

IMPORTANT NOTICE

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

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page and you are therefore advised to read this page carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer (as defined in the Prospectus), CBM (as defined in the Prospectus), HSBC Bank plc, Raiffeisen Bank International AG or The Royal Bank of Scotland plc (together, the **“Joint Lead Managers”**) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES AND THE SUBORDINATED LOAN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **“SECURITIES ACT”**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE ATTACHED PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE ATTACHED DOCUMENT.

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

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

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

The attached Prospectus may only be distributed to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **“Order”**) or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as **“relevant persons”**). Any person who is not a relevant person should not act or rely on this document or any of its contents.

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



CREDIT BANK OF MOSCOW

US\$500,000,000 8.70% Loan Participation Notes due 13 November 2018
to be 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 5 Harbourmaster Place, IFSC, Dublin 1, Ireland and registered under number 425241 (the “**Issuer**”), is issuing an aggregate principal amount of US\$500,000,000 8.70% Loan Participation Notes due 13 November 2018 (the “**Notes**”) to be 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 30 April 2013 (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 to be dated 13 May 2013 (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 the “*Terms and Conditions of the Notes*”). Under the Trust Deed, the Issuer will charge, in favour of the Trustee, by way of a first fixed charge as security for its payment obligations in respect of the Notes and under the Trust Deed, certain of its rights and interests under the Subordinated Loan Agreement and the Account (as defined in the Trust Deed). In addition, the Issuer will assign absolutely certain of its administrative rights under the 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 will have no other financial obligation under the Notes.

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

On each Interest Payment Date (as defined below) (being 13 May and 13 November in each year, commencing on 13 November 2013 and ending on 13 November 2018), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained by or for the account of the Issuer pursuant to the Subordinated Loan Agreement, which interest under the Subordinated Loan Agreement is equal to 8.70% per annum. See “*Overview – Overview of the Offering*”.

Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of CBM in respect of the payment obligations of CBM under the 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 9 OF THIS PROSPECTUS BEFORE INVESTING IN THE NOTES.

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

The Notes and the 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 (i) within the United States to persons who are qualified institutional buyers (each, a “**QIB**”), as defined in Rule 144A under the Securities Act (“**Rule 144A**”) and are also qualified purchasers (each, a “**QP**”) as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940 (the “**Investment Company Act**”), as amended, in reliance on the exemption from registration provided by Rule 144A and (ii) to non U.S. persons in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain other restrictions, see “*Subscription and Sale*” and “*Transfer Restrictions*”.

Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in a permanent global note (the “**Unrestricted Global Note**”) in registered form, without interest coupons attached, which will be registered in the name of Citibank Europe plc as nominee for, and shall be deposited on or about 13 May 2013 (the “**Closing Date**”) with a common depositary for, and in respect of interests held through Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”). Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in a permanent global note (the “**Restricted Global Note**”) and, together with the Unrestricted Global Note, the “**Global Notes**”) in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with a custodian for, and registered in the name of Cede & Co. as nominee for The Depository Trust Company (“**DTC**”). Notes will be issued in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. See “*Terms and Conditions of the Notes – 2 Form and Denomination*”. Interests in the Restricted Global Note will be subject to certain restrictions on transfer. See “*Form of the Notes*” and “*Transfer Restrictions*”. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

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

Joint Lead Managers

HSBC
(Sole Structuring Adviser)

Raiffeisen Bank International

The Royal Bank of Scotland

The date of this Prospectus is 30 April 2013.

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This Prospectus constitutes a prospectus for the purpose of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, CBM, the Notes and the 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**”);
- Expert RA Rating Agency (“**Expert RA**”);
- InfoLine Retail Russia TOP-100;
- Interfax Information Services (“**Interfax**”);
- Marksw Webb Rank & Report;
- RBC Rating;
- Rusipoteka; and
- Senteo International.

CBM and the Issuer accept responsibility that such information has been accurately reproduced and, as far as CBM and the Issuer are aware and are able to ascertain, no facts have been omitted which would render the information inaccurate or misleading. However, CBM and the Issuer have relied on the accuracy of 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) and the address of its registered office and its head office is 2 (Building 1) Lukov Pereulok, Moscow 107045, the Russian Federation. The telephone number of the registered office and head office is +7 (495) 797-4-222. CBM is regulated by the CBR and holds general banking licence No. 1978 issued by the CBR on 20 January 2000. The Issuer's legal name is CBOM Finance p.l.c. registered as a public company with limited liability under the Companies Act 1963-2005 of Ireland under number 425241, and its registered address is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland. The Issuer may be reached by telephone at +353 1 680 6000.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Consequently, this document is being distributed only to, and is directed at persons who have professional experience in matters relating to investments falling within article 19(1) of

the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as “**relevant persons**”). Any person who is not a relevant person should not act or rely on this document or any of its contents. Persons into whose possession this Prospectus may come are required by the Issuer, CBM and the Joint Lead Managers to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this Prospectus and other offering material relating to the Notes is set out under “*Subscription and Sale*”, “*Form of the Notes*” and “*Transfer Restrictions*”.

Neither the Issuer nor CBM intends to provide any post-issuance transaction information regarding the Notes or the performance of the 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, the Trustee or the Joint Lead Managers. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Without limitation to the generality of the foregoing, the contents of CBM's website as at the date hereof or as at any other date do not form any part of this Prospectus (and, in particular, are not incorporated by reference herein).

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or CBM after the date the Notes are admitted to trading on the Irish Stock Exchange.

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

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

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

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

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE JOINT LEAD MANAGERS OR ANY OF THEIR RESPECTIVE AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF OR THE TRUSTEE AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT, AND NOTHING CONTAINED IN THIS DOCUMENT IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION BY THE JOINT LEAD MANAGERS OR ANY OF THEIR RESPECTIVE AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF, WHETHER AS TO THE PAST OR THE FUTURE. NEITHER THE JOINT LEAD MANAGERS NOR ANY OF THEIR RESPECTIVE AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF OR THE TRUSTEE ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT.

EACH PERSON RECEIVING THIS PROSPECTUS ACKNOWLEDGES THAT SUCH PERSON HAS NOT RELIED ON THE JOINT LEAD MANAGERS OR ANY OF THEIR RESPECTIVE AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF IN CONNECTION WITH ITS INVESTIGATION OF THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR ITS INVESTMENT DECISION. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF CBM AND THE ISSUER AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

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

NOTICE TO UNITED KINGDOM RESIDENTS

This Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **“Order”**) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within article 49(2)(a) to (d) of the Order (all such persons together being referred to as **“relevant persons”**). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

NOTICE TO RUSSIAN FEDERATION RESIDENTS

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

FORWARD-LOOKING STATEMENTS

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

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

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

AVAILABLE INFORMATION

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

DOCUMENTS INCORPORATED BY REFERENCE

The audited financial statements of the Issuer as at and for the years ended 31 December 2012, 31 December 2011 and 2010 together with the audit reports thereon, have been filed with the Irish Stock Exchange and shall be deemed to be incorporated in, and to form part of, this Prospectus. The financial statements as at and for the years ended 31 December 2011 and 31 December 2010 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>.

FATCA

The U.S. foreign account tax compliance rules (“**FATCA**”) were enacted in 2010 to prevent U.S. tax evasion by requiring foreign banks and investment funds to provide information to the United States Internal Revenue Service (the “**IRS**”) about U.S. customers and investors. This is achieved through a comprehensive information reporting regime that requires foreign financial institutions (such as CBM and the Issuer) to conduct diligence on their account holders and investors to determine whether their accounts are “U.S. accounts”, and either provide detailed information about these U.S. accounts to the IRS or suffer a 30% withholding tax on certain payments. 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 the 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.

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

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

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the Rules and the application of English law to the 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.

INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

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

CERTAIN ERISA CONSIDERATIONS

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

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

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

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

BY ITS PURCHASE AND HOLDING OF A NOTE OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED AT THE TIME OF ITS PURCHASE AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTE OR INTEREST THEREIN, (1) IT IS NOT AND IS NOT USING THE ASSETS OF AND WILL NOT BE A BENEFIT PLAN INVESTOR; (2) IF IT IS AN EMPLOYEE BENEFIT PLAN SUBJECT TO SIMILAR LAW, THE PURCHASE AND HOLDING OF THE NOTE OR ANY INTEREST THEREIN DOES NOT AND WILL NOT VIOLATE ANY SUCH SIMILAR LAW; AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER SUCH NOTE OR ANY INTEREST THEREIN TO ANY PERSON UNLESS THE SAME FOREGOING REPRESENTATIONS AND WARRANTIES APPLY TO SUCH PERSON. NO ACQUISITION BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF ANY NOTE WILL BE EFFECTIVE, AND NONE OF THE ISSUER, THE REGISTRAR, ANY TRANSFER AGENT OR THE TRUSTEE WILL RECOGNISE SUCH ACQUISITION OR TRANSFER OF SUCH NOTE. IN THE EVENT THAT THE ISSUER DETERMINES THAT ANY SUCH NOTE IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER OF SUCH NOTE.

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

CBM's financial information set forth herein has, unless otherwise indicated, been extracted, without material adjustment, from CBM's audited consolidated financial statements for the years ended 31 December 2012, 2011 and 2010 (the “**2012 Financial Statements**”, “**2011 Financial Statements**” and “**2010 Financial Statements**”, respectively, and together, the “**Financial Statements**”) set forth on pages F-1 through F-202 of this Prospectus. The Financial Statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as promulgated by the International Accounting Standards Board and 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.

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

CBM's Independent Auditors

The Financial Statements of CBM as at 31 December 2012, 2011 and 2010, and for the years then ended, included in the Prospectus have been 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*).

Impact of Changes in Presentation

In connection with the preparation of the 2011 Financial Statements, CBM reclassified certain promissory notes issued by CBM to corporate banking customers from debt securities issued to deposits by customers in order to reflect more accurately the economic substance of the transactions. This reclassification did not have a significant impact on the financial results of CBM. The 2010 Financial Statements were not required to be, and were not, restated as a result of this reclassification. However, the 31 December 2010 comparative information in the Statement of Financial Position in the 2011 Financial Statements was revised to reflect this reclassification in order to present the relevant items on a comparable basis. In particular, in such comparative information as at 31 December 2010, RUB 1,532,248 was subtracted from debt securities issued and was added to deposits by customers. Figures related to 2010 presented in this Prospectus were extracted from 2010 comparative information in the 2011 Financial Statements and reflect such reclassification.

In connection with the preparation of the 2012 Financial Statements, CBM reclassified certain items relating to derivative financial instruments, fee and commission income and foreign exchange gains (losses) in order to better present the nature of the underlying transactions. These reclassifications did not have a significant impact on the financial results of CBM. The 2011 and 2010 Financial Statements were not required to be, and were not, restated as a result of these reclassifications. However, the 2011 comparative information in the 2012 Financial Statements was revised to reflect this change in presentation in order to present the relevant items on a comparable basis. In particular, in such comparative information as at 31 December 2011 RUB 84,491 was subtracted from other assets and was added to financial instruments at fair value through profit or loss, and in such comparative information for the year ended 31 December 2011 RUB 218,365 was subtracted from foreign exchange gains, net, and added to fee and commission income. Figures related to 2011 presented in this Prospectus were extracted from 2011 comparative information in the 2012 Financial Statements and reflect such reclassifications.

Certain Definitions

In this Prospectus, all references to:

- “**CBR**” are to the Central Bank of Russia;
- “**CIS**” are to the Commonwealth of Independent States and its member states (excluding Russia) as at the date of this Prospectus, being Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan;
- “**EBRD**” are to the European Bank for Reconstruction and Development;
- “**EU**” are to the European Union;
- “**FSFM**” are to the Russian Federal Service for Financial Markets or its predecessor;
- “**IFC**” are to the International Finance Corporation;

- “**Interest Earning Assets**” are to the sum of gross loans to customers, amounts receivable under reverse repurchase agreements, financial assets at fair value through profit or loss, placements with banks and other financial institutions and available-for-sale securities;
- “**Interest Bearing Liabilities**” are to the sum of current accounts and deposits by customers, other borrowed funds, debt securities issued, deposits and balances from banks and other financial institutions, subordinated debt and amounts payable under repurchase agreements;
- “**Net Interest Margin**” is calculated as net interest income before provision for loan impairment, as a percentage of the average Interest Earning Assets;
- “**NPL**” means non-performing loan, which CBM defines as a loan in respect of which principal and/or interest is overdue by more than 90 days; and
- “**Russia**” and “**Russian**” pertain to the Russian Federation.

Certain Currencies

In this Prospectus, the following currency terms are used:

- “**RUB**”, “**Russian Roubles**”, “**Roubles**” or “**roubles**” means the lawful currency of the Russian Federation;
- “**US\$**” or “**U.S. dollar**” means the lawful currency of the United States; and
- “**EUR**”, “**Euro**” “**euro**” or “**€**” means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended.

References in the Prospectus to “billions” are to thousands of millions.

Rounding

Certain figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Exchange Rate Information

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

Year	RUB per \$1.00			
	High	Low	Period end	Period average ⁽¹⁾
2007	26.58	24.26	24.55	25.58
2008	29.38	23.13	29.38	24.86
2009	36.43	28.67	30.24	31.72
2010	31.78	28.93	30.48	30.37
2011	32.68	27.26	32.20	29.35
2012	34.04	28.95	30.37	31.07
2013 (up to and including 27 April 2013)	31.72	29.93	31.22	30.62

Source: www.cbr.ru (CBR)

Note:

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

No representation is made that the Rouble or U.S. dollar amounts referred to herein could have been or could be converted into Roubles or U.S. dollars, as the case may be, at these rates, at any particular rate or at all. **The exchange rate between the Rouble and the U.S. dollar has fluctuated significantly during the years covered by the Financial Statements.** The CBR rate on 27 April 2013 was RUB 31.22 = US\$1.00.

Average Balance Sheet and Interest Rate Data

This Prospectus includes information on the average balances of Interest Earning Assets and Interest Bearing Liabilities of CBM as at and for the years ended 31 December 2012, 31 December 2011 and 31 December 2010, as well as the average rate of interest income or expense for such assets and liabilities. Unless otherwise expressly stated, the consolidated average balances of assets and liabilities presented in this Prospectus represent the average of the opening, quarter-end and closing balances for the applicable 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 expense for the relevant line item by the average balance for the same item for the applicable year. Average interest rates are distinct from the effective interest rates presented in the consolidated financial statements of CBM. The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the entire expected life of the instrument. The present value calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate. See Note 3 to each of the 2012, 2011 and 2010 Financial Statements.

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

Translations

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. All translations in this Prospectus are direct and accurate translations of the original text.

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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 collection and delivery, guarantees and letters of credit, trade and structured finance, factoring, leasing, deposit-taking, settlements, plastic card services and foreign exchange operations.

CBM currently operates exclusively in Moscow and the Moscow region (other than a small part of its cash collection and delivery business which is conducted in regions neighbouring the Moscow region), as it considers these markets to be the most promising for its future business development. As at 31 December 2012, CBM had 60 branches, 14 cash offices, 694 ATMs and 3,906 payment terminals. According to RBC Rating, as at 31 December 2012, CBM was ranked 6th in Moscow based on number of ATMs and 2nd in Moscow and Russia based on number of payment terminals. As at 31 December 2012, CBM was the 19th largest bank in Russia based on net assets according to RBC Rating and the 23rd largest bank in Russia based on the size of its equity capital according to Interfax-100, based on Russian Accounting Standards (RAS). According to RBC Rating, as at 31 December 2012 CBM was rated 17th among Russian banks based on the size of its loan portfolio and 18th among Russian banks based on amount of customer deposits.

Corporate banking is CBM's core business area, representing 75.5% of total gross loans to customers as at 31 December 2012, as compared with 81.6% and 82.8% of total gross loans to customers as at 31 December 2011 and 2010, respectively. CBM's strategy includes aiming to increase the size of its retail banking business as a percentage of its overall business. However, CBM expects corporate banking to continue to represent the majority of CBM's overall business for the foreseeable future.

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

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

As at 31 December 2012, CBM's total assets were RUB 308.7 billion, as compared with RUB 232.4 billion as at 31 December 2011 and RUB 165.5 billion as at 31 December 2010. CBM's net income for the year ended 31 December 2012 was RUB 5.8 billion compared to RUB 3.9 billion and RUB 3.0 billion for the years ended 31 December 2011 and 2010, respectively. CBM's total equity was RUB 39.3 billion, RUB 25.6 billion and RUB 13.8 billion as at 31 December 2012, 2011 and 2010, respectively.

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

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

Competitive Strengths

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

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

Strategy

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

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

Recent Developments

In January 2013, CBM bought back 599,738 domestic bonds series 07 (30.0%) from bondholders at par pursuant to a put option and then sold all of these bonds in the market. The par value of each bond is RUB 1,000.

In February 2013, CBM made a US\$500 million Eurobond issue in the form of loan participation notes issued by the Issuer. The notes mature in February 2018 and have an interest rate of 7.70%.

In February 2013, CBM issued RUB 2 billion of subordinated domestic bonds series 12 with a fixed coupon of 12.25% and a 5.5-year maturity. In March 2013, the CBR approved the inclusion of the proceeds from the issue into CBM's supplemental capital.

In March 2013, CBM bought back 1,003,307 exchange bonds series BO-01 from bondholders at par pursuant to a put option and then sold all of these bonds in the market. The par value of each bond is RUB 1,000.

