 267

Movements in temporary differences during the years ended 31 December 2012 and 2011 are presented as follows.

	Balance 1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income and equity	Balance 31 December 2012
RUB'000				
Due from credit institutions	(5 772)	7 872	-	2 100
Financial instruments at fair value through profit or loss	(9 653)	26 712	-	17 059
Available-for-sale securities	2 225	(24 665)	17 269	(5 171)
Loans to customers	832 348	125 832	-	958 180
Property and equipment	265 806	(13 041)	153 876	406 641
Other assets	673	(50 171)	-	(49 498)
Deposits by credit institutions	22 592	12 217	-	34 809
Deposits by customers	876 864	(26 577)	364 962	1 215 249
Debt securities issued	24 556	(10 541)	-	14 015
Other liabilities	64 758	(49 548)	-	15 210
	2 074 397	(1 910)	536 107	2 608 594

RUB'000	Balance 1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income and 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

Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income comprise:

RUB'000	2012			2011		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax benefit	Amount net-of-tax
Revaluation reserve for available-for-sale securities	86 347	(17 269)	69 078	(101 355)	20 271	(81 084)
Revaluation of property and equipment	769 380	(153 876)	615 504	-	-	-
Other comprehensive income	855 727	(171 145)	684 582	(101 355)	20 271	(81 084)

9 Cash and cash equivalents

	31 December 2012 RUB'000	31 December 2011 RUB'000
Cash on hand	10 829 487	7 235 147
Correspondent account with the Central Bank of the Russian Federation	7 380 087	7 369 693
Nostro accounts with other banks		
rated from AA+ to AA-	2 356 479	844 958
rated from A+ to A-	3 661 702	697 121
rated from BBB+ to BBB-	2 772 663	1 876 423
rated from BB+ to BB-	11 150	5 504
rated from B+ to B-	54 111	183 608
not rated	169 090	1 719 034
Total nostro accounts with other banks	9 025 195	5 326 648

	31 December 2012 RUB'000	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 from A+ to A-	3 057 049	-
rated from BBB+ to BBB-	12 003 049	9 729 891
rated from B+ to B-	2 727 184	1 932 050
not rated	2 437 024	1 502 017
Total due from credit institutions with maturity of less than 1 month	20 224 306	14 501 931
Total cash and cash equivalents	47 459 075	34 433 419

Ratings are based on Standard & Poor's rating system.

No 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.

Balances with stock exchanges are included in not rated nostro accounts in the amount of RUB 25 914 thousand as at 31 December 2012 (31 December 2011: RUB 1 271 352 thousand).

As at 31 December 2012 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 610 228 thousand (31 December 2011: RUB 1 103 927 thousand).

As at 31 December 2012 the Group has two counterparties (31 December 2011: 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 balances as at 31 December 2012 is RUB 10 813 160 thousand.

Information about the currency and maturity of cash and cash equivalents is presented in note 28.

10 Due from credit institutions

	31 December 2012 RUB'000	31 December 2011 RUB'000
Term deposits		
rated from A+ to A-	-	30 586
rated from BBB+ to BBB-	-	2 841 567
rated from B+ to B-	8 634 326	1 620 332
not rated	3 886 465	808 927
Total due from credit institutions	12 520 791	5 301 412

No due from credit institutions are impaired or past due.

As at 31 December 2012 the Group has three counterparties (31 December 2011: three) whose deposit balances exceed 10% of total due from credit institutions. The gross value of these balances as at 31 December 2012 is RUB 9 391 730 thousand (31 December 2011: RUB 5 270 826 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 2012 RUB'000	31 December 2011 RUB'000
<u>Held by the Group</u>		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	3 575 134	9 286 846
Moscow Government bonds	384 119	927 144
Regional authorities and municipal bonds	3 770 072	372 780
Russian Government Eurobonds	72	1 789 318
Corporate bonds		
rated AAA	151 919	-
from BBB+ to BBB-	6 514 582	4 007 920
from BB+ to BB-	8 646 144	2 101 783
from B+ to B-	7 877 210	3 213 814
from CCC+ to CCC-	-	52 618
not rated	746 721	1 031 514
Derivative financial instruments	18 826	84 491
Equity investments	17	23
Total financial instruments at fair value through profit or loss held by the Group	31 684 816	22 868 251

No financial instruments at fair value through profit or loss are impaired or past due.

As at 31 December 2012 debt instruments in the amount of RUB 25 419 690 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2011: RUB 20 225 639 thousand).

Derivative financial instruments

The table below summarises, by major currencies, the contractual amounts of spot and forward exchange contracts outstanding as at 31 December 2012 and 2011 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 financial instruments at fair value through profit or loss or other liabilities, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2012 RUB'000	2011 RUB'000	2012	2011
Buy USD sell RUB				
Less than 3 months	8 835 418	9 606 535	30.3639	31.9154
Buy RUB sell USD				
Less than 3 months	8 048 766	-	30.3354	-

	Notional amount		Weighted average contractual exchange rates	
	2012 RUB'000	2011 RUB'000	2012	2011
Buy RUB sell EUR				
Less than 3 months	522 972	-	40.3054	-
Buy gold sell RUB				
Between 3 months and 1 year	1 294 848	-	1 619.78	-
	18 702 004	9 606 535		

12 Available-for-sale securities

	31 December 2012 RUB'000	31 December 2011 RUB'000
<u>Held by the Group</u>		
Government and municipal bonds		
Regional authorities and municipal bonds	-	10 277
Corporate bonds		
from BBB+ to BBB-	1 005 788	410 734
from BB+ to BB-	1 727 976	385 133
from B+ to B-	320 678	1 017 580
not rated	62 032	179 948
Promissory notes		
from BBB+ to BBB-	1 175 991	-
from BB+ to BB-	688 723	-
Equity investments	26 006	27 006
Total available-for-sale securities held by the Group	5 007 194	2 030 678
<u>Pledged as collateral for interbank and other loans</u>		
Promissory notes		
from BBB+ to BBB-	440 400	-
Total available-for-sale securities pledged as collateral for interbank and other loans	440 400	-
Total available-for-sale securities	5 447 594	2 030 678

No available-for-sale securities are impaired or past due.