Overview of the Offering

THE NOTES

The Issuer	CBOM Finance p.l.c.
Joint Lead Managers	HSBC Bank plc, Raiffeisen Bank International AG and The Royal Bank of Scotland plc.
The Notes	US\$500,000,000 8.70% Loan Participation Notes due 13 November 2018.
Issue Price	100% of the principal amount of the Notes.
Issue Date	13 May 2013.
Maturity Date	13 November 2018.
Trustee	Citibank, N.A., London Branch.
Principal Paying Agent and Transfer Agent	
Citibank, N.A., London Branch.	
Registrar	Citigroup Global Markets Deutschland AG.
U.S. Paying Agent and Transfer Agent	Citibank, N.A., New York Branch.
Yield	8.70% per annum.
Interest and Interest Payment Dates	On each Interest Payment Date (being 13 May and 13 November in each year commencing on 13 November 2013 and ending on 13 November 2018, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Subordinated Loan Agreement, which interest under the Subordinated Loan Agreement is equal to 8.70% per annum.
Form and Denomination of the Notes	Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in the Unrestricted Global Note in registered form, without interest coupons attached, which will be registered in the name of Citibank Europe plc as nominee for, and shall be deposited on or about the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg. Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in the Restricted Global Note in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with a custodian for, and registered in the name of Cede & Co. as nominee for DTC. Notes will be issued in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. See “ <i>Terms and Conditions of the Notes – 2 Form and Denomination</i> ”.
	Interests in the Notes will be subject to certain restrictions on transfer. See “ <i>Form of the Notes</i> ” and “ <i>Transfer Restrictions</i> ”.
	Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants.
	Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.
Status of the Notes	The Notes constitute secured, limited recourse obligations of the Issuer and shall at all times rank rateably, without preference amongst themselves. Recourse in respect of the Notes is limited to the assets securing the Notes. The Notes are secured in the manner described in the Trust Deed and under “ <i>Terms and Conditions of the Notes – 1 Status and Limited Recourse</i> ”.

Limited Recourse	<p>The Notes will constitute the obligation of the Issuer to apply the net proceeds from the issue of the Notes solely for the purpose of financing the 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 “<i>Terms and Conditions of the Notes</i>”.</p> <p>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).</p>
Security	<p>The Issuer's payment obligations under and in respect of the Notes will be secured by a first fixed charge in favour of the Trustee for the benefit of itself and the Noteholders of (i) certain of the Issuer's rights and interests as lender under the 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 “<i>Terms and Conditions of the Notes</i>”. 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 “<i>Terms and Conditions of the Notes</i>”.</p> <p>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.</p>
Withholding Tax	<p>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 “<i>Terms and Conditions of the Notes</i>”. 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.</p>
Final Redemption	<p>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 their principal amount on 13 November 2018.</p>

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 Applicable Regulations (as such terms are defined in the Subordinated Loan Agreement), the Borrower may not elect to prepay the Subordinated Loan, in whole or in part, during the period from (and including) the Final Conclusion Confirmation Date (as defined in the Subordinated Loan Agreement) to (and including) the date falling five years after the Final Conclusion Confirmation Date (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 Loss Absorption 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 Loss Absorption Event (as defined in the Subordinated Loan Agreement). Upon any such write down and cancellation of the Notes, (i) 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 any 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 of Noteholders for payment of any amounts under or in respect of the Notes (including, without limitation, accrued and unpaid interest and any additional amounts) and also subject to write down and cancellation shall become null and void, irrespective of whether such amounts have become due and payable. See Condition 6(C) (*Write-down of the Notes following a Loss Absorption Event*) of the Terms and Conditions of the Notes and Clause 8 (*Loss Absorption*) 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 Conditions 6(C) (*Write-down of the Notes following a Loss Absorption Event*) shall also not apply. See “*Overview of the Offering – The Subordinated Loan – 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.

Listing Application has been made to list the Notes on the Irish Stock Exchange. It is expected that admission to listing will become effective and dealings are expected to commence on or about the Issue Date.

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

Security Codes		<i>Restricted Notes</i>	<i>Unrestricted Notes</i>
	ISIN:	US12504PAB67	XS0924078453
	Common Code:	092550826	092407845
	CUSIP:	12504PAB6	

Use of Proceeds An amount equal to the gross proceeds of the issue of the Notes will be used by the Issuer for the sole purpose of financing the Subordinated Loan to CBM. The proceeds of the Subordinated Loan will be used by CBM for general banking purposes. See “*Use of Proceeds*”.

Governing Law The Notes, the Agency Agreement and the Trust Deed and any non-contractual obligations arising out of or in connection therewith will be governed by, and construed in accordance with the laws of England.

Ratings	<p>It is expected that the Notes will be rated B+ by Fitch. CBM's current foreign senior unsecured debt rating by Moody's is B1 and CBM's current long term issuer default rating by Fitch is BB-. CBM's long term counterparty default and short term counterparty default ratings by Standard & Poor's are B+ 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 are expected to be rated B+ 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>
Selling Restrictions	<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 to QIBs who are also QPs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.</p> <p>The Notes may be offered and sold in other jurisdictions (including, but not limited to, the United Kingdom, Austria, Hong Kong, Ireland, the Russian Federation, Singapore and Switzerland) only in compliance with applicable laws and regulations. See "<i>Subscription and Sale</i>".</p>
ERISA Considerations	<p>The Notes may be regarded for ERISA purposes as equity interests in a separate entity whose sole assets are the Subordinated Loan and loans in connection with previous issuances of loan participation notes. Accordingly, the Notes should not be acquired by any benefit plan investor. Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made certain representations as to its status under ERISA. See "<i>Certain ERISA Considerations</i>" and "<i>Transfer Restrictions</i>".</p>
Further Issues	<p>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 – 16 Further Issues</i>".</p>
Risk Factors	<p>An investment in the Notes involves a high degree of risk. See "<i>Risk Factors</i>".</p>

THE SUBORDINATED LOAN

Lender	CBOM Finance p.l.c.
Borrower	CREDIT BANK OF MOSCOW (open joint-stock company), an open joint-stock company registered under the laws of the Russian Federation, with its registered office and business headquarters at 2 (Building 1) Lukov Pereulok, Moscow 107045, Russian Federation.
Principal Amount of the Subordinated Loan	US\$500,000,000.
Interest on the Subordinated Loan	8.70% per annum, payable semi-annually in arrear on 13 May and 13 November in each year starting on 13 November 2013.
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 Senior Creditors (as defined in the Subordinated Loan Agreement) in accordance with the Federal Law “ <i>On Insolvency (Bankruptcy) of Credit Organisations</i> ” No. 40-FZ 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 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>Loss Absorption</i>) of the Subordinated Loan Agreement shall also not apply.
Acceleration Event	<p>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.</p> <p>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.</p>
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 Make Whole 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), the Applicable Regulations, Regulation 215-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 under both the Applicable Regulations and Regulation 215-P (as such terms are defined in the Subordinated Loan Agreement), pursuant to Clause 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*) (for the avoidance of doubt, the disapplication of Regulation 215-P shall not be itself give grounds for prepayment under Clause 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*)); (b) at a price of 105% of the outstanding principal amount of the Subordinated Loan 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 7.4 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*); and (c) at their outstanding principal amount in the event that CBM elects to prepay the Subordinated Loan for tax reasons pursuant to Clause 7.5 (*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 Regulations, the Borrower may not elect to prepay the Subordinated Loan, in whole or in part, during Restricted Period.

Write-Down of the Subordinated Loan following Loss Absorption Event

..... If a Loss Absorption Event (as defined in the Subordinated Loan Agreement) has occurred and is continuing on the day that is the 30th Moscow Business Day following the day on which the Loss Absorption Event first occurred, 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 Loss Absorption 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 (*Loss Absorption*) 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), the Subordinated Loan shall be treated as senior in priority to any subordinated debt or Capital Stock of the Borrower in accordance with the terms of Clause 4.4 (*Reclassification*) of the Subordinated Loan Agreement and the provisions of Clause 8 (Loss Absorption) shall not apply. See "Overview of the Offering – The Subordinated Loan – Reclassification" and Clause 4.4 (*Reclassification*) of the Subordinated Loan Agreement.

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

RISK FACTORS

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

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

Risks Relating to CBM's Business and Industry

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

The credit markets have faced significant volatility, dislocation and liquidity constraints since the onset of the sub-prime mortgage crisis in the United States in 2007 and the subsequent global financial crisis. Falling house prices and increasing foreclosures and unemployment impacted the global credit markets, resulting in significant mark-to-market write downs of asset values by financial institutions, including government sponsored entities and major commercial and investment banks. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases, ceased, to provide funding to borrowers, including other financial institutions. Overall, the uncertainty in the global markets, combined with corresponding domestic factors in 2009, led to very high volatility in the Russian stock markets and at times gave rise to much higher than normal interbank lending rates. For example, in January 2008, the average interbank rouble lending rate was 2.8%, while in January 2009, it increased to 16.3% (calculated using data published by the CBR on its website www.cbr.ru from time to time ("CBR data")). In 2010, 2011 and 2012, the average interbank lending rate was 3.1%, 3.9% and 5.5%, respectively (calculated using CBR data).

Investment capital inflows into Russia also decreased significantly as a result of the global financial crisis, reducing liquidity. In 2008, the Russian economy experienced a net capital outflow in the private sector of US\$133.7 billion (calculated using CBR data). However, following signs of some economic recovery, net capital outflows reduced to US\$56.1 billion in 2009, and to US\$34.4 billion in 2010, before increasing to US\$80.5 billion in 2011, according to the CBR. In the year ended 31 December 2012, net capital outflows were US\$56.8 billion (calculated using CBR data). According to Rosstat, the volume of foreign investment into Russia was US\$81.9 billion in 2009, which increased by 40% to US\$114.7 billion in 2010 and further increased by 66.2% to US\$190.6 billion in 2011. In 2012, the volume of foreign investment into Russia was US\$154.6 billion, a decrease of 18.9% from 2011.

The global financial crisis led to reduced liquidity and increased credit risk premiums for certain market participants, resulting in a reduction of available financing across the world, and consequently, a sharp fall in the supply of long and medium term financing for Russian companies and in the Russian domestic market. CBM's loan to deposit ratio was 106.5%, 108.4% and 109.2% as at 31 December 2012, 2011 and 2010. The principal source of funding for CBM is deposits by customers, which accounted for 70.1% of CBM's total liabilities as at 31 December 2012. According to the CBR's statistics, in 2008 the growth of retail deposits in the Russian banking market halved to 14.5% as compared to growth of 35.4% for 2007, and corporate deposits growth slowed to 40.5% in 2008, from 67.5% in 2007. In the autumn of 2008, several Russian financial institutions suffered severe liquidity problems and had to sell their shares to state controlled or private institutions in exchange for financial support. Some banks had their licences revoked by the CBR.

The volatility and market disruption in the global banking sector has continued through 2011 and 2012 and into 2013. In particular, global financial markets have experienced increased volatility since the second half of 2011, a period which has seen the sovereign rating downgrades of, amongst others, the United States, France, Austria, Greece, Ireland, Portugal, Spain and Italy and continued concerns over the stability of the European monetary system and the stability of certain European economies, notably Greece, Ireland, Portugal, Spain, Italy and Cyprus. Though repeated summits of, and attempts by, European leaders to find a lasting solution to market concerns about such countries' ability to repay their debt have produced bail-out packages and restructuring agreements for certain sovereign debtors such as Greece, there remain continuing doubts concerning the stability of the European monetary system and economy. Any restructuring of sovereign debt, and the impact of that on global or Russian markets could have an adverse effect on CBM's business, financial condition, results of operations, prospects and the value of the Notes.

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

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

The Russian banking market is highly competitive. According to the CBR, as at 1 March 2013, 1,093 banks and non-bank credit organisations were registered in Russia and the 20 largest banks held 70.1% of total banking assets.

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

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

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

CBM's results of operations depend to a large extent on its net interest income. Net interest income represented 72.1% of CBM's operating income for the year ended 31 December 2012, and 77.3% and 70.1% of CBM's operating income for the years ended 31 December 2011 and 2010, respectively.

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

From the last quarter of 2010 interest rates slowly but continuously increased and by mid-2011 reached pre-global financial crisis levels. Rates on new customer deposits were relatively stable during this period. These trends were sharply reversed in the last quarter of 2011 when spillovers from the Eurozone sovereign debt crisis resulted in liquidity pressures for Russian banks and an increase in the borrowing costs for Russian banks issuing their own securities or subordinated debt, or wholesale borrowing from other banks. In order to attract additional funds and avoid outflow of customer deposits, banks significantly increased customer deposit rates. Rates on lending were also subsequently raised in an attempt to maintain margins. Inflationary pressures subsided in 2011 which allowed the CBR to ease monetary policy simultaneously providing extensive liquidity support to the Russian banking system. However, there is still increased pressure on margins resulting from interest rates on customer deposits increasing at a higher rate as compared to lending rates and as a result of competition from state-controlled banks, which have the benefit of significantly larger liquid resources at their disposal than Russian privately-owned banks and subsidiaries of foreign banks. See “– *There is significant competition in the Russian banking market, particularly from state-owned banks*” above. These factors,

together with the necessity to maintain customer deposit interest rates at high levels, have resulted in increased pressure on margins and profitability. In addition, competitive pressures or fixed rates in existing loan commitments or facilities may mean that CBM will be restricted in its ability to increase interest rates charged to customers in response to changes in interest rates that affect wholesale borrowing from other banks, which may put pressure on, or have a material adverse effect on, CBM's interest margin. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for the Years Ended 31 December 2012 and 2011 – Net Interest Income" and "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for the Years Ended 31 December 2011 and 2010 – Net Interest Income".

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

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

Despite the credit risk determination procedures that CBM has in place, it may be unable to evaluate correctly the current financial condition of each prospective borrower and to determine its long-term economic outlook, a task which is significantly more difficult in current economic circumstances. In addition, the lack of frequent and reliable information about borrowers in Russia may result in CBM not becoming aware of events of default of its borrowers. If the credit risk of potential borrowers is or was not assessed correctly or if the financial condition of a significant number of CBM's corporate clients deteriorates because of a general economic downturn globally and/or in Russia, an economic decline in certain sectors of the Russian economy or for any other reason, it may have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

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

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

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

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

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

A portion of CBM's loans is secured by collateral consisting of ownership rights in certain businesses. The primary purpose of such collateral is to enable CBM to sell such rights in the case that a borrower fails to meet its obligations

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

Furthermore, foreclosure under Russian law may be complex and time-consuming. See “– *Risks Relating to the Russian Legal System and Legislation – It may be difficult for CBM to enforce security and sureties under Russian law*”. Even if CBM is successful in foreclosing on collateral, it may be difficult to find buyers for such collateral, and, consequently, the collateral may be sold for significantly less than its appraised value. Failure to recover the expected value of collateral may expose CBM to losses, which may adversely affect CBM's business, financial condition, results of operations and/or prospects.

CBM is exposed to liquidity risk

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

CBM meets a significant portion of its funding requirements using customer accounts and deposits. The majority of CBM's customer accounts and deposits are from retail customers. As at 31 December 2012, retail customer deposits represented 56.6% of CBM's total deposits by customers, as compared to 58.2% and 53.3% as at 31 December 2011 and 2010, respectively. The Russian Civil Code (the “**Civil Code**”) entitles retail depositors to withdraw deposits, including term deposits, at any time. The withdrawal of these retail deposits may impact the ability of CBM to meet its funding requirements.

In addition, some of CBM's Russian corporate clients have significant liquidity requirements, which have been further increased by the lack of liquidity available from financial markets as a result of the global financial crisis and subsequent instability in the financial markets. Accordingly, they often withdraw their deposits and are not in a position to place significant funds with CBM on a long-term basis. The withdrawal of these corporate deposits may also impact the ability of CBM to meet its funding requirements. As at 31 December 2012, RUB 24.2 billion, or 29.5% of CBM's total corporate customer accounts had a maturity classified as on-demand. Despite holding liquidity reserves in excess of the regulatory minimum, unanticipated decreases in corporate customer deposits and/or unexpected withdrawals of retail deposits as described above may result in liquidity gaps that CBM may not be able to cover without incurring additional expenses, if at all. The liquidity gap may affect the ability of CBM to carry out its strategy effectively. This could lead to a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

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

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

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

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

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

A large portion of CBM's client base is comprised of large Moscow-based wholesale and retail trading companies. While these companies operate in a range of sectors within the Russian economy, significant portions of them are concentrated in particular sectors. As at 31 December 2012, the five largest economic sectors represented in CBM's corporate banking loan portfolio collectively accounted for 39.8% of CBM's total gross loan portfolio. These sectors were: consumer electronics, appliances and computers; food and farm products; residential and commercial construction and development; construction and decorative materials, furniture; and clothing, shoes, textiles and sporting goods. For the years ended 31 December 2011 and 2010, the five largest economic sectors represented in CBM's corporate banking loan portfolio, accounted for 43.9% and 38.6%, respectively, of CBM's total gross loan portfolio. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Total Assets – Loans to Customers – Distribution of Loans by Economic Sectors*". A downturn in any of these sectors could result in CBM's clients facing difficulties in servicing their loans. CBM has established exposure limits to any single sector of the economy at 20% of its gross corporate loan portfolio and believes that its provisioning levels and collateral arrangements are adequate. However, any default by CBM's borrowers operating in these industries could have a material adverse effect on CBM's business and financial condition.

As at 31 December 2012, CBM's exposure to its 20 largest borrowers or groups of related borrowers collectively was RUB 55.3 billion, or 26.8% of CBM's gross loan portfolio, and its exposure to its 10 largest borrowers collectively was RUB 38.0 billion, or 18.5% of CBM's gross loan portfolio. The current accounts and term deposits of CBM's 20 largest depositors collectively represented 24.7% of CBM's total current accounts and term deposits by customers as at 31 December 2012, and its 10 largest depositors collectively accounted for 17.3% of CBM's total current accounts and term deposits by customers. Any impairment in the ability of such borrowers to repay their loans or any decision by these customers to withdraw their funds from current accounts and term deposits could have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

A part of CBM's business is with related parties

CBM routinely engages in transactions with related parties. CBM's controlling shareholder is Roman Avdeev, with whom CBM maintains a number of balances and conducts certain transactions from time to time. CBM also enters into banking transactions in the normal course of its business with shareholders, management, subsidiaries and companies with which it has shareholders in common. These transactions include loans, deposit taking and settlements. CBM provides loans to the members of CBM's management from time to time for different purposes, including mortgage loans, car loans, general-purpose loans and overdrafts. As at 31 December 2012, loans to related parties represented 1.6% of CBM's total gross loans to customers and deposits from related parties represented 0.2% of CBM's total deposits by customers.

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

CBM's capital position may deteriorate

CBM's risk-based total capital adequacy ratio, calculated in accordance with the International Convergence of Capital Measurement and Capital Standards of 1988 and amendment to incorporate market risks in November 2005 ("**Basel I**"), amounted to 15.8% as at 31 December 2012, as compared to 14.4% as at 31 December 2011. CBM's Tier 1 capital adequacy ratio as at 31 December 2012 was 13.4%, as compared to 12.3% and 8.8% as at 31 December 2011 and 2010, respectively. The Basel Committee on Banking Supervision (the "**Basel Committee**") recommends a minimum risk-based total capital adequacy ratio of 8%, calculated in accordance with Basel I. CBM's capital adequacy ratio calculated under CBR regulations as at 1 March 2013 was 11.8%, as compared to the CBR mandatory ratio of 10%. If CBM's capital position declines, its ability to implement its business strategy may be adversely affected, and if CBM's capital adequacy ratio calculated pursuant to CBR requirements were to fall below 10%, CBM would violate the CBR mandatory ratio, which may lead to punitive measures or loss of its banking licences in the case of continuous violation of CBR mandatory ratios, which in turn, may have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects. Moreover, if CBM's capital adequacy ratio calculated pursuant to CBR requirements were to fall below 2%, or if CBM's own capital calculated pursuant to CBR requirements were to fall below RUB 300 million (with certain exceptions which apply until 1 January 2015 after which date the RUB 300 million requirement will universally apply to all banks), the CBR is required under Russian law to withdraw CBM's banking license, and to initiate bankruptcy proceedings against CBM.

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

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

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

The CBR regulations phasing in Basel capital adequacy guidelines in Russia could have a material adverse effect on CBM, its capital ratios and regulatory capital

The risk-adjusted capital adequacy guidelines promulgated by the Basel Committee in June 2004 (as updated, "**Basel II**"), are being implemented in certain jurisdictions including member states of the EU, and in December 2010 the Basel Committee published a revised set of guidelines ("**Basel III**" and, together with Basel I and Basel II, the "**Basel Accords**"), the implementation of which began on 1 January 2013.

As part of the implementation of Basel III in Russia, on 1 March 2013 Regulation No. 395-P, "On methodology of determination of the amount and assessment of sufficiency of own capital of credit organisations (Basel III)" dated 28 December 2012 ("**Regulation 395-P**") became effective (with limited exceptions). Regulation 395-P does not stipulate when the CBR will start to apply sanctions for non-compliance. However, CBR officials have unofficially indicated that sanctions will be applied as of 1 October 2013. Therefore, from 1 March 2013 until the anticipated date of 1 October 2013, there appears to be a testing period during which the CBR will monitor the extent to which Russian banks are prepared for compliance with the new rules. During this period the current Regulation 215-P (as defined in "*Banking Regulation in Russia – Capital Requirements*") will remain in force and Subordinated Instruments issued or granted during this period are subject to both Regulation 215-P and Regulation 395-P. It is expected that once the testing period has ended Regulation 215-P will be phased out.

Pursuant to Regulation 395-P, the own funds (capital) of Russian banks is determined as the amount of its Tier 1 capital (consisting of the base capital and the additional capital) and Tier 2 Capital less certain items listed in Regulation 395-P. Regulation 395-P introduces to Russian banking legislation the concept of equitisation of subordinated debt (while retaining the concept of write-down and cancellation of subordinated debt instruments) and a requirement for banks and other credit organisations to have in place a shareholder assistance commitment, which features have been derived from the Basel III regulations. Regulation 395-P provides for a number of new capital ratios for Russian banks, including the base capital adequacy ratio referred to in item 5 of paragraph 2.3.1 of the Regulation 395-P (the "**Base Capital Adequacy Ratio**"). See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Adequacy – Base Capital Adequacy Ratio under Regulation 395-P*" and "*Banking Regulation in Russia—Capital Requirements—Subordinated Debt—New Requirements Under Regulation 395-P*" for a description of the Base Capital Adequacy Ratio. On 11 April 2013, the Supervisory Board of CBM approved a financial rehabilitation plan that provides for, among other things, CBM resorting to its main shareholders for financial support in certain circumstances in the event of a deterioration of the financial condition of CBM, and CBM's controlling shareholder, Rossium Concern (owned by Roman Avdeev), has undertaken in a support letter dated 18 April 2013 to provide financial support to CBM in the event that the implementation of the actions provided for in Clause 8 (*Loss Absorption*) of the Subordinated Loan Agreement prove insufficient to rectify the grounds which caused the occurrence of a Loss Absorption Event (as defined in the Subordinated Loan Agreement). CBM believes that it has satisfied the shareholder assistance commitment requirement in Regulation 395-P by virtue of its financial rehabilitation plan and the support letter from Rossium Concern. See "*Risk Management – Financial Rehabilitation Plan*".

The enactment of Regulation 395-P has been the first step in the implementation of the Basel III principles in Russia, and it is expected to be followed by further acts from the CBR. The implementation of Basel III could have a material adverse effect on CBM's capital ratios, including as a consequence of the potential accelerated amortisation of the capital treatment of subordinated debt and the potential deduction from its capital of equity stakes that CBM holds or may hold on its balance sheet, which may follow as a consequence of such implementation.

Additionally, new liquidity and funding requirements are expected to be gradually implemented between 2013 and 2018. Following the adoption of its Banking Sector Development Strategy, the CBR pursued its intention to increase the capital cushion of Russian banks for certain types of 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 N1 ratio requirements for Russian banks.

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 levels under RAS for certain unsecured consumer loans issued after 1 January 2013 that are either not overdue or overdue by less than 31 calendar days.

CBM believes that its current provisioning levels under RAS are sufficient for compliance with the CBR's newly adopted requirements. However, further similar changes in regulation with respect to provisioning could have a material adverse effect on CBM's financial results and capital ratios.

The effect that Basel II and Basel III and the CBR regulations implementing them will have on the capital requirements of CBM and on its capital position is uncertain and therefore could have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects. See *"Banking Regulation in Russia – Capital Requirements – Basel Implementation in Russia"*.

CBM may face counterparty risk from other financial institutions

In light of the unprecedented lack of liquidity and high cost of funds that characterised the interbank lending market during the most acute stage of the global financial crisis at the end of 2008 and in the first half of 2009 and the recent volatility and market disruption witnessed by the banking sector globally, CBM remains subject to the risk of deterioration of the commercial soundness of other financial service institutions within and outside of Russia. Financial service institutions that transact with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom CBM interacts on a daily basis, all of which could have an adverse effect on CBM's ability to raise new funding.

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

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

To the extent that the Rouble depreciates against foreign currencies, CBM becomes subject to higher interest payments on its foreign currency denominated liabilities when calculated in Rouble terms. CBM plans to continue to access the international capital markets and syndicated loan markets, which subjects it to risks inherent in currency fluctuations and the uncertainty of these markets as a reliable funding source. In order to better balance the foreign currency structure of its assets and liabilities, CBM extends foreign currency loans to customers that are engaged in businesses with foreign currency components. As at 31 December 2012, 82.5% of CBM's loans to customers (net of allowance for impairment) were denominated in Roubles, 14.1% in U.S. dollars and the remaining 3.4% in other currencies. Although CBM uses currency forwards to hedge its foreign currency exposure, volatility in the money market and significant exchange rate fluctuations may have a material adverse effect on CBM's business and financial condition. CBM's foreign currency position is managed by CBM's Treasury, which reports to the Analytical Division and ALCO. CBM has established an internal limit on its open foreign currency position of 3% of CBM's capital.

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

CBM faces securities portfolio risk arising from its investment and trading in securities for its own account. These risks relate to the movement of market prices in the underlying instruments, including the risk of unfavourable market price movements relative to CBM's long or short positions, a decline in the market liquidity of the relevant instruments, volatility in market prices, interest rates or foreign currency exchange rates relating to these positions and the risk that instruments CBM uses to hedge certain positions do not track the market value of those positions. In the year ended 31 December 2012, CBM had a net gain on financial instruments at fair value through profit or loss of RUB 354 million. In 2011 and 2010, respectively, CBM had a net loss of RUB 857 million and a net gain of RUB 83 million on financial instruments at fair value through profit or loss. In the year ended 31 December 2012, CBM had a net gain on available-for-sale securities of RUB 15 million. In 2011 and 2010, respectively, CBM had a net gain of RUB 40 million and a net gain of RUB 339 million on available-for-sale securities. CBM has established various limits on operations with securities, including instrument specific limits and limits on the activities of individual traders, in order to balance profit and risk in its portfolio. However, interest rate and price movements on both the domestic and international markets may have a material adverse effect on the value of CBM's securities portfolio, which in turn may have a material adverse effect on CBM's overall business, financial condition, results of operations and/or prospects.

See *"Risk Management – Market Risk"*.

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

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

Banking operations in Russia require licences from the CBR. Operations in securities require licences from the FSFM. CBM has obtained such licences in connection with its banking operations and operations in securities. In order to obtain, maintain and renew such licences, it is necessary to comply with the terms of the respective licence. Although CBM has been successful in obtaining CBR and the FSFM licences in the past, there can be no assurance that CBM will be able to obtain new licences or maintain its existing licences in the future. Each of the CBR and the FSFM may, in its discretion, impose additional requirements or deny the Bank's request for licences. The loss of or breach of the terms of, or the failure to obtain, a CBR or FSFM licence in the future could result in cash-flow difficulties and penalties such as the imposition of fines on CBM, which may, in turn, affect CBM's ability to satisfy its liabilities and run its business, and would be likely to have a material adverse effect on its business, financial condition, results of operations and/or prospects. The loss of CBM's general banking licence will result in its inability to perform any banking operations.

CBM is exposed to the risk that the CBR may impose sanctions on CBM for noncompliance with certain mandatory economic ratios or other regulations. Such sanctions could include a fine, the initiation of temporary administration of CBM by the CBR or revocation of its banking licence. Under Russian law, the CBR may appoint a temporary administrator for a term of up to six months if a bank fails to comply with CBR orders to remedy breaches, or if those breaches have created an actual threat to the interests of its creditors (i.e., depositors). A bank's general banking licence may be revoked after the repeated imposition on the bank of other sanctions during the same calendar year.

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

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

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

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

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

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

CBM may fail to manage its growth adequately

CBM's business has grown rapidly and significantly in recent years, and CBM's strategy includes aiming to continue to increase the size of its overall business, including its loan portfolio and expansion of its branch network in Moscow and the Moscow region, in a relatively short period of time. CBM's loans to customers (net of allowance for loan impairment) increased from RUB 103.9 billion as at 31 December 2010, to RUB 159.0 billion as at 31 December 2011,

and to RUB 201.2 billion at 31 December 2012. The total number of CBM's employees increased from 2,414 as at 31 December 2010, to 3,322 as at 31 December 2011 and to 4,041 as at 31 December 2012. The number of CBM's branches increased from 51 as at 31 December 2010 to 60 as at each of 31 December 2011 and 31 December 2012.

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

The growth of CBM's business will require continued investment in its financial and information management systems, employee recruiting and training, marketing and the monitoring of the consistency of customer service, as well as increased operating costs. In addition, overall growth in CBM's business requires greater allocation of management resources away from day-to-day operations, continued development of its financial and information management control system, continued training of management and other personnel, presence of adequate supervision and maintenance of consistency of client services across CBM's expanded branch network. Notwithstanding expenditures to this end, CBM may not be able to achieve projected results on any investment it makes in its business or any expansion of its network. The failure of CBM to adequately manage its growth may have a material adverse effect on CBM's overall business, financial condition, results of operations and/or prospects.

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

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

CBM's business strategy includes a focus on expanding its retail business. As at 31 December 2012, loans to retail customers comprised 24.5% of CBM's total gross loans to customers, as compared to 18.4% and 17.2% as at 31 December 2011 and 2010, respectively. The targeted share of retail banking in CBM's loan portfolio is approximately 30%, which CBM aims to achieve within the medium term.

The growth of CBM's retail banking business could result in a higher level of impaired loans and, as a result, higher levels of provisioning, as retail customers are more likely to default on their loans. As at 31 December 2012, NPLs to retail clients accounted for 3.2% of the retail gross loan portfolio, compared with 4.3% of the retail gross loan portfolio as at 31 December 2011 and 6.5% as at 31 December 2010. A recession or other negative developments in Russia's economy could affect retail borrowers more significantly than larger borrowers and lead to material asset quality deterioration. In addition, retail clients are typically less financially transparent than larger borrowers as there is generally less financial information available for such clients. As a result, CBM may not be able to accurately assess the risks, including credit risks, associated with its borrowers and may need to change its estimates of impairment and implement additional risk management policies and procedures. Any inadequacy in CBM's policies and controls may have a material adverse effect on its business, results of operations, financial condition and prospects.

While CBM's retail banking segment contributed RUB 797 million to CBM's profit in the year ended 31 December 2012 and contributed RUB 507 million to CBM's profit in 2011, in 2010 this segment generated losses of RUB 410 million, as CBM invested in and developed its retail banking business. There can be no assurance that CBM's retail banking segment will continue its current level of profitability going forward.

Furthermore, the global financial crisis stimulated Russian legislative initiatives which strengthen the protection of retail clients under Russian law and could place corresponding restrictions on CBM's retail banking business, thereby adversely affecting its business, financial condition, results of operations and/or prospects. See *"– Risks Relating to the Russian Legal System and Legislation – Russian banking and financial regulation has been undergoing significant changes"*. If there is a substantial increase in CBM's retail banking business, it will be more vulnerable to the effect of such laws.

CBM may lack sufficient insurance coverage

While Russian banking and other laws do not require banks to maintain a variety of insurance on their material assets or liabilities, other than the mandatory insurance of retail deposits, CBM voluntarily insures its property and operating assets at levels that are in line with the standard in the Russian market. In addition, CBM complies with the insurance covenants in its financing arrangements with international financial institutions, such as EBRD and IFC. CBM's insurance includes a bankers blanket bond ("**BBB**") policy, valuables policy, property insurance and damage policies, a third-party liability policy and a general liability policy. The general liability policy, among other things, protects against unlawful acts of employees, loss of property, loss from fraud transaction with payments, securities and false

bank notes. However, CBM's insurance does not cover all of CBM's assets and liabilities. The Russian insurance industry is poorly developed, and many forms of insurance offered in economically developed countries are unavailable to CBM on the terms common in such countries, including insurance coverage for business interruption. CBM may incur uninsured losses of assets and face claims not covered or inadequately covered by such insurance. Until CBM obtains sufficient insurance coverage, there is a risk that any such losses or claims could have a material adverse effect on its operations and financial position.

CBM's business entails operational risks

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

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

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

CBM's measures to prevent money laundering and/or terrorist financing may not be completely effective

During the last five years, the CBR has excluded several small banks from the deposit insurance system based on suspicions of money laundering and revoked a number of banking licences for violations of reporting requirements under Federal Law No. 115-FZ "On Combating of the Legalisation of Illegal Earnings (Money Laundering) and Terrorism Financing" dated 7 August 2001, as amended (the "**Money Laundering Law**"). Notwithstanding the current anti-money laundering regulations, the risk remains, however, that Russian financial institutions could be used as vehicles for money laundering.

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

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

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

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

CBM's accounting systems may not be as sophisticated as those of companies organised in jurisdictions with a longer history of compliance with international accounting standards

Accounting and reporting requirements in the Russian Federation are not comparable to those in other jurisdictions, such as the United States and the United Kingdom and RAS are not comparable to either IFRS or US GAAP. Russian accounting legislation continues to develop and has been subject to change on a regular basis in recent years.