As at 31 December 2012 debt instruments in the amount of RUB 2 893 914 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2011: RUB 371 884 thousand).

13 Loans to customers

	31 December 2012 RUB'000	31 December 2012 RUB'000	31 December 2011 RUB'000	31 December 2011 RUB'000
	Loans	Impairment allowance	Loans	Impairment allowance
Loans to corporate clients	155 540 928	(3 058 623)	132 844 258	(2 624 407)
Loans to individuals				
Auto loans	10 978 394	(56 800)	6 175 018	(23 778)
Mortgage loans	10 442 450	(219 648)	7 661 002	(261 229)
Consumer loans	28 971 476	(1 363 655)	16 021 975	(773 018)
Total loans to individuals	50 392 320	(1 640 103)	29 857 995	(1 058 025)
Gross loans to customers	205 933 248	(4 698 726)	162 702 253	(3 682 432)
Net loans to customers	201 234 522		159 019 821	

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 December 2012:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment to gross loans %
Loans to customers				
- Not past due	202 820 574	(2 885 123)	199 935 451	1.4
- Overdue less than 31 days	683 080	(137 607)	545 473	20.1
- Overdue 31-60 days	261 210	(127 177)	134 033	48.7
- Overdue 61-90 days	201 221	(113 965)	87 256	56.6
- Overdue 91-180 days	528 310	(343 851)	184 459	65.1
- Overdue 181-360 days	678 840	(537 605)	141 235	79.2
- Overdue more than 360 days	760 013	(553 398)	206 615	72.8
Total loans to customers	205 933 248	(4 698 726)	201 234 522	2.3

The following table provides information on credit quality of the loan portfolio as at 31 December 2011:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment to gross loans %
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 31 December 2012, the loan portfolio includes loans that have been restructured and would otherwise be past due or impaired in the amount of RUB 225 145 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 31 December 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 31 December 2012	225 145	(11 257)	213 888	5.0
- As at 31 December 2011	904 633	(48 185)	856 448	5.3

As at 31 December 2012, the gross amount of overdue loans with payments that are overdue at least one day totals RUB 3 112 674 thousand, which represents 1.5% 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 1 967 163 thousand or 1.0% of the loan portfolio (31 December 2011: RUB 1 765 023 thousand and 1.2%, respectively).

NPLs together with restructured loans amount to RUB 2 192 308 thousand or 1.1% of the loan portfolio (31 December 2011: RUB 2 669 656 thousand and 1.6%, respectively).

As at 31 December 2012, the ratio of total impairment allowance to overdue loans equals 151.0%, the ratio of total impairment allowance to NPLs equals 238.9% and the ratio of total impairment allowance to NPLs together with restructured loans equals 214.3% (31 December 2011: 141.5%, 208.6% and 137.9%, respectively).

Movements in the loan impairment allowance for the years ended 31 December 2012 and 31 December 2011 are as follows:

	2012 RUB'000	2011 RUB'000
Balance at the beginning of the period	3 682 432	2 793 109
Net charge	1 864 717	1 283 719
Net write-offs	(848 423)	(394 396)
Balance at the end of the period	4 698 726	3 682 432

As at 31 December 2012, interest accrued on overdue loans amounts to RUB 350 243 thousand (31 December 2011: RUB 232 214 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 2012:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Loans to corporate clients				
- Not past due	155 137 958	(2 739 712)	152 398 246	1.8
- Overdue less than 31 days	8 060	(1 105)	6 955	13.7
- Overdue 31-60 days	4 313	(1 220)	3 093	28.3
- Overdue 61-90 days	38 224	(16 958)	21 266	44.4
- Overdue 91-180 days	92 045	(56 689)	35 356	61.6
- Overdue 181-360 days	124 602	(107 414)	17 188	86.2
- Overdue more than 360 days	135 726	(135 525)	201	99.9
Total loans to corporate clients	155 540 928	(3 058 623)	152 482 305	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

* Included in overdue loans to corporate clients for 91-180 days in 2011 was a loan in the amount of RUB 403 127 thousand with liquid real estate collateral. The Group estimated loan impairment for this loan based on an analysis of future cash flows from the collateral. This loan was sold at approximately its carrying value in December 2012.

The Group 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 at 31 December 2012 would increase/decrease by RUB 1 524 823 thousand (31 December 2011: RUB 1 302 199 thousand).

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transaction: real estate (manufacturing premises, warehouses), equipment and motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes.

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2012 and 31 December 2011:

	31 December 2012	31 December 2011
	RUB'000	RUB'000
Real estate	28 114 584	24 415 976
Goods	23 412 380	16 909 401
Securities	13 970 269	13 918 389
Claims for contract receivables	12 034 429	5 052 161
Equipment and motor vehicles	6 128 842	5 863 536
Bank's own debts	-	5 377 645
Guarantees by other banks	344 878	344 561
Corporate guarantees and no collateral	68 476 922	58 338 182
	152 482 305	130 219 851

The Group generally does not consider corporate guarantees for impairment assessment purposes.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

Management estimates that the impairment allowance for loans to corporate customers would have been approximately RUB 821 839 thousand higher without any collateral (31 December 2011: RUB 2 744 418 thousand).

Collateral obtained

During the period ended 31 December 2012, the Group obtained certain assets by taking possession of collateral for loans to corporate customers. As at 31 December 2012, the carrying amount of such assets was RUB 4 572 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 years ended 31 December are as follows:

	2012	2011
	RUB'000	RUB'000
Balance at the beginning of the period	2 624 407	1 990 001
Net charge	642 917	866 943

Net write-offs	(208 701)	(232 537)
Balance at the end of the period	3 058 623	2 624 407