Since 1 January 2004, all credit organisations in the Russian Federation have prepared financial statements in accordance with IFRS in addition to the statutory accounting reports in accordance with RAS. Federal Law No. 395-I "On Banks and Banking Activity" dated 2 December 1990, as amended (the "**Banking Law**") contains certain periodic disclosure requirements, including the requirement to publish annual statutory accounting reports in accordance with RAS. As its systems and processes are tailored to the requirements of RAS, it may take CBM longer than comparable companies in other jurisdictions to prepare its consolidated annual and interim financial statements in accordance with IFRS. In accordance with the Banking Law, CBM is required to publish certain RAS accounting reports quarterly, including a balance sheet, income statement and information on its assets, capital reserves and allowances for NPLs, which do not contain all of the information contained in CBM's IFRS consolidated financial statements and are not prepared in accordance with IFRS. CBM has regularly published and filed such reports since its establishment and has complied with the relevant reporting requirements. In accordance with Russian legislation applicable to securities issuers, CBM is required to file quarterly reports with the FSFM. These reports include certain information about CBM, its management, subsidiaries, affiliates and selected financial and business information (such as events of litigation and quarterly statutory accounting reports prepared in accordance with RAS). Despite recent initiatives to improve corporate transparency in the Russian Federation, there is less publicly available information about CBM than there is for comparable companies in other jurisdictions, such as the United States and the United Kingdom.

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

CBM may face difficulties in recruiting and retaining experienced personnel

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

Risks Relating to the Russian Federation

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

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

Moreover, financial turmoil in any emerging market country tends to affect adversely the value of investments in all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the economy of such countries. In addition, during such times, companies in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in another emerging market country could seriously disrupt the business of companies operating in Russia, as well as result in a decrease in the price of the Notes.

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

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

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

Economic risks could adversely affect the value of investments in Russia

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

Despite these policies, the Russian economy has suffered abrupt downturns. On 17 August 1998, the Government defaulted on its short-term rouble denominated treasury bills and other rouble denominated securities, and the CBR abandoned the rouble currency band and issued a temporary moratorium on certain hard-currency payments to foreign counterparties. These events led to a severe devaluation of the rouble, a sharp increase in the rate of inflation, significant deterioration of the country's banking system, significant defaults on hard-currency obligations, a dramatic decline in the prices of Russian debt and equity securities and an inability to raise funds on the international capital markets.

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

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

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

The physical infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained over the past 20 years. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. For example, in May 2005, an electricity blackout affected much of Moscow for one day, disrupting normal business activity and in August 2009, an accident occurred at the Sayano Shushenskaya hydroelectric power plant, killing more than 70 people, causing billions of roubles in damage and leading to severe power shortages for both residential and industrial consumers locally. The deterioration of Russia's

physical infrastructure negatively affects its national economy, disrupts the transportation of goods and supplies, imposes additional costs on businesses and can interrupt business operations. Further deterioration in the physical infrastructure could have a material adverse effect on the value of investments in Russia.

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

The consumer price index in the Russian Federation as measured by Rosstat was 11.9% in 2007, 13.3% in 2008, 8.8% in 2009, 8.8% in 2010 and 6.1% in 2011 and 6.6% in 2012. Despite this recent reduction, a return to heavy and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and the erosion of consumer confidence. Any one of these events could lead to decreased demand for CBM's products and services and have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

Political risks could adversely affect the value of investments in Russia

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst the executive, legislative and judicial branches of government, which negatively impacted Russia's business and investment climate. Although the political situation in Russia has been more stable since 2000, future policy and regulation may be less predictable than in less volatile markets any future political instability could result in a worsening overall economic situation, including capital flight and a slowdown of investment and business activity. Following Russian parliamentary elections in December 2011 and the presidential elections in March 2012, controversy concerning alleged voting irregularities during such elections led to organised protests in several Russian cities, including Moscow. In addition, any change in the Government or the Government's programme of reform in Russia or lack of consensus between the Russian President, the Prime Minister, the Government, Russia's Parliament and powerful economic groups could lead to political instability and a deterioration in Russia's investment climate that might limit the ability of CBM to obtain financing in the international capital markets or otherwise have a material adverse effect on its business, financial condition, results of operations and/or prospects.

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

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

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

Banking activity risks could affect the value of investments in Russia

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

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

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

Devaluation of the rouble against the U.S. dollar and exchange controls could adversely affect the value of investments in the Russian Federation

While the rouble appreciated against the U.S. dollar in real terms each year between 2000 and 2007, it experienced significant depreciation against the U.S. dollar in 2008 and in the beginning of 2009, largely as a result of the global financial crisis and the significant fall in prices in oil and commodities that are the principal generators of Russia's export earnings. This process of depreciation was significantly influenced by the CBR as part of its policy to maintain low volatility. Between 1 August 2008 and 1 March 2009, the rouble depreciated by 34% against the U.S. dollar (from RUB 23.42 per US\$1.00 to RUB 35.72, according to the CBR). The exchange rate has fluctuated significantly over the past three years, ranging from RUB 31.78 per US\$1.00 on 8 July 2010 to RUB 28.94 per US\$1.00 on 13 April 2010; from RUB 32.68 per US\$1.00 on 5 October 2011 to RUB 27.27 per US\$1.00 on 6 May 2011; and from RUB 34.04 per US\$1.00 as at 5 June 2012 to RUB 29.92 per US\$1.00 as at 5 February 2013.

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

According to the CBR, foreign currency and gold reserves fell from approximately US\$597.0 billion on 1 August 2008 to US\$384.1 billion on 1 March 2009. By December 2009 reserves had increased to US\$447.7 billion and were US\$526.2 billion by 1 March 2013, but are still likely to fluctuate going forward. Although Russia's current foreign currency and gold reserves may be sufficient to sustain the domestic currency market in the short term, there can be no assurance that the currency market will not further deteriorate in the medium or long term. Volatility in the Russian currency market or considerable depreciation of the Rouble in the medium or long term may adversely affect CBM's business, financial condition, results of operations and/or prospects.

Social risks could adversely affect the value of investments in Russia

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

In addition, rising unemployment, forced unpaid leave, wages in arrears, and weakening economies, especially in single-industry cities, has in the past led to and could in the future lead again to labour and social unrest, a mood of protest, and a rise in nationalism against migrant workers. Such labour and social unrest could disrupt ordinary business operations, which also could materially adversely affect CBM's business, financial condition, results of operations and/or prospects.

Risks Relating to the Russian Legal System and Legislation

Legal risks could affect the value of investments in Russia

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

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

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

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

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

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

CBM enters into security and/or surety arrangements that cover, in whole or in part, a substantial portion of its loans to legal entities and individuals. See “*Risk Management – Credit Risk – Collateral*”. Under Russian law, security (which includes pledges and mortgages) and sureties (other than bank guarantees) are considered secondary obligations, which automatically terminate if the underlying obligation becomes void. Furthermore, enforcement of security under Russian law generally requires either an agreement of the parties for an out of court enforcement procedure (which is subject to certain specific requirements and is relatively new) or in certain cases a court order followed by a public sale of the collateral. In some cases, a court may delay such public sale for a period of up to one year upon a pledgor's application. A mortgage is a pledge over real property, such as land and buildings, which requires state registration to be valid. Russian law has no system for perfecting collateral other than mortgages and pledges of equity in Russian joint-stock and limited liability companies, which may lead to unexpected or conflicting claims by secured creditors over such collateral. Each of these risks could adversely affect CBM's financial position and results of operations.

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

Risks related to compliance with Russian regulatory requirements

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

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

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

Russian banking and financial regulation has been undergoing significant changes

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

- Pursuant to Federal Law No. 177-FZ dated 23 December 2003 "On Insuring the Deposits of Natural Persons Made with Banks of the Russian Federation", as amended (the "**Deposit Insurance Law**"), which establishes a deposit insurance system in which all Russian banks must participate or lose their ability to accept retail deposits and open bank accounts for individuals, secured deposits maintained by individuals with Russian banks are insured for an amount of RUB 700,000. The Deposit Insurance Law strengthens competition in the retail deposit market as all Russian banks that choose to participate in the deposit insurance scheme will have the ability to offer protected deposits. The majority of banks that filed participation requests, including CBM in 2004, were admitted to the deposit insurance scheme. The Ministry of Economic Development of Russia has recently prepared a draft law on amendments to the Deposit Insurance Law and the CBR Law, which contemplate significant changes to the system of mandatory insurance of retail deposits. The draft introduces, among other things, a concept of differentiated rates for banks participating in the system. If the draft amendments are signed into law, banks that offer annual margins on retail deposits that are more than 2% higher than the base yield amount as calculated monthly by the CBR will be required to make additional payments into a deposit insurance fund. The amount of such additional payments will depend on the actual annual margin offered by the relevant bank and will vary from 40% to 200% of the base rate (as it is defined in the Deposit Insurance Law).
- In March 2010, the Banking Law was amended to protect retail clients and as a result, all credit organisations are now prohibited from: (i) increasing interest rates, shortening the tenures of loan agreements or charging additional fees and commissions with respect to retail loans, or (ii) decreasing interest rates, shortening the tenure of deposit agreements or charging additional fees and commissions in respect to retail term deposits. On 3 September 2012, draft amendments to the Banking Law, prohibiting loan transactions with excessively onerous terms, were introduced in the State Duma of the Russian Federation. However, as at the date of this Prospectus, the first reading of the draft has not been scheduled. According to these amendments, the real effective interest rate of a loan provided to an individual borrower cannot exceed the real effective interest rate of double the average real effective interest rate for loans of the respective type (being an average real effective interest rate calculated by the CBR for the preceding quarter). If such an excess exists, upon a claim by the borrower, the court can reduce the amount of interest and other charges applicable under the corresponding loan agreement. Under the draft law, the CBR is required to establish a list of the respective types of loans and methodology of a quarterly calculation of their average full values.
- The CBR has also been developing regulations on bank capital and bringing them into line with international standards. See "*Banking Regulation in Russia – Capital Requirements*". In particular, the CBR has recently amended its regulations regarding the calculation of risk weighted assets for the purpose of the capital adequacy ratio (N1). Such amendments, which became effective from 1 July 2012, together with the adoption of the CBR

regulations in September 2012 regarding the calculation of market risks (effective from 1 February 2013), are expected to affect the Russian banking industry generally.

- In November 2009 and March 2010, the Supreme Arbitration Court of the Russian Federation issued two judgments declaring that charging an account fee to retail borrowers is a violation of Russian consumer protection laws. In Information Letter No. 147 issued on 13 September 2011, the Supreme Arbitration Court further indicated that a credit institution can only lawfully receive fees from a borrower if it is providing a separate service to the borrower other than the loan. Historically, CBM, in common with other major Russian banks, charged a range of fees and commissions in connection with its loans to retail and corporate customers, in addition to the interest rate payable on the loans. Following the issuance of Information Letter No. 147, CBM has changed its policy and approach with regard to charging such lending fees, although there remains a risk that certain fees charged by CBM to its loan customers could be challenged. If fees charged by CBM were to be deemed to be in violation of Russian consumer protection laws, CBM could be required to return such fees to the relevant clients and pay monetary penalties, which could have a material adverse effect on CBM's business, financial condition and/or results of operations.
- The CBR is considering amending its regulations regarding loan loss provisions with respect to loans granted by banks and if such amendments were to be adopted by the CBR, the applicable rules may become more rigorous.
- The State Duma is currently considering a draft of large-scale amendments to the Civil Code of Russia, which although generally aiming to clarify and streamline the existing rules and institutions, if adopted in the current form, may impose additional obligations on Russian banks. Among other amendments, it is proposed that a credit organisation become fully liable for an unauthorised debit of funds from a client's account, including when the credit organisation cannot verify that an unauthorised person issued the debit instruction. The credit organisation would bear the burden to prove that a client was not sufficiently diligent. It is difficult to forecast how the changes in banking and financial regulation will affect the Russian banking system, and no assurance can be given that the regulatory system will not change in a way that will increase CBM's expenses.
- In 2012, the Russian Ministry of Finance proposed a draft law on "Consumer Loans", which is intended to bring more transparency into, and a higher level of regulation of, the interaction between Russian banks and retail borrowers. Among other things, the draft law, if enacted, would limit the amount of fees and penalties which an individual borrower may be charged on a loan, introduces cooling-off periods in connection with loans and requires detailed disclosure by banks of lending terms to retail borrowers. If the draft law is enacted, compliance with its requirements would expose Russian banks to additional costs. See *"Banking Regulation in Russia – Financial Consumer Protection"*.
- As part of the implementation of Basel III in Russia, on 1 March 2013 Regulation No. 395-P became effective (with limited exceptions). According to Regulation 395-P, the reporting of Basel III capital adequacy ratios will be required by Russian banks from 1 April 2013 and it is expected that they will be enforced by the CBR from 1 October 2013. Regulation 395-P does not stipulate when the CBR will start to apply sanctions for non-compliance. However, CBR officials have unofficially indicated in the past that sanctions will be applied as of 1 October 2013. Therefore, from 1 March 2013 until the anticipated date of 1 October 2013, there appears to be a testing period during which the CBR will monitor the extent to which Russian banks are prepared for compliance with the new rules. During this period the current Regulation 215-P will remain in force and Subordinated Instruments issued or granted during this period are subject to both Regulation 215-P and Regulation 395-P. The effect that Regulation 395-P will have on the capital requirements of CBM and on its capital position is uncertain. See *"– Risks Relating to CBM's Business and Industry – CBM's capital position may deteriorate"* and *"–The CBR regulations phasing in Basel capital adequacy guidelines in Russia could have a material adverse effect on CBM, its capital ratios and regulatory capital"*.

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

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

On 10 September 2004, the CBR issued Letter No. 106-T, which recommends that Russian banks implement an exposure limit for economically related borrowers. Under this regulation, borrowers are considered "economically related" if the decline in the financial condition of one borrower affects or may affect the financial condition of another borrower and may result in such other borrower's inability to perform its obligations to CBM. In its Letter No. 04-15 1/3693 dated 3 September 2007, the CBR confirmed that given that Letter No. 106-T provides for only a

recommendation, the CBR will not take any actions against the banks in case of a breach of such recommendation. Further, the CBR has proposed amendments to the CBR Law which are intended to clarify the definition of “related borrowers” to include both legally and economically related borrowers. These proposed amendments were submitted to the State Duma in March 2013 and indicated that the CBR can use its “reasoned judgment” to determine that an affiliation exists between a bank and a borrower based on indirect relationships. See “– *Russian banking and financial regulation has been undergoing significant changes*”.

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

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

Notwithstanding significant recent liberalisation of the Russian currency control regime pursuant to Federal Law No. 173-FZ “On Currency Regulation and Currency Control” dated 10 December 2003, as amended (the “**Currency Law**”), the current Russian currency control laws and regulations still impose a number of limitations on currency operations, including banking transactions. In particular, foreign currency operations between Russian residents are generally prohibited (except for certain operations specified in the Currency Law, including transactions between Russian authorised banks and other permitted operations). Moreover, certain limitations not applicable to CBM apply to CBM's clients, such as the requirement to notify the Russian tax authorities regarding the opening of a bank account abroad. These or any new currency control restrictions that may be adopted in the future may restrict CBM's and its clients' operational flexibility, which could have a material adverse effect on CBM's business, financial condition, results of operations and/or prospects.

Corporate governance standards, public reporting requirements and accounting regulations standards in Russia differ significantly from those in other jurisdictions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Tax returns together with related documents are subject to review and investigation by the Russian tax authorities, which are enabled by Russian law to impose severe fines and interest charges on taxpayers. Generally, tax returns remain open and subject to inspection by the Russian tax authorities for the period of three calendar years immediately preceding the year in which the decision to conduct a tax inspection is taken. Tax audits can however go beyond this general three year term to cover the tax period for which an amended tax return (if any) has been filed.

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

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

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

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

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

The statute of limitations for tax penalties for a tax offence is three years from the date on which it was committed or from the next date following the date of the end of the tax period during which the tax offence was committed, depending on the nature of the tax offence. However, the statute of limitations for tax penalties is not entirely effective. See "*Changes in Russian tax law could adversely affect CBM's business*".

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

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

Russian transfer pricing legislation which was effective before 1 January 2012 was broad in scope and vaguely drafted, generally leaving wide scope for interpretation at the discretion of the Russian tax authorities and courts, and there was limited guidance as to how these rules should have been applied. Moreover, in the event that a transfer pricing

adjustment was made by the Russian tax authorities, the transfer pricing rules did not provide for an offsetting adjustment to the related counterparty in the relevant transaction.

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

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

Risks Relating to the Issuer, the 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 “Baa1” by Moody's, “BBB” by Standard & Poor's and “BBB” by Fitch. As at the date of this Prospectus, CBM's long-term global and local currency deposit rating and financial strength rating by Moody's are B1 and E+, respectively. CBM's long term issuer default and short term issuer default ratings by Fitch are BB- and B, respectively. CBM's long term counterparty default and short term counterparty default ratings by Standard & Poor's are B+ and B, respectively.

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

Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment and credit ratings assigned to CBM or to other instruments issued by or to fund CBM do not necessarily mean that an investment in CBM or such instruments is suitable. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

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

While the Notes are expected to be rated B+ 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.

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

Under the current bank capital regulations, the Subordinated Loan will be included into Tier 2 Capital after the CBR approves it as eligible for inclusion into the regulatory capital of CBM, but not earlier than the full loan amount is transferred to CBM, i.e. after the settlement date for the Notes.

If the CBR does not grant final approval in respect of the Subordinated Loan within 180 days after the date of the Subordinated Loan Agreement, CBM will have the right to prepay the Subordinated Loan pursuant to Clause 7.4

(*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*) of the Subordinated Loan Agreement, in which circumstances the Notes will be redeemed. 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.

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. CBM has been seeking guidance from the CBR on the implementation of Regulation 395-P as it pertains to subordinated debt instruments. CBM has recently received correspondence from the CBR in this respect which has supported CBM's management's analysis of the structure of the Subordinated Loan. While in this correspondence the CBR provided its interpretations of some aspects of Regulation 395-P, it did not refer specifically to the Subordinated Loan Agreement and did not provide specific advice as to whether, in the view of the CBR, the Subordinated Loan Agreement complies with Regulation 395-P and whether the Subordinated Loan will qualify for inclusion as Tier 2 Capital of CBM.

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 (which is currently set at 6.6% in accordance with Article 269 of the Tax Code). 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 a maximum of 6.6% 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. As at the date of this Prospectus, CBM has received preliminary approval from the CBR on the eligibility of the Subordinated Loan for inclusion as Tier 2 Capital under Regulation 395-P. CBM has not yet received the CBR's final approval and conclusion under Regulation 215-P or Regulation 395-P. There can be no guarantee that a final approval and conclusion in respect of the Subordinated Loan will be granted within the specified time period or at all. If the CBR does not grant such final approval and conclusion in respect of the Subordinated Loan within 180 days after the date of the Subordinated Loan Agreement, CBM will have the right to prepay the Subordinated Loan pursuant to the Subordinated Loan Agreement.

If such final approval and conclusion is 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 7.3 (*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 an 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, 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), the Applicable Regulations, Regulation 215-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 Regulations, the Borrower may in any event not elect to prepay the Subordinated Loan, in whole or in part, during the Restricted Period.

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 Regulations and Regulation 215-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 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 2012, CBM had RUB 71.0 billion of long-term indebtedness. CBM anticipates that, from time to time, it will incur additional indebtedness, including unsubordinated indebtedness.

Following the occurrence of a Loss Absorption 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

On 1 March 2013, the new rules for capital of Russian banks under Regulation No. 395-P came into force. Pursuant to Regulation 395-P, the own funds (capital) of a Russian bank is determined as the amount of its Tier 1 capital (consisting of the base capital and the additional capital) and Tier 2 Capital less certain items listed in Regulation 395-P. Any subordinated debt issued after 1 March 2013, including the Subordinated Loan, must comply with the new capital eligibility requirements listed in Regulation 395-P as well as with the existing requirements of Regulation 215-P in order to qualify as Tier 2 Capital.

Pursuant to Regulation 395-P, in the event that (i) CBM's Base Capital Adequacy Ratio as at the latest Reporting Date (as defined in the Subordinated Loan Agreement) falls below 2.0%, or (ii) the Deposit Insurance Agency (as defined in the Subordinated Loan Agreement) in consultation with the CBR has notified CBM that bankruptcy prevention measures are being implemented in accordance with the Federal Law "On Additional Measures to Consolidate the Stability of the Banking System in the period to 31 December 2014 (a "Loss Absorption Event"), CBM will be required to either (i) write-down or (ii) convert into equity some or all of its subordinated indebtedness (including the Subordinated Loan) by an amount deemed sufficient by CBM, in consultation with the CBR, to cure such Loss Absorption Event. The Subordinated Loan Agreement satisfies this requirement through the inclusion of the possibility of a write-down of all or a portion of the Subordinated Loan following a Loss Absorption Event. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Adequacy – Base Capital Adequacy Ratio under Regulation 395-P" and "Banking Regulation in Russia—Capital Requirements—Subordinated Debt—New Requirements Under Regulation 395-P" for a description of the Base Capital Adequacy Ratio.

Such a write-down may result in the Subordinated Loan and any amounts outstanding in respect thereof (including accrued and unpaid interest and any other amounts owing under the Subordinated Loan Agreement) being written down to zero in which case the Subordinated Loan would be cancelled and the Issuer would have no further claim in respect thereof.

Such loss absorption measures may be implemented on more than one occasion, and the Subordinated Loan may be written down and cancelled in part on more than one occasion. Once the principal amount of the Subordinated Loan has been written down, the relevant amount written down will not be restored in any circumstances. Any write-down and cancellation of the Subordinated Loan will trigger a simultaneous and equal write-down and cancellation of the Notes. Consequently, investors may lose all or part of their investment following the occurrence of a Loss Absorption Event.

During the period from (and including) the Loss Absorption Event to but (excluding) the Loss Absorption Write down Date (as such terms are defined in the Subordinated Loan Agreement), interest shall not accrue on the Subordinated Loan and, in the event that any amounts of interest and principal would otherwise become due and payable in accordance with the terms of this Agreement during such period, the Borrower shall not be required to make such payments while such Loss Absorption Event remains uncured. Any such non-payment as a result of such provisions shall not constitute an Acceleration Event under Clause 14.1 (*Payment Default*) of the Subordinated Loan Agreement and shall not accrue default interest in accordance with Clause 15.6 (*Default Interest Periods*) of the Subordinated Loan Agreement. In addition, to the extent that only part of the principal amount of the Subordinated Loan has been written down and cancelled, interest will continue to accrue only on the then outstanding principal amount (as so written down) of the Subordinated Loan and only once the relevant Loss Absorbency Event has been cured. Consequently, the amount of interest payable (if any) on the Notes will be correspondingly smaller following implementation of the loss absorption measures.

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

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 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:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of CBM. Although application has been made to the Irish Stock Exchange for the Notes to be admitted to trading on the Market of the Irish Stock Exchange, there is no assurance that such application will be accepted or that a liquid market will develop or be maintained for the Notes. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

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

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

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

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

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

Foreign judgments and arbitral awards may not be enforceable against CBM

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

The 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 is reduced or eliminated pursuant to the terms of an applicable double tax treaty.

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

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

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

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

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

In circumstances where payments under the 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 interest 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*”.

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

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

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

If a non-resident Noteholder legal entity which disposes of the Notes after 1 January 2014 other than through a permanent establishment in Russia, sells the Notes in Russia and/or receives proceeds from a source in Russia, there is a risk that the part of the payment that represents interest accrued after 1 January 2014 may be subject to the applicable Russian withholding income tax. A non-resident Noteholder may be entitled to reduce such Russian withholding income tax pursuant to an exemption under an applicable double taxation treaty, but there could be no assurance that such exemption or reduction will be available.

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

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

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

The 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 FFI. FATCA may also apply to certain payments from the Issuer to Noteholders. If an amount of, or in respect of, U.S. withholding tax were to be deducted or withheld from interest or other payments on the Notes as a result of an investor's failure to comply with these rules, neither CBM nor the Issuer nor 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 (the “1990 Act”) to facilitate the survival of Irish companies in financial difficulties.

The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power

to halt, prevent or rectify acts or omissions, by or on behalf of the company after his appointment and, in certain circumstances, a negative pledge given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

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

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

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

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

Preferred Creditors

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

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

The Notes are subject to modification, waivers and substitution

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

The Terms and Conditions of the Notes also provide that the Trustee may agree, without the consent of the Noteholders, (i) to any modification of any provision of the Notes, the Conditions and the Trust Deed or, following the creation of the Security Interests, the 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 Noteholders; Modification; Waiver; Substitution of the Lender*”.

Trading in the clearing systems is subject to minimum denomination requirements

The Terms and Conditions of the Notes provide that the Notes shall be issued with a minimum denomination of US\$200,000 and integral multiples of US\$1,000 in excess thereof. While the Notes are traded in a clearing system, it is possible that processing of trades in the clearing systems may result in amounts being held in denominations smaller

than the minimum denominations specified in the Terms and Conditions of the Notes. In addition, in the event of a partial write-down or multiple write-downs of the Notes following the occurrence of a Loss Absorption Event, Noteholders face an increased risk that their holding will fail to comply with the required minimum denomination specified in the Terms and Conditions. If Definitive Note Certificates are required to be issued in relation to such Notes in accordance with the provisions of the terms of the Global Notes, a holder who does not have an integral multiple of the minimum denomination in its account with the relevant clearing system at the relevant time may not receive all of its entitlement in the form of the Definitive Note Certificates unless and until such time as its holding becomes an integral multiple of the minimum denomination. 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.

Interest Rate Risks

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

Legal Investment Considerations

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

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

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

Other Risks

Publicly available data may be unreliable

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

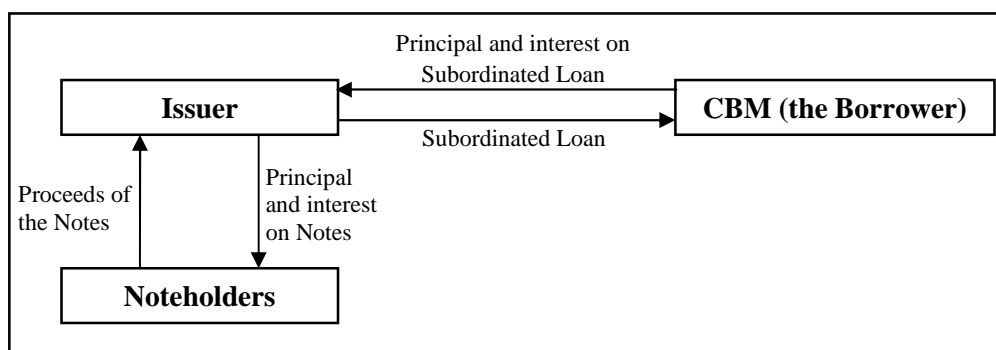
In addition, some of the information contained in this Prospectus has been derived from official data of Russian government agencies and the CBR. Some of the official data published by Russian federal, regional and local governments may not be complete or researched to the standard of Western countries.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

DESCRIPTION OF THE TRANSACTION

The following summary description contains basic information about the Notes and the 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 will be structured as a Subordinated Loan to CBM by the Issuer under the Subordinated Loan Agreement. The Issuer will issue the Notes, which will be limited recourse loan participation notes issued for the sole purpose of funding the Subordinated Loan to CBM. The Subordinated Loan will be made on the terms of the Subordinated Loan Agreement and will have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. The Notes will be constituted by, be subject to, and have the benefit of the Trust Deed. The obligations of the Issuer to make payments under the Notes shall constitute an obligation only to account to the Noteholders for an amount equal to the sums of principal, interest and/or additional amounts (if any) the Issuer actually receives and retains (net of tax) by or for its account from CBM pursuant to the 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 shall charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes (a) its rights to all principal, interest and additional amounts (if any) payable by CBM under the 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 will agree in the Trust Deed not to make or consent to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Subordinated Loan Agreement unless the Trustee has given its prior written consent. The Issuer will further agree to act at all times in accordance with any instructions of the Trustee from time to time with respect to the 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 Noteholders. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the

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

CBM may prepay the 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 and Purchase*”.

CBM may, following the occurrence of a Loss Absorption 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 Regulations and as set out in Clause 8 (*Loss Absorption*) of the Subordinated Loan Agreement. Such loss absorption measures may be implemented on more than one occasion and the Subordinated Loan may be written down or more than one occasion. In addition, no interest shall accrue on the Subordinated Loan during any period when a Loss Absorption 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(C) (*Write-down of the Notes following a Loss Absorption Event*). See “*Form of the Subordinated Loan Agreement – Clause 8 (Loss Absorption)*” and “*Terms and Conditions of the Notes – 6 Redemption and Purchase*”.

As at the date of this Prospectus, CBM has received preliminary approval (*podtverzhdenie*) from the CBR on the eligibility of the Subordinated Loan for inclusion as Tier 2 Capital under Regulation 395-P. CBM has not yet received the CBR's final approval and conclusion under Regulation 215-P or Regulation 395-P. There can be no guarantee that a final approval and conclusion in respect of the Subordinated Loan will be granted within the specified time period or at all. If the CBR does not grant such final approval and conclusion in respect of the Subordinated Loan within 180 days after the date of the Subordinated Loan Agreement, CBM will have the right to prepay the Subordinated Loan pursuant to the Subordinated Loan Agreement.

USE OF PROCEEDS

The Issuer will use 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 will pay the Issuer a facility fee.

Total commissions and expenses relating to the offering of the Notes (represented by the facility fee and other costs) are expected to be approximately US\$4 million. The net proceeds that CBM will receive from the offering, after deducting estimated commissions and expenses incurred in connection with the offering (represented by the facility fee and other costs), will be approximately US\$496 million.

CAPITALISATION AND INDEBTEDNESS OF CBM

The following table sets forth CBM's capitalisation as at 31 December 2012 and is extracted from the 2012 Financial Statements. For further information regarding CBM's financial position, see “*Management's Discussion and Analysis of Financial Condition and Results of Operations*” and the Financial Statements included elsewhere in this Prospectus.

	As at 31 December 2012
	<u>RUB thousands</u>
Liabilities	
Deposits by credit institutions.....	35,183,733
Deposits by customers	189,014,104
Debt securities issued	40,013,790
Deferred tax liability.....	2,608,594
Current tax liability.....	125,817
Other liabilities	2,489,054
Total liabilities.....	<u>269,435,092</u>
Equity	
Share capital	13,539,763
Additional paid-in capital	9,019,295
Revaluation reserve for available-for-sale securities	16,061
Revaluation surplus for buildings	1,115,928
Retained earnings.....	15,601,246
Total equity	<u>39,292,293</u>
Total liabilities and equity.....	<u><u>308,727,385</u></u>

In January 2013, CBM bought back 599,738 domestic bonds series 07 (30.0%) from bondholders at par pursuant to a put option and then sold all of these bonds in the market. The par value of each bond is RUB 1,000.

In February 2013, CBM made a US\$500 million Eurobond issue in the form of loan participation notes issued by the Issuer. The notes mature in February 2018 and have an interest rate of 7.70%.

In February 2013, CBM placed RUB 2 billion of domestic bonds series 12 with a 5.5-year maturity. The bonds are listed on the Moscow Exchange. In March 2013, the CBR approved the inclusion of the proceeds from the issue into CBM's supplemental capital.

In March 2013, CBM bought back 1,003,307 exchange bonds series BO-01 from bondholders at par pursuant to a put option and then sold all of these bonds in the market. The par value of each bond is RUB 1,000.

Except as set forth above, since 31 December 2012 there have been no material changes in the consolidated capitalisation and indebtedness of CBM.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

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

Selected Statement of Comprehensive Income Information

	Year ended 31 December		
	2012	2011	2010
	<i>RUB thousands</i>		
Interest income	28,466,331	20,980,864	14,544,991
Interest expense	(16,224,968)	(12,257,202)	(8,478,432)
Net interest income	12,241,363	8,723,662	6,066,559
Provision for impairment of loans	(1,864,717)	(1,283,719)	(1,539,798)
Net interest income after provision for impairment	10,376,646	7,439,943	4,526,761
Fee and commission income.....	4,106,221	2,718,563	1,757,978
Net gain (loss) on financial instruments at fair value through profit or loss.....	353,703	(856,946)	83,474
Net realised gain on available-for-sale assets	14,704	39,994	338,527
Foreign exchange gains/ (losses), net	(208,228)	473,386	232,039
Other operating income	467,248	182,455	181,488
Non interest income	4,733,648	2,557,452	2,593,506
Salaries and employment benefits	(3,513,896)	(2,126,118)	(1,373,503)
Administrative expenses.....	(2,487,708)	(1,862,731)	(1,287,388)
Reversal of (provision for) impairment of other assets and credit related commitments	(288,856)	(247,039)	(143,438)
Depreciation	(407,903)	(242,048)	(178,163)
Fee and commission expense.....	(428,053)	(192,366)	(102,363)
State deposit insurance scheme contributions.....	(370,287)	(269,583)	(153,049)
Other operating expenses.....	(366,543)	(199,170)	(129,840)
Non-interest expense	(7,863,246)	(5,139,055)	(3,367,744)
Income before income taxes.....	7,247,048	4,858,340	3,752,523
Income tax	(1,469,166)	(972,806)	(731,147)
Net income.....	5,777,882	3,885,534	3,021,376
Other comprehensive income			
Revaluation reserve for available-for-sale securities	(86,347)	(101 355)	(372,159)
Revaluation of buildings.....	769,380	—	—
Income tax related to other comprehensive income.....	(171,145)	20,271	74,432
Other comprehensive income (loss) for the year, net of tax ..	692,090	(81,084)	(297,727)
Comprehensive income for the year.....	6,469,972	3,804,450	2,723,649

Selected Statement of Financial Position Information

	As at 31 December		
	2012	2011	2010
	<i>RUB thousands</i>		
Cash and cash equivalents	47,459,075	34,433,419	23,336,426
Obligatory reserves with the Central Bank of the Russian Federation .	2,545,772	2,259,170	756,584
Due from credit institutions	12,520,791	5,301,412	586,968
Financial instruments at fair value through profit or loss	31,684,816	22,783,760	27,475,153
Available-for-sale securities	5,447,594	2,030,678	4,461,645
Loans to customers	201,234,523	159,019,821	103,852,309
Property and equipment	6,079,621	4,969,932	4,255,117
Other assets	1,755,195	1,572,561	746,441
Total assets	308,727,385	232,370,753	165,470,643
Deposits by the Central Bank of the Russian Federation		–	–
Deposits by credit institutions	35,183,733	24,964,128	27,863,284
Deposits by customers	189,014,104	146,690,886	95,088,028
Debt securities issued	40,013,790	31,118,869	27,251,096
Deferred tax liability	2,608,594	2,074,397	493,903
Current tax liability	125,817	15,870	142,237
Other liabilities	2,489,052	1,898,697	865,000
Total liabilities	269,435,092	206,762,847	151,703,548
Share capital	13,539,763	11,638,088	7,138,088
Additional paid-in capital	9,019,295	3,699,047	162,686
Revaluation surplus for buildings	1,115,928	500,424	500,424
Revaluation reserve for available-for-sale securities	16,061	(53,017)	28,067
Retained earnings	15,601,246	9,823,364	5,937,830
Total equity	39,292,293	25,607,906	13,767,095
Total liabilities and equity	308,727,385	232,370,753	165,470,643

Selected Financial Ratios and Other Information

	<i>As at or for the year ended 31 December</i>		
	<i>2012</i>	<i>2011</i>	<i>2010</i>
		%	
Profitability			
Return on average assets ⁽¹⁾	2.1	2.0	2.4
Return on average equity ⁽²⁾	17.8	19.7	24.4
Cost-to-income ⁽³⁾	40.5	39.8	34.3
Net Interest Margin ⁽⁴⁾	5.1	4.8	5.5
Liquidity			
Loans to customers / current accounts and deposits from customers	106.5	108.4	109.2
Total liquid assets ⁽⁵⁾ / total assets	27.4	25.5	33.4
Capital Adequacy			
Total capital	15.8	14.4	13.6
Tier 1 capital	13.4	12.3	8.8
Credit Quality			
NPLs / total loans to customers	1.0	1.1	1.5
NPLs and renegotiated loans / total loans to customers....	1.1	1.6	2.7
Total impairment allowance / overdue loans	151.0	141.5	128.0

Notes:

- (1) Calculated as net income for the year to the average of total assets at the beginning of the year and at the end of the year.
- (2) Calculated as net income for the year to the average of total equity at the beginning of the year and at the end of the year.
- (3) Operating expense divided by operating income, excluding net provision charge for loan impairment, fee and commission expense, contribution to the state deposit insurance system and other operating expenses.
- (4) Calculated as the ratio of net interest income before provision 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.