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2012:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Auto loans				
- Not past due	10 816 865	(3 883)	10 812 982	0.04
- Overdue less than 31 days	59 753	(4 250)	55 503	7.1
- Overdue 31-60 days	20 388	(4 415)	15 973	21.7
- Overdue 61-90 days	19 289	(5 814)	13 475	30.1
- Overdue 91-180 days	23 182	(9 822)	13 360	42.4
- Overdue 181-360 days	26 855	(17 298)	9 557	64.4
- Overdue more than 360 days	12 062	(11 318)	744	93.8
Total auto loans	10 978 394	(56 800)	10 921 594	0.5
Mortgage loans				
- Not past due	9 894 216	(10 195)	9 884 021	0.1
- Overdue less than 31 days	35 018	(792)	34 226	2.3
- Overdue 31-60 days	8 572	(738)	7 834	8.6
- Overdue 61-90 days	4 454	(582)	3 872	13.1
- Overdue 91-180 days	53 376	(9 265)	44 111	17.4
- Overdue 181-360 days	63 681	(10 847)	52 834	17.0
- Overdue more than 360 days	383 133	(187 229)	195 904	48.9
Total mortgage loans	10 442 450	(219 648)	10 222 802	2.1
Consumer loans				
- Not past due	26 971 535	(131 333)	26 840 202	0.5
- Overdue less than 31 days	580 249	(131 460)	448 789	22.7
- Overdue 31-60 days	227 937	(120 804)	107 133	53.0
- Overdue 61-90 days	139 254	(90 611)	48 643	65.1
- Overdue 91-180 days	359 707	(268 075)	91 632	74.5
- Overdue 181-360 days	463 702	(402 046)	61 656	86.7
- Overdue more than 360 days	229 092	(219 326)	9 766	95.7
Consumer loans	28 971 476	(1 363 655)	27 607 821	4.7
Total loans to individuals	50 392 320	(1 640 103)	48 752 217	3.3

The following table provides information on the credit quality of loans to individuals as at 31 December 2011:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
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
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
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

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 the 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 consumer loans overdue more than 360 days for 54.6 % and 1.9 % 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 removes 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 at 31 December 2012 would increase/decrease by RUB 487 522 thousand (31 December 2011: RUB 288 000 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 at 31 December 2012 impaired mortgage loans in the amount of RUB 548 234 thousand are secured by collateral with a fair value of RUB 451 018 thousand (31 December 2011: RUB 685 406 thousand and RUB 446 988 thousand, respectively). As at 31 December 2012, the Group estimates the fair value of private real estate undergoing foreclosure to be RUB 137 708 thousand (31 December 2011: RUB 36 396 thousand).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2012 are as follows:

	Auto loans	Mortgage loans	Consumer loans	Total
	RUB'000	RUB'000	RUB'000	RUB'000
Balance at the beginning of the period	23 778	261 229	773 018	1 058 025
Net charge (reversal)	46 175	(41 581)	1 217 206	1 221 800
Net write-offs	(13 153)	-	(626 569)	(639 722)
Balance at the end of the period	56 800	219 648	1 363 655	1 640 103

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2011 are as follows:

	Auto loans	Mortgage loans	Consumer loans	Total
	RUB'000	RUB'000	RUB'000	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

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:

CREDIT BANK OF MOSCOW (open joint-stock company)
Notes to, and forming part of, the Consolidated Financial Statements
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	31 December 2012 RUB'000	31 December 2011 RUB'000
Loans to individuals	50 392 320	29 857 995
Consumer electronics, appliances and computers	25 737 636	18 459 411
Food and farm products	17 920 338	20 956 404
Residential and commercial construction and development	17 411 616	12 119 200
Construction and decorative materials, furniture	10 608 236	10 813 405
Clothing, shoes, textiles and sporting goods	10 189 443	9 149 182
Industrial equipment and machinery	9 714 082	8 318 855
Services	9 708 122	4 809 991
Metallurgical	8 071 462	3 681 045
Pharmaceutical and medical products	6 859 278	6 099 881
Property rental	5 622 270	8 164 457
Automotive, motorcycles and spare parts	5 264 206	5 396 030
Paper, stationery and packaging products	5 233 871	4 001 577
Consumer chemicals, perfumes and hygiene products	4 250 319	4 023 559
Oil and industrial chemicals	4 083 585	3 182 725
Financial	2 946 641	1 424 049
Industrial and infrastructure construction	2 660 923	1 510 690
Equipment leasing	2 649 336	4 443 980
Electric utility	1 117 228	-
Gardening and pet products	1 032 346	942 175
Books, video, print and copy	531 924	526 557
Products for home, gifts, jewelry and business accessories	404 207	408 239
Telecommunications	392 750	1 340 167
Other	3 131 109	3 072 679
	205 933 248	162 702 253
Impairment allowance	(4 698 726)	(3 682 432)
	201 234 522	159 019 821

Finance lease

Finance lease receivables included in loans to customers are as follows:

	31 December 2012 RUB'000	31 December 2011 RUB'000
Gross investment in finance lease	5 130 373	4 107 027
Unearned interest income	(1 121 566)	(932 516)
Net investment in finance lease before allowance	4 008 807	3 174 511
Impairment allowance	(110 706)	(84 971)
Net investment in finance lease	3 898 101	3 089 540

The contractual maturity of the net investment in leases is as follows:

	31 December 2012 RUB'000	31 December 2011 RUB'000
Less than 1 year	1 903 526	1 400 740
Between 1 and 5 years	1 915 664	1 688 791
More than 5 years	78 911	9
	3 898 101	3 089 540

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 2012 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	2 230 452	255 891	259 371	1 113 697	1 757 962	5 617 373
At 1 January 2012						
Additions	62 137	134 860	85 859	249 915	239 065	771 836
Transfers	1 934 311	-	-	-	(1 934 311)	-
Disposals	(1 523)	(21 291)	(3 591)	(41 957)	-	(68 362)
Revaluation	769 380	-	-	-	-	769 380
Elimination of accumulated depreciation on revalued buildings	(239 634)	-	-	-	-	(239 634)
At 31 December 2012	4 755 123	369 460	341 639	1 321 655	62 716	6 850 593
Accumulated depreciation						
At 1 January 2012	141 348	68 232	78 910	358 951	-	647 441
Depreciation charge	98 461	60 709	62 611	186 122	-	407 903
Disposals	(175)	(16 743)	(3 591)	(24 228)	-	(44 737)
Elimination of accumulated depreciation on revalued buildings	(239 634)	-	-	-	-	(239 634)
At 31 December 2012	-	112 198	137 930	520 845	-	770 973
Carrying value						
At 31 December 2012	4 755 123	257 262	203 709	800 810	62 716	6 079 620

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

Revalued assets

At 31 December 2012 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 and/or offers of similar buildings.

The carrying value of buildings as of 31 December 2012, if the buildings would not have been revalued, would be RUB 3 360 213 thousand (31 December 2011: RUB 1 499 193 thousand).

15 Other assets

	31 December 2012 RUB'000	31 December 2011 RUB'000
Receivables	677 678	759 249
Property held for sale	190 411	167 244
Prepaid expenses	329 746	165 279
Current income tax receivable	1 578	118 596
Intangibles	74 870	73 962
Other	480 912	203 740
Total other assets	1 755 195	1 488 070

16 Deposits by credit institutions

	31 December 2012 RUB'000	31 December 2011 RUB'000
Demand deposits	949 181	64 496
Term deposits	23 377 902	18 168 718
Syndicated loans	10 231 524	5 421 197
Subordinated debt	625 126	1 309 717
Total deposits by credit institutions	35 183 733	24 964 128

Syndicated loans represent loans denominated in USD with effective interest rates ranging from 4.8% to 5.2% (31 December 2011: from 3.4% to 5.5%) and maturity from 2013 to 2015 (31 December 2011: from 2012 to 2015).

Subordinated debt represents loans denominated in USD with effective interest rate of 8.9% (31 December 2011: ranging from 6.6% to 9.4%) and maturity from 2016 to 2017 (31 December 2011: 2015 to 2017).

The Group is required to meet certain covenants attached to syndicated loans, subordinated debt and bilateral loans from the IFC, EBRD and the Black Sea Trade And Development Bank. As at 31 December 2012 and 2011, the Group fully meets all covenants of the loan agreements.

Concentrations of deposits by credit institutions

As at 31 December 2012 the Group has one counterparty (31 December 2011: two counterparties) whose deposits balance exceed 10% of deposits by credit institutions. The gross value of this balance as at 31 December 2012 is RUB 6 482 959 thousand (31 December 2011: RUB 8 900 996 thousand).

Information about the currency and maturity and effective interest rates on deposits by credit institutions is presented in note 28.

17 Deposits by customers

		31 December 2012 RUB'000	31 December 2011 RUB'000
Corporate customers	Demand	24 212 584	17 838 871
	Term	52 344 888	34 843 029
	Subordinated	2 219 428	2 745 236
	Term notes	3 225 262	5 894 492
Total corporate customers		82 002 162	61 321 628
Individuals	Demand	7 285 758	4 842 326
	Term	99 726 184	80 526 932
Total individuals		107 011 942	85 369 258
Total deposits by customers		189 014 104	146 690 886

Concentrations of deposits by customers

As at 31 December 2012 and 2011, 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 2012 RUB'000	31 December 2011 RUB'000
Promissory notes issued at nominal value	8 420 770	6 789 426
Accrued interest	18 723	32 768
Unamortized discount on promissory notes	(283 601)	(304 874)
	8 155 892	6 517 320
 Bonds issued	 31 857 898	 24 601 549
	40 013 790	31 118 869

The table below provides a summary of bonds issued as at 31 December 2012 and 2011:

	Nominal amount of the initial issue RUB'000/ USD'000	Amount of the issue 31 December 2012 RUB'000	31 December 2011 RUB'000	Issue date	Maturity date	Coupon rate	Next early redemption date
RUB denominated bonds issue 07	2 000 000	2 081 065	2 049 005	20.07.2010	14.07.2015	10.25%	22.01.2013
RUB denominated bonds issue 08	3 000 000	1 696 892	1 540 542	14.04.2010	08.04.2015	9.75%	16.10.2013
RUB denominated bonds issue 11	3 000 000	3 015 000	-	11.12.2012	05.06.2018	12.25%*	At maturity
RUB denominated bonds issue BO-01	3 000 000	2 942 475	2 585 541	22.02.2011	22.02.2014	8.50%	01.03.2013
RUB denominated bonds issue BO-02	3 000 000	3 073 907	-	25.09.2012	25.09.2015	8.50%	01.10.2013
RUB denominated bonds issue BO-03	4 000 000	4 061 554	-	27.04.2012	27.04.2015	9.25%	06.05.2013
RUB denominated bonds issue BO-04	5 000 000	3 943 020	3 819 034	15.04.2011	15.04.2014	10.25%	At maturity
RUB denominated bonds issue BO-05	5 000 000	5 002 327	4 494 877	23.06.2011	23.06.2014	9.20%	At maturity
USD denominated Eurobonds issue	200 000	6 041 658	6 416 132	28.07.2011	05.08.2014	8.25%*	At maturity
RUB denominated bonds issue 05	2 000 000	-	1 682 876	29.04.2009	25.04.2012	7.40%	-
RUB denominated bonds issue 06	2 000 000	-	2 013 542	11.08.2009	07.08.2012	9.40%	-
		31 857 898	24 601 549				

* Fixed coupon rate

The RUB denominated bonds issue 11 issued in February 2012 is a subordinated bonds issue.

Bondholders are entitled to demand early redemption of certain bonds at their nominal value.

All coupon payments are made semi-annually, and selected coupon rates are subject to change in accordance with terms of the issuance within a predetermined range.

Information about the currency and maturity and effective interest rates on debt securities issued is presented in note 28.

19 Other liabilities

	31 December 2012 RUB'000	31 December 2011 RUB'000
Allowance for credit related commitments	687 454	484 397
Cash collection payables	411 036	397 693
Payables to suppliers	393 150	347 725
Deferred income	403 044	225 985
Operating taxes payable	180 062	97 944
Payables to Deposit Insurance Agency	99 923	80 119
Other	314 385	264 834
Total other liabilities	2 489 054	1 898 697

20 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. In addition, at 31 December 2012 the Bank has 23 598 325 056 authorised but unissued ordinary shares with an aggregate nominal value of RUB 23 598 325 056. 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 the Bank'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 EBRD and IFC for RUB 5.8 billion in total.