SELECTED STATISTICAL INFORMATION

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

Average Balance Sheet and Interest Rate Data

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

Average Outstanding Assets and Liabilities

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

	For the year ended 31 December								
	2012			2011			2010		
	RUB billions, except percentages								
	Average amount for the year	Interest income / (expense)	Average yield / (rate paid)	Average amount for the year	Interest income / (expense)	Average yield / (rate paid)	Average amount for the year	Interest income / (expense)	Average yield / (rate paid)
Loans to customers	188.5	24.7	13.1%	140.9	17.8	12.6%	83.1	11.8	14.2%
Debt securities	29.1	3.0	10.3%	28.2	2.9	10.3%	22.5	2.6	11.6%
Due from credit institutions and the CBR	22.6	0.8	3.5%	11.1	0.3	2.7%	4.3	0.1	2.3%
Total Interest Earning Assets.....	240.2	28.5	11.9%	180.2	21.0	11.7%	109.9	14.5	13.2%
Allowance for loan impairment	(4.3)			(3.3)			(2.2)		
Other assets.....	28.4			26.3			11.6		
Total assets	264.3			203.2			119.3		
Deposits by customers	(162.7)	(11.6)	7.1%	(120.4)	(8.3)	6.9%	(65.4)	(5.5)	8.4%
Debt securities in issue	(35.6)	(3.0)	8.4%	(32.2)	(2.7)	8.4%	(21.2)	(2.2)	10.4%
Deposits by credit institutions and the CBR	(29.5)	(1.7)	5.8%	(23.5)	(1.3)	5.5%	(19.3)	(0.8)	4.2%
Total Interest Bearing Liabilities.....	(227.8)	(16.3)	7.2%	(176.1)	(12.3)	7.0%	(105.9)	(8.5)	8.0%
Other liabilities	(4.7)			(2.6)			(1.0)		
Total liabilities	232.5			(178.7)			(106.9)		
Net interest earnings.....		12.2			8.7			6.0	
Net interest spread ⁽¹⁾			4.7%			4.7%			5.2%
Net Interest Margin ⁽²⁾			5.1%			4.8%			5.5%

Note:

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

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

Changes in Interest Income and Interest Expense

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

	2012/2011			2011/2010		
	<i>Change in interest income / expense</i>	<i>Change in volume</i>	<i>Change in rates</i>	<i>Change in interest income / expense</i>	<i>Change in volume</i>	<i>Change in rates</i>
	<i>RUB billions</i>					
Loans to customers	6.9	6.4	0.5	6.0	7.4	(1.4)
Debt securities	0.1	0.2	(0.1)	0.3	0.6	(0.3)
Due from credit institutions	0.5	0.5	0.0	0.2	0.2	0.0
Total Interest Earning Assets ...	7.5	7.1	0.4	6.5	8.2	(1.7)
Deposits by customers	3.3	3.1	0.2	2.8	3.8	(1.0)
Debt securities in issue	0.3	0.3	0.0	0.5	0.9	(0.4)
Deposits by credit institutions	0.4	0.3	0.1	0.5	0.2	0.3
Total Interest Bearing Liabilities	4.0	3.7	0.3	3.8	4.9	(1.1)

Securities Held – Maturity Profile

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

	As at 31 December 2012						Total
	<i>Demand and less than 1 month</i>	<i>From 1 to 6 months</i>	<i>From 6 to 12 months</i>	<i>From 1 to 3 years</i>	<i>More than 3 years</i>	<i>No Stated Maturity</i>	
	<i>RUB billions</i>						
Federal loan bonds (OFZ bonds)	0.1	-	-	3.6	-	-	3.6
Municipal and sub-federal bonds	-	0.5	0.1	0.2	3.3	-	4.2
Corporate bonds	-	5.3	8.9	12.8	2.3	-	29.4
Total securities portfolio	0.1	5.8	9.0	16.6	5.6	-	37.1

Deposits

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

Average Value of Deposits

	Year ended 31 December		
	2012	2011	2010
	RUB thousands		
Individuals			
Current/demand accounts	5,965,086	3,770,980	2,100,984
Term deposits	88,596,291	64,768,768	37,261,778
Total due to individuals.....	94,561,376	68,539,748	39,362,762
Corporate customers			
Current/settlement accounts.....	20,984,484	14,366,015	9,821,208
Term deposits	40,990,575	29,425,075	14,386,889
Subordinated.....	2,092,943	4,029,809	2,727,727
Term notes	4,064,747	4,007,643	306,450
Total due to corporate customers.....	68,132,749	51,828,542	27,242,274
Total due to individuals and corporate customers.....	162,694,126	120,368,290	66,605,036

Cost of Deposits (Average Rate Paid)

	Year ended 31 December		
	2012	2011	2010
	%		
Individuals			
Current/demand accounts	2.1%	1.1%	1.1%
Term deposits	9.0%	9.3%	11.5%
Total due to individuals.....	8.6%	8.9%	11.0%
Corporate customers			
Current/settlement accounts.....	0.7%	0.6%	0.7%
Term deposits	7.1%	6.4%	6.4%
Subordinated.....	6.7%	7.9%	0.2%
Term notes	7.3%	6.0%	7.0%
Total due to corporate customers.....	5.1%	4.6%	4.2%
Total due to individuals and corporate customers.....	7.1%	7.0%	8.2%

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

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

Overview

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

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

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

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

As at 31 December 2012, CBM's total assets were RUB 308.7 billion, as compared with RUB 232.4 billion as at 31 December 2011 and RUB 165.5 billion as at 31 December 2010. CBM's net income for the year ended 31 December 2012 was RUB 5.8 billion compared to RUB 3.9 billion and RUB 3.0 billion for the years ended 31 December 2011 and 2010, respectively. CBM's total equity was RUB 39.3 billion, RUB 25.6 billion and RUB 13.8 billion as at 31 December 2012, 2011 and 2010, respectively.

Significant Factors Affecting Results of Operations

Economic Conditions in Russia

The majority of CBM's assets and customers are located in, or have businesses related to, Russia. According to Rosstat, Moscow and the Moscow region, where CBM's operations are concentrated, accounted for 27.1% of Russia's overall GDP in 2011. As a result, CBM is substantially affected by the health of the Russian economy, which is, to a significant degree, dependent on exports of commodities, such as oil, gas, iron ore and other natural resources. See “*Risk Factors – Risks Relating to the Russian Federation*”. According to the International Monetary Fund's World Economic Outlook Database of April 2013, for the year 2012, Russia was the ninth largest economy in the world with GDP of US\$2,021.96 billion (RUB 62.4 trillion) and a population of 141.22 million. The following table shows certain Russian economic indicators for the years indicated.

	<i>As at or for the year ended 31</i>		
	<i>December</i>		
	<i>2012</i>	<i>2011</i>	<i>2010</i>
Total nominal GDP (RUB in billions)	62,357	54,369	45,166
Real GDP growth/(decrease)	3.4%	4.3%	4.3%
Inflation	6.6%	6.1%	8.8%
GDP per capita (RUB)	428,700	381,775	316,067
Unemployment	6%	6.5%	7.5%
Government debt (RUB in billions)	6,709	6,503	5,338
Government debt/GDP	11%	12.0%	11.8%

Source: International Monetary Fund.

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

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

According to information published by Rosstat, Russia's GDP in real terms declined by 7.9% in 2009 and then returned to growth in 2010, increasing by 4%, and increasing again by 4.3% in 2011. Commodity prices also demonstrated high levels of volatility, although they generally increased in 2011 and the three months ended 31 March 2012, before declining in the second quarter of 2012. The price of Urals crude oil, Russia's export blend of crude, increased from US\$32.34 per barrel as at 24 December 2008 to a high of US\$125.26 on 1 March 2012, with a closing price of US\$96.69 as at 30 June 2012 and of US\$113.65 as at 13 September 2012, according to Bloomberg. Russia's annual inflation rate was 8.8% in each of 2009 and 2010, before declining to 6.1% in 2011. Russia's annualised inflation rate for the year ended 31 December 2012 was 6.6%.

In 2008 and 2009, several of CBM's borrowers were affected by the deterioration of economic conditions, which affected their ability to service or repay the amounts due to CBM and decreased the value of collateral pledged against loans extended by CBM. This contributed to deterioration in the quality of CBM's loan book and a reduction in the demand for the products and services it offers. Nonetheless, since the onset of the global financial crisis CBM's levels of loan impairment have been relatively low, even after taking into account the effects of loans renegotiated or written off, and CBM's gross loans to customers have increased year on year. The percentage of NPLs in CBM's loan portfolio was 1.5% as at 31 December 2010, 1.1% as at 31 December 2011 and 1.0% as at 31 December 2012. CBM's ratio of allowance for loan impairment to gross loans to customers was 2.6%, 2.3% and 2.3% as at 31 December 2010, 2011 and 2012, respectively. The decline in the NPL and impairment ratios was due in part to the rapid growth in CBM's loan portfolio over this period and the fact that the average age of the loans in the portfolio was decreasing due to new loans

having not yet seasoned. CBM's gross loans to customers increased from RUB 106.6 billion as at 31 December 2010 to RUB 162.7 billion as at 31 December 2011 and RUB 205.9 billion as at 31 December 2012.

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

Impact of International Financial Markets

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

Funding Costs and Interest Rate Environment

During the second half of 2008 and the first half of 2009, the functioning of Russian and international capital markets was severely disrupted, with market liquidity and funding becoming scarce. Investors' lack of confidence in the banking industry globally adversely affected wholesale funding markets, leading to higher borrowing costs and restricting access to liquidity for banks, including CBM. As at 31 December 2012, approximately 28.2% of CBM's funding was wholesale funding, exposing CBM to risks associated with fluctuations in the wholesale funding markets that affect both the cost and the availability of refinancing. The cost of Government funding as well as the cost of the more limited funding methods available from international banks increased through 2008 and 2009 but started to decrease in 2010 and continued this downward trend in the first quarter of 2011. The banking sector experienced renewed liquidity tightening in the second half of 2011 and continued to do so in 2012, which in turn has led to an increase in costs of funding for Russian banks, including customer deposit interest rate costs.

Net interest income is the largest component of CBM's income and, consequently, changes in interest rates affect CBM's results of operations. During the years covered by the Financial Statements, movements in short- and long-term interest rates have affected CBM's interest income and interest expense as well as the level of gains and losses on CBM's proprietary securities portfolio. Since the first half of 2009, borrowing conditions for Russian customers have been challenging as a consequence of the global financial crisis. For example, according to the CBR, the average Rouble lending rate on the Russian interbank market more than quadrupled to 16.3% in January 2009 from 3% in January 2008, before moving to 6.0% in March 2013 (with significant fluctuations between 2008 and March 2013).

Despite the financial turmoil, however, CBM's Net Interest Margin has remained relatively stable, at 5.5%, 4.8% and 5.1% for the years ended 31 December 2010, 2011 and 2012, respectively, which demonstrates CBM's ability to re-price its interest-earning assets and interest-bearing liabilities to offset the movements in interest rates to a certain degree. See "*Selected Statistical Information*". Increased competition for customer deposits due to a lack of other funding sources in early 2009 resulted in higher interest rates being payable on new customer deposits for Russian banks, which, in turn, increased CBM's interest expense during 2009. In order to mitigate the adverse impact of the higher funding rates on its Net Interest Margins, CBM increased the interest rates it charged on loans, as its loan agreements with corporate customers provided for the possibility of interest rate increases in the case of instability in the financial markets and higher funding costs, although CBM's ability to make these corresponding increases was limited to some extent by competitive pressures. Beginning in 2010, interest rates paid on deposits to customers were consistently lower than they were during the most acute stage of the global financial crisis in the second half of 2008 and the first half of 2009. CBM's average interest rate paid on current accounts and deposits by customers declined from 8.4% in the year ended 31 December 2010, to 6.9% in the year ended 31 December 2011 and then increased to 7.1% in the year ended 31 December 2012.

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

CBM's access to new long term sources of funding improved after the end of the most acute stage of the global economic crisis in 2008 and 2009, in particular with respect to debt securities issued with a maturity of over one year, the outstanding amount of which was RUB 32.4 billion as at 31 December 2012, as compared to RUB 14.3 billion and RUB 8.0 billion as at 31 December 2011 and 2010, respectively.

Recent Developments

In January 2013, CBM bought back 599,738 domestic bonds series 07 (30.0%) from bondholders at par pursuant to a put option and then sold all of these bonds in the market. The par value of each bond is RUB 1,000.

In February 2013, CBM made a US\$500 million Eurobond issue in the form of loan participation notes issued by the Issuer. The notes mature in February 2018 and have an interest rate of 7.70%.

In February 2013, CBM issued RUB 2 billion of subordinated domestic bonds series 12 with a fixed coupon of 12.25% and a 5.5-year maturity. In March 2013, the CBR approved the inclusion of the proceeds from the issue into CBM's supplemental capital.

In March 2013, CBM bought back 1,003,307 exchange bonds series BO-01 from bondholders at par pursuant to a put option and then sold all of these bonds in the market. The par value of each bond is RUB 1,000.

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

CBM generated net income of RUB 5.8 billion during the year ended 31 December 2012, an increase of 48.7% as compared to RUB 3.9 billion during the year ended 31 December 2011.

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

	<i>Year ended 31 December</i>	
	<i>2012</i>	<i>2011</i>
	<i>RUB thousands</i>	
Interest income	28,466,331	20,980,864
Interest expense	(16,224,968)	(12,257,202)
Net interest income	12,241,363	8,723,662
Provision for impairment of loans	(1,864,717)	(1,283,719)
Net interest income after provision for impairment	10,376,646	7,439,943
Fee and commission income	4,106,221	2,936,928
Net gain/(loss) on financial instruments at fair value through profit or loss	353,703	(856,946)
Net realised gain on available-for-sale assets	14,704	39,994
Foreign exchange gains/(losses), 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	(3,513,896)	(2,126,118)
Administrative expenses	(2,487,708)	(1,862,731)
Provision for impairment of other assets and credit related commitments	(288,856)	(247,039)
Depreciation	(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)
Income before income taxes	7,247,048	4,858,340
Income tax	(1,469,166)	(972,806)
Net income	5,777,882	3,885,534
Other comprehensive income		
Revaluation reserve for available-for-sale securities	86,347	(101,355)
Revaluation of buildings	769,380	—
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)
Comprehensive income for the year	6,462,464	3,804,450

Interest Income

CBM's interest income for the year ended 31 December 2012 increased by 35.7% to RUB 28.5 billion, compared to RUB 21.0 billion for the year ended 31 December 2011. The following table sets forth the principal components of CBM's interest income for the years indicated:

	<i>For the year ended 31 December</i>			
	<i>2012</i>		<i>2011</i>	
	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>
Interest income				
Loans to customers	24,742,808	86.9	17,790,664	84.8
Debt securities (Financial instruments at fair value through profit or loss and available-for-sale securities)	2,968,379	10.4	2,892,224	13.8
Due from credit institutions and the CBR.....	755,144	2.7	297,976	1.4
Total interest income	28,466,331	100.0	20,980,864	100.0
Average yield on interest-earning assets (%)⁽¹⁾	11.9%		11.7%	

Note:

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

The increase in CBM's interest income for the year ended 31 December 2012 resulted primarily from an increase in interest income from loans to customers, primarily due to growth of CBM's loan portfolio. The average interest rate on interest-earning assets increased to 11.9% for the year ended 31 December 2012 from 11.7% for the year ended 31 December 2011.