During 2011, the Group and its majority shareholder agreed to a reduction in the interest rate of its subordinated debt from 6.15% to 0.15%. The Group determined that this constituted a significant change in the terms of the subordinated debt, and therefore derecognized its previously recorded obligation and recognized a new liability, which was initially measured at fair value, to reflect the modified terms. The difference between the previous carrying amount of the debt and its estimated fair value under the modified terms was recognized as a contribution to additional paid-in-capital, in equity in the amount of RUB 3 536 361 thousand (net of deferred tax of RUB 884 090 thousand).

During 2012, the Group and its majority shareholder agreed to a change in maturity of its subordinated debt from 10 to 30 years. The Group determined that this constituted a significant change in the terms of the subordinated debt, and therefore derecognized its previously recorded obligation and recognized a new liability, which was initially measured at fair value, to reflect the modified terms. The difference between the previous carrying amount of the debt and its estimated fair value under the modified terms was recognized as a contribution to additional paid-in-capital, in equity in the amount of RUB 1 459 848 thousand (net of deferred tax of RUB 364 962 thousand).

This additional paid-in capital represents tier 1 capital according to the Basel Capital Accord.

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 2012 RUB'000	31 December 2011 RUB'000
Guarantees and letters of credit	40 586 746	29 869 161
Undrawn loan commitments	1 968 320	1 079 727
Other contingent liabilities	216 175	214 784
	42 771 241	31 163 672

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 2012 RUB'000	31 December 2011 RUB'000
Less than 1 year	346 301	227 407
Between 1 and 5 years	646 944	247 167
More than 5 years	79 380	214 929
	1 072 625	689 503

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 2012 and 31 December 2011 are as follows:

	31 December 2012		31 December 2011	
	Amount RUB'000	Average effective interest rate	Amount RUB'000	Average effective interest rate
Loans to customers				
Majority shareholder	350 110	15.0%	70 208	12.0%
Under control of majority shareholder	1 006	16.0%	87 138	12.0%
Management	88 892	11.2%	43 977	10.7%
Total loans	440 008		201 323	
Deposits by customers				
Majority shareholder	320 310	8.6%	31 993	3.9%
Parent company	265 752	8.0%	250 896	8.3%
Under control of majority shareholder	2 342 880	6.7%	2 909 463	7.9%
Management	89 066	6.7%	35 481	7.6%
Total deposits	3 018 008		3 227 833	

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 2012 RUB'000	31 December 2011 RUB'000
Interest income on loans to customers		
Majority shareholder	4 563	34 236
Under control of majority shareholder	5 085	38 956
Management	8 049	4 786
Total interest income on loans to customers	17 697	77 978
Interest expense on deposits by customers		
Majority shareholder	17 738	459
Parent company	22 252	31 743
Under control of majority shareholder	95 058	166 694
Management	2 697	1 716
Total interest expense on deposits by customers	137 745	200 612

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 2012 RUB'000	31 December 2011 RUB'000
Members of the Supervisory Board	33 088	3 957
Members of the Management Board	186 064	45 596
	219 152	49 553

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 2012, this minimum level is 10%. The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2012 and 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 31 December:

	31 December 2012 RUB'000	31 December 2011 RUB'000
Tier 1 capital		
Share capital and additional paid-in capital	22 559 058	15 337 135
Retained earnings	15 601 246	9 823 364
Total tier 1 capital	38 160 304	25 160 499
Tier 2 capital		
Revaluation surplus for buildings	1 115 928	500 424
Revaluation reserve for investments available-for-sale	16 061	(53 017)
Subordinated loans		
Subordinated loans from EBRD	-	482 942
Subordinated loans from Black Sea Trade And Development Bank	485 963	643 922
Subordinated loans from Wellcreek Corporation	2 217 635	2 745 236
Subordinated bonds	3 000 000	-
Total tier 2 capital	6 835 587	4 319 507
Total capital	44 995 891	29 480 006
Risk-weighted assets		
Banking book	245 565 378	184 090 083
Trading book	40 067 912	21 012 847
Total risk weighted assets	285 633 290	205 102 930
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	15.8	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 in borrowing agreements. The Group complied with all externally imposed capital requirements during the years ended 31 December 2012 and 2011.

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 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:

	31 December 2012	31 December 2011
	RUB'000	RUB'000
<hr/>		
ASSETS		
Corporate banking	153 576 987	131 168 702
Retail banking	50 203 307	30 110 289
Treasury	86 282 788	57 314 123
Cash operations	10 829 487	7 235 146
Unallocated assets	7 834 816	6 542 493
Total assets	308 727 385	232 370 753
	<hr/>	<hr/>
LIABILITIES		
Corporate banking	82 002 162	61 321 627
Retail banking	107 011 942	85 369 257
Treasury	46 927 405	31 243 275
International business	28 270 118	24 839 723
Unallocated liabilities	5 223 465	3 988 965
Total liabilities	269 435 092	206 762 847
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Segment information for the main reportable segments for the year ended 31 December 2012 is set below:

RUB'000	Corporate banking	Retail banking	Treasury	International business	Cash operations	Unallocated	Total
External interest income	17 891 104	6 851 704	3 723 523	-	-	-	28 466 331
Fee and commission income	1 538 737	1 374 341	56 361	-	1 136 782	-	4 106 221
Net gain on securities	-	-	368 407	-	-	-	368 407
Net foreign exchange losses	-	-	(208 228)	-	-	-	(208 228)
Other operating income	221 287	233 593	12 368	-	-	-	467 248
(Expenses) revenue from other segments	(6 658 926)	4 238 716	526 656	1 797 275	96 279	-	-
Revenue	12 992 202	12 698 354	4 479 087	1 797 275	1 233 061	-	33 199 979
Impairment losses on loans	(642 917)	(1 221 800)	-	-	-	-	(1 864 717)
Interest expense	(3 391 846)	(8 208 314)	(3 523 688)	(1 101 120)	-	-	(16 224 968)
Fee and commission expense	(101 446)	(257 640)	(65 398)	(2 991)	(578)	-	(428 053)
General administrative and other expenses	(658 553)	(2 213 701)	(25 931)	(22 556)	(982 688)	(3 531 764)	(7 435 193)
Segment result	8 197 440	796 899	864 070	670 608	249 795	(3 531 764)	7 247 048

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	1 015 136	4 970	-	793 086	-	2 936 928
Net loss on securities	-	-	(816 952)	-	-	-	(816 952)
Net foreign exchange gains	-	-	255 021	-	-	-	255 021
Other operating 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	10 125 555	9 414 666	2 050 596	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)
Segment result	6 432 638	506 684	(1 348 145)	499 984	98 125	(1 330 946)	4 858 340

Information about major customers and geographical areas

The majority of revenues from external customers relate to residents of the Russian Federation. The majority of non-current assets are located in the Russian Federation.

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 2012	31 December 2011
	RUB'000	RUB'000
ASSETS		
Cash and cash equivalents	36 629 588	27 198 272
Obligatory reserves with the Central Bank of the Russian Federation	2 545 772	2 259 170
Due from credit institutions	12 520 791	5 301 412
Financial instruments at fair value through profit or loss	31 665 973	22 783 737
Available-for-sale securities	5 421 588	2 003 672
Loans to customers	201 234 522	159 019 821
Other assets	1 069 219	870 522
Total maximum exposure to credit risk on statement of financial position	291 087 453	219 436 606

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 Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The 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 2012 and 2011.

The following tables as at 31 December show 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 2012	Less than 1 month RUB'000	1 to 6 months RUB'000	6 months to 1 year RUB'000	Over 1 year RUB'000	Total RUB'000
LIABILITIES					
Deposits by credit institutions	2 244 139	9 942 417	17 590 603	7 449 609	37 226 768
Deposits by customers	65 778 158	45 930 212	53 275 369	36 852 290	201 836 029
Debt securities issued	3 175 259	12 049 741	8 038 267	21 244 152	44 507 419
Total contractual future payments for financial obligations as at 31 December 2012	71 197 556	67 922 370	78 904 239	65 546 051	283 570 216
Guarantees and letters of credit	40 586 746	-	-	-	40 586 746
Credit related commitments	1 968 320	-	-	-	1 968 320
31 December 2011	Less than 1 month RUB'000	1 to 6 months RUB'000	6 months to 1 year RUB'000	Over 1 year RUB'000	Total 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 contractual 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	29 869 161	-	-	-	29 869 161
Credit related commitments	1 079 727	-	-	-	1 079 727

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Management believes term deposits from individuals to be a stable source of funding based on the past experience, thus classifying them in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

	2012 RUB'000	2011 RUB'000
Demand and less than 1 month	7 570 437	5 040 073
From 1 to 6 months	32 475 794	32 490 657
From 6 to 12 months	36 813 219	23 931 570
More than 1 year	22 866 734	19 064 632
	99 726 184	80 526 932

In accordance with terms of issuance of bonds and promissory notes the holders are entitled to demand early redemption of bonds and promissory notes at their nominal value at certain dates. As at 31 December 2012 management believes debt securities issued to be a stable source of funding based on the past experience, thus classifying them in accordance with their stated maturity dates. Maturity based on early redemption dates is shown in the table below:

31 December 2012	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
Promissory notes issued	1 081 497	4 091 297	2 399 572	583 526	-	-	-	8 155 892
Bonds issued	2 081 065	7 004 029	4 770 799	14 987 005	-	3 015 000	-	31 857 898

The following tables show all assets and liabilities as at 31 December 2012 and 2011 by their remaining contractual maturities, including term deposits with individuals and debt securities issued, 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 2012 and 2011 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 2012	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	18 826	1 562 877	3 194 256	14 053 183	7 183 554	5 672 103	17	31 684 816
Available-for-sale securities	-	1 864 715	687 633	1 887 854	760 771	220 615	26 006	5 447 594

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	84 491	1 598 664	961 248	7 629 243	6 547 877	6 046 705	23	22 868 251
Available-for-sale securities	-	197 250	528 167	625 001	103 079	550 175	27 006	2 030 678

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31 December 2012	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 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	RUB'000	RUB'000	RUB'000	RUB'000
ASSETS												
Cash and cash equivalents	47 459 075	-	-	-	-	-	-	-	-	-	-	47 459 075
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	-	-	-	-	2 545 772	-	2 545 772
Due from credit institutions	2 536 527	1 508 415	1 502 705	3 370 390	602 754	3 000 000	-	-	-	-	-	12 520 791
Financial instruments at fair value through profit or loss	25 438 516	-	401 448	148 332	1 715 575	735 758	467 427	2 677 065	100 678	17	-	31 684 816
Available-for-sale securities	2 893 914	1 576 703	288 011	51 950	440 400	62 032	108 578	-	-	26 006	-	5 447 594
Loans to customers	13 149 864	45 218 291	28 329 898	18 037 254	17 417 652	27 448 151	19 511 111	20 604 008	10 219 222	-	1 299 071	201 234 522
Property and equipment	-	-	-	-	-	-	-	-	-	6 079 620	-	6 079 620
Other assets	979 047	144 178	185 595	214 898	231 477	-	-	-	-	-	-	1 755 195
	<u>9 2 456 943</u>	<u>48 447 587</u>	<u>30 707 657</u>	<u>21 822 824</u>	<u>20 407 858</u>	<u>31 245 941</u>	<u>20 087 116</u>	<u>23 281 073</u>	<u>10 319 900</u>	<u>8 651 415</u>	<u>1 299 071</u>	<u>308 727 385</u>
LIABILITIES												
Deposits by credit institutions	2 242 563	2 660 566	7 060 489	3 541 251	13 333 972	2 034 905	2 413 372	1 691 156	205 459	-	-	35 183 733
Deposits by customers	65 679 680	23 468 706	21 471 840	22 263 078	27 278 714	10 316 432	13 582 461	4 033 344	919 849	-	-	189 014 104
Debt securities issued	1 081 497	2 834 560	1 256 736	1 939 099	460 474	18 513 007	10 913 417	-	3 015 000	-	-	40 013 790
Income tax liability	-	125 817	-	-	-	-	-	-	-	2 608 594	-	2 734 411
Other liabilities	1 030 522	298 492	120 954	120 954	120 956	-	-	-	-	797 176	-	2 489 054
	<u>70 034 262</u>	<u>29 388 141</u>	<u>29 910 019</u>	<u>27 864 382</u>	<u>41 194 116</u>	<u>30 864 344</u>	<u>26 909 250</u>	<u>5 724 500</u>	<u>4 140 308</u>	<u>3 405 770</u>	<u>-</u>	<u>269 435 092</u>
Net position	<u>22 422 681</u>	<u>19 059 446</u>	<u>797 638</u>	<u>(6 041 558)</u>	<u>(20 786 258)</u>	<u>381 597</u>	<u>(6 822 134)</u>	<u>17 556 573</u>	<u>6 179 592</u>	<u>5 245 645</u>	<u>1 299 071</u>	<u>39 292 293</u>
Accumulated gap	<u>22 422 681</u>	<u>41 482 127</u>	<u>42 279 765</u>	<u>36 238 207</u>	<u>15 451 949</u>	<u>15 833 546</u>	<u>9 011 412</u>	<u>26 567 985</u>	<u>32 747 577</u>	<u>37 993 222</u>	<u>39 292 293</u>	