Interest Income on Loans to Customers

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

For the year ended 31 December 2012, interest income on loans to customers represented 86.9% of total interest income, compared to 84.8% for the year ended 31 December 2011. Interest income on loans to customers increased by 39.1% to RUB 24.7 billion for the year ended 31 December 2012, from RUB 17.8 billion for the year ended 31 December 2011. This increase was primarily attributable to an increase in lending volumes. CBM's loans to customers net of allowance for loan impairment increased by 26.5% to RUB 201.2 billion as at 31 December 2012, from RUB 159.0 billion as at 31 December 2011. CBM's average yield on loans to customers increased to 13.1% in the year ended 31 December 2012 from 12.6% in the year ended 31 December 2011.

Interest Income on Debt Securities

Interest income on CBM's debt securities (including for this purpose financial instruments at fair value through profit or loss and available-for-sale securities) was the second largest component of total interest income in the years covered by the Financial Statements, representing 10.4% of total interest income in the year ended 31 December 2012 as compared to 13.8% in the year ended 31 December 2011.

Interest income on CBM's debt securities portfolio stayed relatively constant at RUB 3.0 billion and RUB 2.9 billion in the years ended 31 December 2012 and 2011, respectively. Both volumes of debt securities and interest rates stayed relatively constant between the two years.

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% of total interest income in the year ended 31 December 2012, compared with 1.4% in the year ended 31 December 2011. Interest income on amounts due from credit institutions and the CBR increased to RUB 755 million in the year ended 31 December 2012, an increase of 153.4% from RUB 298 million in the year ended 31 December 2011. These increases were primarily due to an increase in interest rates on interbank borrowings, in part as a result of CBM extending a larger amount of longer-term interbank loans which have higher interest rates. The average interest rate paid to CBM on amounts due from credit institutions and the CBR increased to 3.5% for the year ended 31 December 2012 from 2.7% for the year ended 31 December 2011.

Interest Expense

CBM's total interest expense for the year ended 31 December 2012 increased 32.4% to RUB 16.2 billion, compared to RUB 12.3 billion for the year ended 31 December 2011. The following table sets forth the principal components of CBM's interest expense for the years indicated:

	For the year ended 31 December			
	2012		2011	
	RUB thousands	% of total	RUB thousands	% of total
Deposits by customers	11,600,160	71.5	8,249,337	67.3
Deposits by credit institutions and the Central Bank of the Russian Federation.....	1,654,236	10.2	1,290,792	10.5
Debt securities issued	2,970,572	18.3	2,717,073	22.2
Total interest expense	16,224,968	100.0	12,257,202	100.0
Average rate paid on interest-bearing liabilities(%)⁽¹⁾	7.2%		7.0%	

Note:

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

The overall increase in CBM's interest expense in the year ended 31 December 2012 mainly resulted from an increase in interest expense on deposits by customers of 40.6% to RUB 11.6 billion, compared to RUB 8.2 billion for the year ended 31 December 2011. The average interest rate on interest-bearing liabilities increased slightly to 7.2% in the year ended 31 December 2012 from 7.0% in the year ended 31 December 2011.

Interest Expense on Deposits by Customers

Interest expense on deposits by customers was the largest component of CBM's total interest expense in the years covered by the Financial Statements, representing 71.5% and 67.3% of total interest expense in the years ended 31 December 2012 and 2011, respectively.

Interest expense on deposits by customers increased by 40.6% to RUB 11.6 billion for the year ended 31 December 2012, as compared to RUB 8.2 billion for the year ended 31 December 2011, primarily as a result of increased interest rates on bank deposits in the deposit market in the year ended 31 December 2012. The average rate paid by CBM on deposits by customers increased to 7.1% for the year ended 31 December 2012 from 6.9% for the year ended 31 December 2011. Also contributing to the increase was an increase in the volume of deposits by customers from RUB 146.7 billion at 31 December 2011 to RUB 189.0 billion at 30 December 2012. The growth in deposits by individuals between the two years was 25.4%, as compared to 33.7% for corporate customers. The growth in retail deposits was due to CBM's efforts to expand its retail business, in line with its business strategy. Interest rates on retail deposits increased as between the two years due to competitive pressures in the market for attracting retail deposits.

Interest Expense on Deposits by Credit Institutions and the CBR

Interest expense on deposits by credit institutions and the CBR represented 10.2% and 10.5% of total interest expense in the years ended 31 December 2012 and 2011, respectively. Interest expense on deposits by credit institutions and the CBR increased 28.2%, to RUB 1.7 billion in the year ended 31 December 2012, compared to RUB 1.3 billion for the year ended 31 December 2011, due to an increase in the volume of deposits by credit institutions and the CBR and a slight increase in interest rates. The average interest rate paid by CBM on deposits by credit institutions and the CBR increased slightly to 5.8% for the year ended 31 December 2012 from 5.5% for the year ended 31 December 2011.

Interest Expense on Debt Securities Issued

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

Interest expense on debt securities issued increased 9.3% to RUB 3.0 billion in the year ended 31 December 2012, compared to RUB 2.7 billion in the year ended 31 December 2011. The average interest rate paid by CBM on debt securities remained constant at 8.4% for the years ended 31 December 2011 and 2012, while the volume of debt securities issued increased to RUB 40.0 billion as at 31 December 2012 from RUB 31.1 billion as at 31 December 2011, as a result of the issuance of domestic bonds issues in April 2012, September 2012 and December 2012, in amounts of RUB 4 billion, RUB 3 billion and RUB 3 billion, respectively, and the Eurobond issue in July 2011, which was partially offset by the repayment by CBM in 2012 of two series of domestic bonds.

Net Interest Income

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

	<i>For the year ended 31 December</i>	
	<i>2012</i>	<i>2011</i>
	<i>RUB</i>	<i>RUB</i>
	<i>thousands</i>	<i>thousands</i>
Interest income	28,466,331	20,980,864
Interest expense	(16,224,968)	(12,257,202)
Net interest income before provision charge for loan impairment.....	12,241,363	8,723,662
Net Interest Margin⁽¹⁾	5.1%	4.8%

Note:

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

For the year ended 31 December 2012, net interest income before provision for loan impairment increased by 40.3%, to RUB 12.2 billion, compared to RUB 8.7 billion for the year ended 31 December 2011, primarily due to increased lending volumes. In the year ended 31 December 2012, CBM's Net Interest Margin increased to 5.1% from 4.8% in the year ended 31 December 2011, primarily due to an increase in the proportion of retail loans in CBM's loan portfolio, which generally generate higher returns than corporate loans.

Provision for Impairment of Loans

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

	<i>For the year ended 31 December</i>	
	<i>2012</i>	<i>2011</i>
	<i>RUB thousands</i>	
Provision / (recovery of provision) for impairment on:		
Loans to corporate customers.....	642,917	866,943
Auto loans	46,175	(32,353)
Mortgage loans	(41,581)	(169,013)
Consumer loans	1,217,206	618,142
Total loans to individuals	1,221,800	416,776
Total provision for impairment of loans	1,864,717	1,283,719

CBM recognised a provision for loan impairment of RUB 1.9 billion in the year ended 31 December 2012, an increase of 45.3% compared with RUB 1.3 billion in 2011, as a result of an increase in loan volumes. The increase was attributable to an increase in provision for impairment on total loans to individuals, which in turn was primarily attributable to an increase in the volume of loans to individuals to RUB 50.4 billion as at 31 December 2012 from RUB 29.9 billion as at 31 December 2011.

The level of allowance for loan impairment as a percentage of CBM's NPLs as at 31 December 2012 and 2011 amounted to 238.9% and 208.6% respectively, of NPLs.

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

Non-interest Income

Fee and Commission Income

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

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

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

	<i>For the year ended 31 December</i>			
	<i>2012</i>		<i>2011</i>	
	<i>RUB</i>		<i>RUB</i>	
	<i>thousands</i>	<i>% of total</i>	<i>thousands</i>	<i>% of total</i>
Cash collection and delivery ⁽¹⁾	1,003,921	24.5	750,537	27.6
Settlements and wire transfers	852,401	20.8	764,428	28.1
Guarantees and letters of credit	739,994	18.0	533,983	19.6
Insurance contracts processing	770,246	18.8	213,063	7.8
Plastic cards	354,122	8.6	273,704	10.1
Currency exchange commission	176,985	4.3	218,365	8.0
Other cash operations ⁽²⁾	132,861	3.2	104,558	3.9
Other fee and commission income.....	75,691	1.8	78,290	2.9
Total fee and commission income.....	4,106,221	100.0	2,936,928	100.0

Notes:

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

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

During the years ended 31 December 2012 and 2011, net fee and commission income was the largest component of CBM's non-interest income, amounting to 86.7% and 114.8%, respectively of non-interest income in those years. The year-on-year increase was primarily attributable to the continued expansion of CBM's cash collection and delivery business, as well as CBM's development of its plastic cards operations, settlement transactions and agent commissions on selling insurance contracts. Historically, cash collection and delivery has been one of CBM's most important sources of fee and commission income and this is expected to continue to be the case for the foreseeable future. See “*Business – Cash Collection and Delivery*”.

CBM's total fee and commission income increased by 39.8% to RUB 4.1 billion for the year ended 31 December 2012, from RUB 2.9 billion in 2011. This increase was primarily attributable to increase in the volume of CBM's insurance contracts processing, guarantees and letters of credit, plastic card operations and cash collection and delivery. These increases were all in line with the general growth of CBM's operations between the two years. The significant increase in insurance contracts processing is in part due to the fact that this source of fee income was first introduced by CBM in the second quarter of 2011. See “*Business – Retail Banking – General Purpose Consumer Loans*”. The increase in guarantees and letters of credit was also attributable to the fact that CBM's credit rating from Fitch was upgraded in June 2012, which enabled CBM to issue more guarantees than it could previously.

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

CBM's financial instruments at fair value through profit or loss are government, municipal and corporate bonds. In the year ended 31 December 2012, CBM had a net gain on financial instruments at fair value through profit or loss of RUB 354 million, as compared to a net loss of RUB 857 million in the year ended 31 December 2011. 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. The net gain on financial instruments at fair value through profit or loss in the year ended 31 December 2012 was attributable to recovery of the Russian stock market following the turmoil in 2011.

Net Realised Gain on Available-for-sale Securities

CBM's available-for-sale securities are government, municipal and corporate bonds. In the year ended 31 December 2012, CBM had a net gain on available-for-sale securities of RUB 15 million, as compared to a net gain of RUB 40 million in the year ended 31 December 2011.

Foreign Exchange Gains (Losses), Net

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

In the year ended 31 December 2012, CBM had a net foreign exchange loss of RUB 208 million, as compared to a net gain of RUB 255 million in the year ended 31 December 2011. The net foreign exchange loss in the year ended 31 December 2012 is attributable to losses in CBM's operations with foreign currency derivatives, which exceeded income received on currency exchange transactions conducted by CBM on behalf of its clients. See “*Risk Management – Market Risk – Currency Risk*”.

Other Operating Income

Other operating income represents income arising from prior years, any income from penalties assessed, safe deposit commissions and income from disposal of assets. Other operating income increased by 156.1% to RUB 467 million in the year ended 31 December 2012 from RUB 182 million in the year ended 31 December 2011. This increase reflects an increase in penalties assessed and an increase in income from disposals of fixed assets by CBM's subsidiary, MKB-Leasing.

Non-Interest Expense

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

	<i>For the year ended 31 December</i>			
	<i>2012</i>		<i>2011</i>	
	<i>RUB</i>		<i>RUB</i>	
	<i>thousands</i>	<i>% of total</i>	<i>thousands</i>	<i>% of total</i>
Salaries and employment benefits	3,513,896	45	2,126,118	41.4
Administrative expenses	2,487,708	32	1,862,731	36.3
Provision for impairment of assets and credit related commitments	288,856	4	247,039	4.8
Depreciation of property and equipment	407,903	5	242,048	4.7
Fee and commission expense.....	428,053	5	192,366	3.7
State deposit insurance scheme contributions.....	370,287	5	269,583	5.2
Other operating expenses.....	366,543	5	199,170	3.9
Total non-interest expense	7,863,246	100.0	5,139,055	100.0

CBM's non-interest expense increased 53.0% for the year ended 31 December 2012, to RUB 7.9 billion, compared to RUB 5.1 billion for 2011. CBM's operating expenses, calculated as the sum of salaries and employment benefits, administrative expenses and depreciation of property and equipment increased by 51.5% for the year ended 31 December 2012, to RUB 6.4 billion, as compared to RUB 4.2 billion for 2011.

CBM's cost-to-income ratio, which is calculated as operating expense divided by operating income, excluding net provision charge for loan impairment, fee and commission expense, contribution to the state deposit insurance system and other operating expenses, was 40.5% for the year ended 31 December 2012 and 39.8% for the year ended 31 December 2011. The slight decrease in this ratio between the year ended 31 December 2011 and the year ended 31 December 2012 was primarily driven by improved operational efficiency which resulted in an increase in operational income that exceeded the increase in operational expenses.

Salaries and Employment Benefits

	For the year ended 31 December			
	2012		2011	
	RUB thousands	% of total	RUB thousands	% of total
Salaries	2,843,875	80.9	1,701,338	80.0
Social security costs.....	636,429	18.1	402,778	19.0
Other	33,592	1.0	22,002	1.0
Total salaries and employment benefits.....	3,513,896	100.0	2,126,118	100.0

Salaries and employment benefits increased by 65.3% to RUB 3.5 billion in the year ended 31 December 2012 from RUB 2.1 billion in the year ended 31 December 2011. This increase was primarily due to an increase in the number of employees of CBM as a result of the expansion of CBM's retail and corporate businesses between the years covered and were also due to salary increases resulting from high competition in the market for qualified personnel.

CBM had 4,041 employees as at 31 December 2012, as compared to 3,322 as at 31 December 2011.

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

Administrative Expenses

	For the year ended 31 December			
	2012		2011	
	RUB thousands	% of total	RUB thousands	% of total
Occupancy	848,172	34.1	580,825	31.2
Advertising and business development.....	507,380	20.4	413,006	22.2
Operating taxes	453,733	18.2	368,852	19.8
Security	211,153	8.5	159,485	8.6
Property maintenance	199,645	8.0	147,781	7.9
Transport.....	59,210	2.4	42,331	2.3
Communications	53,555	2.2	49,433	2.6
Computer maintenance and software expenses	43,488	1.7	43,027	2.3
Other	111,372	4.5	57,991	3.1
Administrative expenses.....	2,487,708	100.0	1,862,731	100.0

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

CBM's administrative expenses for the year ended 31 December 2012 increased by 33.6% to RUB 2.5 billion from RUB 1.9 billion in the year ended 31 December 2011. This increase reflects the expansion of CBM's corporate and retail lending activities, the diversification of the products and services offered by CBM to its clients, the extension of CBM's branch network, the development of CBM's ATM and payment terminal networks and the development of the cash collection and delivery services provided to CBM's customers.

CBM rents from third parties the substantial majority of its branch offices, several properties for its back offices and space in the locations of its payment terminals and ATMs. See "Business – Branches, Payment Terminals and ATMs". CBM's occupancy expenses for the year ended 31 December 2012 increased by 46.0% to RUB 848 million from RUB 581 million in the year ended 31 December 2011. This increase was a result of infrastructure development and an increase in the cost of renting offices, ATMs and payment terminals. The number of CBM's branches was 60 as at each of 31 December 2011 and 2012. CBM had 694 ATMs in its ATM network as at 31 December 2012, as compared to 604 as at 31 December 2011. As at 31 December 2012, CBM had 3,906 payment terminals, compared with 4,014 as at 31 December 2011.

CBM's advertising and business development expenses for the year ended 31 December 2012 increased by 22.9% to RUB 507 million from RUB 413 million in the year ended 31 December 2011. The increase primarily reflects 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 2012 increased by 23.0% to RUB 454 million from RUB 369 million in the year ended 31 December 2011. A large proportion of the increase from 31 December 2011 to 31 December 2012 was due to VAT levied on the purchase by CBM and its subsidiaries of services rendered by advertising, transportation and repair companies.

Security expenses for the year ended 31 December 2012 increased by 32.4% to RUB 211 million from RUB 159 million in the year ended 31 December 2011. This increase reflects the growth of CBM's cash collection and delivery business, particularly the increase in the number of CBM's cash collection points, which resulted in an increase in payments to security companies.

Property maintenance expenses for the year ended 31 December 2012 increased by 35.1% to RUB 200 million from RUB 148 million in the year ended 31 December 2011. This increase reflects the expansion of CBM's branch network and the increase in its number of ATMs and payment terminals between these years.

Depreciation of Property and Equipment

Depreciation of property and equipment for the year ended 31 December 2012 increased by 68.5% to RUB 408 million from RUB 242 million in the year ended 31 December 2011. This increase was largely a result of an increase in the amount of fixed assets between the two years.

Fee and Commission Expense

Fee and commission expense is principally comprised of fees for plastic card acquiring services (fees paid to plastic card issuing companies with CBM processes card payments for a merchant), property insurance fees, payment systems commissions and commissions for settlement services provided by the CBR. For the year ended 31 December 2012, fee and commission expense increased by 122.5% to RUB 428 million from RUB 192 million for the year ended 31 December 2011. The increase was attributable to development of CBM's plastic cards business and an increase in the number of transactions with plastic cards, which resulted in an increase in the volume of commissions paid to payment card companies.

Income Tax Expense

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

	<i>Year ended 31 December</i>	
	<i>2012</i>	<i>2011</i>
	<i>RUB thousands</i>	
Current tax charge.....	1,471,076	256,131
Deferred taxation	(1,910)	716,675
Income tax expense	1,469,166	972,806

CBM's income tax expense was RUB 1.5 billion in the year ended 31 December 2012 as compared to RUB 973 million in the year ended 31 December 2011. The increase was primarily attributable to increased profit before tax between the two years.