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31 December 2011	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 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	RUB'000	RUB'000	RUB'000	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	20 310 483	-	559 346	79 191	350 998	177 323	689 737	701 150	-	23	-	22 868 251
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	291 613	475 110	271 558	167 749	39 439	942	452	-	-	241 207	-	1 488 070
	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	

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 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 2012						
Interest-bearing assets	35 910 697	79 986 901	43 309 939	110 560 570	1 299 071	271 067 178
Interest-bearing liabilities	39 233 012	65 756 926	73 587 387	53 866 131	-	232 443 456
Net interest sensitivity gap as at 31 December 2012	(3 322 315)	14 229 975	(30 277 448)	56 694 439	1 299 071	38 623 722
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

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 2012 and 2011 is as follows:

	2012		2011	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
100 bp parallel rise	(5 811)	(5 811)	57 164	57 164
100 bp parallel fall	5 811	5 811	(57 164)	(57 164)

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 through profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2012 and 2011 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2012		2011	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
100 bp parallel rise	(263 831)	(299 027)	(363 888)	(392 369)
100 bp parallel fall	263 831	299 027	363 888	392 369

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 2012 and 2011 and a simplified scenario of a 10% change in USD to Russian Rouble exchange rates is as follows:

	2012		2011	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
10% appreciation of USD against RUB	53 674	53 674	(6 468)	(6 468)
10% depreciation of USD against RUB	(53 674)	(53 674)	6 468	6 468

Equity price risk

Price risk is the risk that the value of an equity 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 an equity 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 2012 and 2011 and a simplified scenario of a 5% change in all securities prices is as follows:

	2012		2011	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
5% increase in securities prices	1	1 040	-	1 080
5% decrease in securities prices	(1)	(1 040)	-	(1 080)

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 2012			31 December 2011		
	USD	RUB	Other foreign currencies	USD	RUB	Other foreign currencies
Interest bearing assets						
Cash and cash equivalents	-	6.3%	-	-	5.7%	-
Due from credit institutions	3.9%	11.4%	-	3.2%	9.0%	3.0%
Financial instruments at fair value through profit or loss – government bonds	2.7%	6.3%	-	5.9%	7.9%	-
Financial instruments at fair value through profit or loss – corporate notes and municipal bonds	-	9.5%	-	-	10.1%	-
Available-for-sale securities – corporate notes and municipal bonds	4.8%	9.5%	-	8.8%	11.3%	-
Loans to customers	9.5%	14.5%	9.3%	9.2%	12.5%	9.6%
Interest bearing liabilities						
Deposits by credit institutions	4.2%	8.2%	3.0%	4.0%	7.6%	3.3%
- Syndicated loans	4.9%	-	-	3.9%	-	-
- Subordinated debt	8.9%	-	-	7.7%	-	-
Term deposits by customers	5.0%	10.2%	5.1%	5.9%	9.3%	6.3%
Debt securities issued	8.3%	9.5%	5.2%	8.3%	8.7%	5.2%

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 2012				31 December 2011			
	USD	RUB	Other	Total	USD	RUB	Other	Total
	RUB'000	RUB'000	currencies RUB'000	RUB'000	RUB'000	RUB'000	currencies RUB'000	RUB'000
ASSETS								
Cash and cash equivalents	6 526 493	36 895 421	4 037 161	47 459 075	2 853 889	28 513 466	3 066 064	34 433 419
Obligatory reserves with the Central Bank of the Russian Federation	-	2 545 772	-	2 545 772	-	2 259 170	-	2 259 170
Due from credit institutions	3 027 050	9 493 741	-	12 520 791	3 262 873	1 620 332	418 207	5 301 412
Financial instruments at fair value through profit or loss	1 835 687	29 849 129	-	31 684 816	1 873 809	20 994 442	-	22 868 251
Available-for-sale securities	2 234 037	3 213 557	-	5 447 594	546 748	1 483 930	-	2 030 678
Loans to customers	28 419 960	166 113 500	6 701 062	201 234 522	18 186 054	132 935 173	7 898 594	159 019 821
Property and equipment	-	6 079 620	-	6 079 620	-	4 969 932	-	4 969 932
Other assets	32 264	1 688 149	34 782	1 755 195	38 388	1 409 572	40 110	1 488 070
	42 075 491	255 878 889	10 773 005	308 727 385	26 761 761	194 186 017	11 422 975	232 370 753

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	31 December 2012				31 December 2011			
	USD RUB'000	RUB RUB'000	Other currencies RUB'000	Total RUB'000	USD RUB'000	RUB RUB'000	Other currencies RUB'000	Total RUB'000
LIABILITIES								
Deposits by credit institutions	21 701 901	10 459 968	3 021 864	35 183 733	16 752 464	6 504 539	1 707 125	24 964 128
Deposits by customers	14 271 818	167 087 563	7 654 723	189 014 104	12 883 207	123 628 785	10 178 894	146 690 886
Debt securities issued	6 043 178	33 959 910	10 702	40 013 790	6 700 568	24 407 370	10 931	31 118 869
Income tax liability	-	2 734 411	-	2 734 411	-	2 090 267	-	2 090 267
Other liabilities	171 752	2 178 774	138 528	2 489 054	28 413	1 840 441	29 843	1 898 697
	42 188 649	216 420 626	10 825 817	269 435 092	36 364 652	158 471 402	11 926 793	206 762 847
Net position before hedging	(113 158)	39 458 263	(52 812)	39 292 293	(9 602 891)	35 714 615	(503 818)	25 607 906
Spot contracts	786 652	(1 558 528)	771 876	-	9 606 635	(9 606 635)	-	-
Net position	673 494	37 899 735	719 064	39 292 293	3 744	26 107 980	(503 818)	25 607 906

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 2012 and 2011 is disclosed in the table below:

	31 December 2012				31 December 2011			
	Russia RUB'000	OECD RUB'000	Other non- OECD RUB'000	Total RUB'000	Russia RUB'000	OECD RUB'000	Other non- OECD RUB'000	Total RUB'000
ASSETS								
Cash and cash equivalents	37 194 041	10 261 265	3 769	47 459 075	29 860 525	4 567 963	4 931	34 433 419
Obligatory reserves with the Central Bank of the Russian Federation	2 545 772	-	-	2 545 772	2 259 170	-	-	2 259 170
Due from credit institutions	11 012 376	763 114	745 301	12 520 791	1 620 331	3 681 081	-	5 301 412
Financial instruments at fair value through profit or loss	31 532 897	151 919	-	31 684 816	22 868 251	-	-	22 868 251
Available-for-sale securities	5 447 594	-	-	5 447 594	2 030 678	-	-	2 030 678
Loans to customers	196 582 729	2 362 253	2 289 540	201 234 522	153 650 417	4 236 030	1 133 374	159 019 821
	284 315 409	13 538 551	3 038 610	300 892 570	212 289 372	12 485 074	1 138 305	225 912 751
LIABILITIES								
Deposits by credit institutions	12 984 941	22 198 792	-	35 183 733	6 540 537	18 413 350	10 241	24 964 128
Deposits by customers	185 721 020	81 319	3 211 765	189 014 104	140 648 047	333 081	5 709 758	146 690 886
Debt securities issued	37 350 929	2 273 174	389 687	40 013 790	28 183 391	2 501 684	433 794	31 118 869
	236 056 890	24 553 285	3 601 452	264 211 627	175 371 975	21 248 115	6 153 793	202 773 883
Net position	48 258 519	(11 014 734)	(562 842)	36 680 943	36 917 397	(8 763 041)	(5 015 488)	23 138 868

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, excluding those financial instruments carried at fair value on the consolidated statement of financial position, for which discounted cash flow techniques are used to estimate their fair value:

	2012 RUB'000	2012 RUB'000	2011 RUB'000	2011 RUB'000
	Fair value	Carrying value	Fair value	Carrying value
ASSETS				
Cash and cash equivalents	47 459 075	47 459 075	34 433 419	34 433 419
Obligatory reserves with the Central Bank of the Russian Federation	2 545 772	2 545 772	2 259 170	2 259 170
Due from credit institutions	12 520 791	12 520 791	5 301 412	5 301 412
Loans to customers	199 151 689	201 234 522	159 499 028	159 019 821
LIABILITIES				
Deposits by credit institutions	35 183 733	35 183 733	24 964 128	24 964 128
Deposits by customers	189 367 830	189 014 104	147 245 274	146 690 886
Debt securities issued	40 013 790	40 013 790	31 118 869	31 118 869

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 main assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 14.0% (roubles) and 8.5 % (foreign currency) are used for discounting future cash flows from corporate loans
- discount rates of 17.0% (roubles) and 12.2% (foreign currency) are used for discounting future cash flows from loans to individuals
- discount rates of 10.0% (roubles) and 4.4% (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 2012 and 2011:

31 December 2012	Level 1 RUB'000	Level 2 RUB'000	Total RUB'000
Financial assets at fair value through profit or loss	31 444 556	240 260	31 684 816
Available-for-sale securities	3 007 896	2 413 692	5 421 588
<hr/>			
31 December 2011	Level 1 RUB'000	Level 2 RUB'000	Total RUB'000
Financial assets at fair value through profit or loss	22 515 445	352 806	22 868 251
Available-for-sale securities	1 342 130	661 542	2 003 672

The fair value of unquoted equity securities available-for-sale with a carrying value of RUB 26 006 thousand (31 December 2011: RUB 27 006 thousand) cannot be determined.

During 2012 there were no transfers of financial instruments between Level 1 and Level 2.

As at 31 December 2012 and 2011 the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of unobservable inputs (Level 3).

30 Events subsequent to the reporting date

In January 2013 the Bank paid out the fifth coupon in the amount of RUB 94.74 million or RUB 47.37 per bond on domestic bonds series 07. The issue was originally placed on 20 July 2010 in the amount of RUB 2 billion with a maturity of 5 years.

In January 2013 the Bank bought back 599 738 bonds series 07 (30.0%) from their holders based on a put option at the price of 100% of par value, and then sold 599 738 bonds on the market at the price of RUB 602 826 thousand. The par value of each bond is RUB 1 000.

In February 2013 the Bank placed a Loan Participation Notes issue in the total amount of USD 500 million with a fixed coupon rate of 7.7% p.a. at par and maturity of 5 years.

In February 2013 the Bank paid out the fourth coupon in the amount of RUB 128.55 million or RUB 42.85 per bond on exchange 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.

In February 2013 the Bank placed its domestic subordinated bond issue series 12 with a nominal value of RUB 2 billion with a 5.5-year maturity at MICEX.

In March 2013 the Bank bought back 1 003 307 exchange bonds series BO-01 (33.4%) from their holders based on a put option at the price of 100% of par value, and then sold 1 003 307 bonds on the market at the price of RUB 1 003 811 thousand. The par value of each bond is RUB 1,000.

In March 2013 international rating agency Standard and Poor's revised its outlook on the Bank's ratings from stable to positive. The Bank's 'B+/B' long and short-term counterparty credit ratings and the 'ruA+' Russia national scale rating were affirmed.

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