Net Income

CBM's net income increased by 48.7% for the year ended 31 December 2012, to RUB 5.8 billion, compared to RUB 3.9 billion for 2011, for the reasons discussed above.

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

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

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

	<i>Year ended 31 December</i>	
	<i>2011</i>	<i>2010</i>
	<i>RUB thousands</i>	
Interest income	20,980,864	14,544,991
Interest expense	(12,257,202)	(8,478,432)
Net interest income	8,723,662	6,066,559
Provision for impairment of loans	(1,283,719)	(1,539,798)
Net interest income after provision for impairment	7,439,943	4,526,761
Fee and commission income	2,936,928	1,906,865
Net gain (loss) on financial instruments at fair value through profit or loss	(856,946)	83,474
Net realised gain on available-for-sale assets	39,994	338,527
Foreign exchange gains (losses), net	255,021	83,152
Other operating income	182,455	181,488
Non interest income	2,557,452	2,593,506
Salaries and employment benefits	(2,126,118)	(1,373,503)
Administrative expenses	(1,862,731)	(1,287,388)
Provision for impairment of other assets and credit related commitments	(247,039)	(143,438)
Depreciation	(242,048)	(178,163)
Fee and commission expense	(192,366)	(102,363)
State deposit insurance scheme contributions	(269,583)	(153,049)
Other operating expenses	(199,170)	(129,840)
Non-interest expense	(5,139,055)	(3,367,744)
Income before income taxes	4,858,340	3,752,523
Income tax	(972,806)	(731,147)
Net income	3,885,534	3,021,376
Other comprehensive income		
Revaluation reserve for available-for-sale securities	(101,355)	(372,159)
Revaluation of buildings	—	—
Income tax related to other comprehensive income	20,271	74,432
Other comprehensive income (loss) for the year, net of tax	(81,084)	(297,727)
Comprehensive income for the year	3,804,450	2,723,649

Interest Income

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

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

Note:

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

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

Interest Income on Loans to Customers

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

Interest Income on Debt Securities

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

Interest income on CBM's debt securities increased by 10.1% to RUB 2.9 billion for the year ended 31 December 2011 from RUB 2.6 billion for 2010. This increase was due to a significant increase in the size of CBM's debt securities portfolio between the two years, which increase was offset in part by the effects of a decrease in interest rates. The average interest rate received by CBM on debt securities decreased to 10.3% for the year ended 31 December 2011 from 11.6% for the year ended 31 December 2010. See "Financial Condition – Total Assets – Securities Portfolio".

Interest Income on Amounts Due From Credit Institutions and the CBR

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

Interest Expense

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

For the year ended 31 December			
2011		2010	
RUB thousands	% of total	RUB thousands	% of total

Deposits by customers	8,249,337	67.3	5,446,181	64.2
Deposits by credit institutions and the Central Bank of the Russian Federation.....	1,290,792	10.5	853,008	10.1
Debt securities issued	2,717,073	22.2	2,179,243	25.7
Total interest expense	12,257,202	100.0	8,478,432	100.0
Average rate paid on interest-bearing liabilities⁽¹⁾	7.0%		8.0%	

Note:

(1) Calculated as the ratio of total interest expense to average interest-bearing liabilities. See “Selected Statistical Information”.

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

Interest Expense on Deposits by Customers

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

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

Interest Expense on Deposits by Credit Institutions and the CBR

Interest expense on deposits by credit institutions and the CBR represented 10.5% and 10.1% of total interest expense in the years ended 31 December 2011 and 2010, respectively. Interest expense on deposits by credit institutions increased by 51.3%, to RUB 1.3 billion in 2011, compared to RUB 853 million for 2010, due to an increase in the cost of funds from credit institutions, which was partly offset by decreased volume of deposits by credit institutions.

Interest Expense on Debt Securities Issued

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

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

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

Net Interest Income

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

	<i>For the year ended 31 December</i>	
	<i>2011</i>	<i>2010</i>
	<i>RUB</i>	<i>RUB</i>
	<i>thousands</i>	<i>thousands</i>
Interest income	20,980,864	14,544,991
Interest expense	(12,257,202)	(8,478,432)
Net interest income before provision charge for loan impairment.....	8,723,662	6,066,559
Net Interest Margin⁽¹⁾	4.8%	5.5%

Note:

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

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

Provision for Impairment of Loans

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

	<i>For the year ended 31 December</i>	
	<i>2011</i>	<i>2010</i>
	<i>RUB thousands</i>	
Provision / (recovery of provision) for impairment on:		
Loans to corporate customers.....	866,943	1,237,765
Auto loans.....	(32,353)	8,625
Mortgage loans.....	(169,013)	90,238
Consumer loans.....	618,142	203,170
Total provision to individuals.....	416,776	302,033
Total allowance for impairment of loans.....	1,283,719	1,539,798

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

The level of allowance for loan impairment as a percentage of CBM's NPLs for 2011 and 2010 amounted to 208.6% and 171.6%, respectively, of NPLs.

See “– Financial Condition – Total Assets – Loans to Customers – Allowance for Loan Impairment” for further information on CBM's allowance for impairment of loans.

Non-interest Income

Fee and Commission Income

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

	<i>For the year ended 31 December</i>			
	<i>2011</i>		<i>2010</i>	
	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>
Cash collection and delivery ⁽¹⁾	750,537	27.6	549,536	31.3
Settlements and wire transfers.....	764,428	28.1	458,847	26.1
Guarantees and letters of credit.....	533,983	19.6	492,866	28.0
Insurance contracts processing.....	213,063	7.8	–	–
Plastic cards.....	273,704	10.1	116,925	6.7
Other cash operations ⁽²⁾	104,558	3.9	77,280	4.4
Other fee and commission income.....	78,290	2.9	62,524	3.5
Total fee and commission income.....	2,718,563	100.0	1,757,978	100.0

Notes:

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

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

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

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

processing generated RUB 213.1 million of fee and commission income in 2011 as compared with nil in 2010 due to the fact that this source of fee income was first introduced by CBM in the second quarter of 2011.

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

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

Net Realised Gain on Available-for-sale Securities

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

Foreign Exchange Gains (Losses), Net

In 2011 and 2010, CBM had net gains of RUB 473 million and RUB 232 million, respectively. The gains in both years are attributable to income gained on currency conversion operations conducted by CBM on behalf of its clients. In these years, income from currency exchange transactions exceeded losses incurred on operations with currency derivatives. See "Risk Management – Market Risk – Currency Risk".

Other Operating Income

Other operating income stayed relatively constant at RUB 182 million and RUB 181 million for the years ended 31 December 2011 and 2010, respectively.

Non-Interest Expense

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

	<i>For the year ended 31 December</i>			
	<i>2011</i>		<i>2010</i>	
	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>
Salaries and employment benefits	2,126,118	41.4	1,373,503	40.8
Administrative expenses	1,862,731	36.3	1,287,388	38.2
Provision for impairment of assets and credit related commitments	247,039	4.8	143,438	4.3
Depreciation of property and equipment	242,048	4.7	178,163	5.3
Fee and commission expense	192,366	3.7	102,363	3.0
State deposit insurance scheme contributions...	269,583	5.2	153,049	4.5
Other operating expenses	199,170	3.9	129,840	3.9
Total non-interest expense	5,139,055	100.0	3,367,744	100.0

CBM's non-interest expense increased by 52.6% for the year ended 31 December 2011 to RUB 5.1 billion, from RUB 3.4 billion in 2010. CBM's operating expenses, calculated as the sum of salaries and employee benefits, administrative expenses and depreciation of property and equipment, increased by 49.0% to RUB 4.2 billion in 2011, from RUB 2.8 billion in 2010.

CBM's cost-to-income ratio was 39.8% and 34.3% for the years ended 31 December 2011 and 2010, respectively. The increase in the cost-to-income ratio from 34.3% in 2010 to 39.8% in 2011 was primarily attributable to an increase in staff costs and increased investments in infrastructure development mainly related to the expansion of CBM's retail business in line with CBM's strategy.

Salaries and Employment Benefits

	<i>For the year ended 31 December</i>			
	<i>2011</i>		<i>2010</i>	
	<i>RUB</i>		<i>RUB</i>	
	<i>thousands</i>	<i>% of total</i>	<i>thousands</i>	<i>% of total</i>
Salaries	1,701,338	80.0	1,143,744	83.3
Social security costs.....	402,778	19.0	216,439	15.8
Other	22,002	1.0	13,320	0.9
Total salaries and employment benefits.....	2,126,118	100.0	1,373,503	100.0

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

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

Administrative Expenses

	<i>For the year ended 31 December</i>			
	<i>2011</i>		<i>2010</i>	
	<i>RUB</i>		<i>RUB</i>	
	<i>thousands</i>	<i>% of total</i>	<i>thousands</i>	<i>% of total</i>
Occupancy	580,825	31.2	332,191	25.8
Advertising and business development.....	413,006	22.2	261,149	20.3
Operating taxes	368,852	19.8	290,234	22.5
Security	159,485	8.6	123,726	9.6
Property maintenance	147,781	7.9	77,378	6.0
Transport.....	42,331	2.3	40,335	3.1
Communications	49,433	2.6	59,827	4.7
Computer maintenance and software expenses	43,027	2.3	43,310	3.4
Other	57,991	3.1	59,238	4.6
Administrative expenses.....	1,862,731	100.0	1,287,388	100.0

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

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

CBM's advertising and marketing expenses for the year ended 31 December 2011 increased by 58.1% to RUB 413 million from RUB 261 million for the year ended 31 December 2010. The increase primarily reflects the increased use of advertising by CBM through a variety of promotional channels between these two years.

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

CBM's security expenses for the year ended 31 December 2011 increased by 28.9% to RUB 159 million from RUB 124 million for the year ended 31 December 2010. This increase reflects the growth of CBM's cash collection and delivery business, particularly the increase in the number of CBM's cash collection points, which resulted in an increase in payments to security companies.

CBM's property maintenance expenses for the year ended 31 December 2011 increased by 91% to RUB 148 million from RUB 77 million for the year ended 31 December 2010. This increase reflects the expansion of CBM's branch network and the increase in its number of ATMs and payment terminals between the two years.

Depreciation of Property and Equipment

Depreciation of property and equipment for the year ended 31 December 2011 increased by 35.9% to RUB 242 million from RUB 178 million for the year ended 31 December 2010. This increase was largely a result of increases in the amount of fixed assets between the two years.

Fee and Commission Expense

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

Income Tax Expense

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

	<i>Year ended 31 December</i>	
	<i>2011</i>	<i>2010</i>
	<i>RUB thousands</i>	
Current tax charge.....	256,131	413,074
Deferred taxation	716,675	318,073
Income tax expense	972,806	731,147

For the years ended 31 December 2011 and 2010, CBM had income tax expense of RUB 973 million and RUB 731 million, respectively. The increase was primarily attributable to increased profit before tax across the relevant period.

Net Income

CBM's net income increased by 28.6% for the year ended 31 December 2011, to RUB 3.9 billion, compared to RUB 3.0 billion for 2010, for the reasons discussed above.

Financial Condition

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

Total Assets

As at 31 December 2012, CBM had total assets of RUB 308.7 billion, compared to RUB 232.4 billion as at 31 December 2011. The increase in total assets by RUB 76.4 billion, or 32.9%, primarily reflected an increase of RUB 42.2 billion, or 26.5%, in loans to customers.

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

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

	<i>As at 31 December</i>					
	<i>2012</i>		<i>2011</i>		<i>2010</i>	
	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>
Cash and cash equivalents	47,459,075	15.4	34,433,419	14.8	23,336,426	14.1
Obligatory reserves with the Central Bank of the Russian Federation.....	2,545,772	0.8	2,259,170	1.0	756,584	0.4
Due from credit institutions	12,520,791	4.1	5,301,412	2.3	586,968	0.3
Financial instruments at fair value through profit or loss.....	31,684,816	10.3	22,783,760	9.8	27,475,153	16.6
Available-for-sale securities	5,447,594	1.8	2,030,678	0.9	4,461,645	2.7
Loans to customers	201,234,522	65.2	159,019,821	68.4	103,852,309	62.8
Property and equipment.....	6,079,621	2.0	4,969,932	2.1	4,255,117	2.6

Other assets	1,755,194	0.6	1,572,561	0.7	746,441	0.5
Total assets	308,727,385	100.0	232,370,753	100.0	165,470,643	100.0

Loans to Customers

Loans to customers, net of allowance for loan impairment, are the largest component of CBM's total assets and accounted for 65.2%, 68.4% and 62.8% of total assets as at 31 December 2012, 2011 and 2010, respectively. The following table set forth CBM's gross loan portfolio (excluding loans to banks) by loan classes and credit quality classification as at the dates indicated:

As at 31 December 2012						
	Not past due loans	Past due loans	Total	% of Total loans	Past due loans as a % of Gross loans	Renegotiated loans as a % of Gross loans
	RUB thousands			%		
Loans to corporate clients	155,137,958	402,970	155,540,928	75.5	0.2	0.1
Consumer and other loans to individuals	26,971,535	1,999,941	28,971,476	14.1	1.0	-
Mortgage loans to individuals.....	9,894,216	548,234	10,442,450	5.1	0.3	-
Auto loans to individuals	10,816,865	161,529	10,978,394	5.3	0.1	-
Total loans to customers before allowance for loan impairment.....	202,820,574	3,112,674	205,933,248	100.0		
Less: Allowance for loan impairment.....	(2,885,123)	(1,813,603)	(4,698,726)			
Total loans to customers net of allowance for loan impairment.....	199,935,451	1,299,071	201,234,522			
Overdue coverage ratio ⁽¹⁾		151.0%				
NPL coverage ratio ⁽²⁾		238.9%				

Notes:

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

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

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

Notes:

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

As at 31 December 2010

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

Notes:

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

As at 31 December 2012, loans to customers (net of allowance for loan impairment) amounted to RUB 201.2 billion, representing a 26.5% increase from RUB 159.0 billion as at 31 December 2011. As at 31 December 2011, loans to customers (net of allowance for loan impairment) amounted to RUB 159.0 billion, representing a 53.1% increase from RUB 103.9 billion as at 31 December 2010. Growth in the loan portfolio during these years was attributable to the expansion of CBM's customer base as well as an increase and wider utilisation of credit limits by CBM's customers.

Distribution of Loans by Economic Sectors

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

	<i>As at 31 December</i>					
	<i>2012</i>		<i>2011</i>		<i>2010</i>	
	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>
Loans to Individuals						
Total loans to individuals	50,392,320	24.5	29,857,995	18.4	18,327,812	17.2
Loans to Corporate Customers						
Food and farm products	17,920,338	8.7	20,956,404	12.9	7,881,881	7.4
Consumer electronics, appliances and computers.....	25,737,636	12.5	18,459,411	11.3	13,135,208	12.3
Residential and commercial construction and development	17,411,616	8.5	12,119,200	7.4	7,167,974	6.7
Construction and decorative materials, furniture.....	10,608,236	5.2	10,813,405	6.6	6,643,890	6.2
Clothing, shoes, textiles and sporting goods.....	10,189,443	4.9	9,149,182	5.6	6,320,591	6.0
Industrial equipment and machinery.....	9,714,082	4.7	8,318,855	5.1	4,946,366	4.6
Property rental	5,622,270	2.7	8,164,457	5.0	5,650,503	5.3
Pharmaceutical and medical products.....	6,859,278	3.3	6,099,881	3.7	1,390,506	1.3
Automotive, motorcycles and spare parts.....	5,264,206	2.6	5,396,030	3.3	3,431,007	3.2
Services	9,708,122	4.7	4,809,991	3.0	2,720,873	2.6
Equipment leasing	2,649,336	1.3	4,443,980	2.7	4,031,825	3.8
Consumer chemicals, perfumes and hygiene products	4,250,319	2.1	4,023,559	2.5	4,578,510	4.3
Paper, stationery and packaging products.....	5,233,871	2.5	4,001,577	2.5	3,014,739	2.8
Metallurgical	8,071,462	3.9	3,681,045	2.3	3,203,615	3.0
Oil and industrial chemicals	4,083,585	2.0	3,182,725	2.0	2,918,276	2.8
Industrial and infrastructure construction	2,660,923	1.3	1,510,690	0.9	773,780	0.7
Financial	2,946,641	1.4	1,424,049	0.9	5,895,633	5.5
Telecommunications.....	392,750	0.2	1,340,167	0.8	1,531,982	1.4
Gardening and pet products	1,032,346	0.5	942,175	0.6	516,667	0.5
Books, video, print and copy	531,924	0.3	526,557	0.3	310,410	0.3
Electric utility	1,117,228	0.5	—	—	498,302	0.5
Products for home, gifts, jewellery and business accessories	404,207	0.2	408,239	0.3	346,555	0.3
Other.....	3,131,109	1.5	3,072,679	1.9	1,408,513	1.3
Total loans to corporate customers	155,540,928	75.5	132,844,258	81.6	88,317,606	82.8
Total loans to customers before provision for loan impairment.....	205,933,248	100.0	162,702,253	100.0	106,645,418	100.0

The majority of CBM's loan portfolio consists of loans to corporate clients. Loans to corporate clients represented 75.5%, 81.6% and 82.8% of CBM's gross loans to customers as at 31 December 2012, 2011 and 2010, respectively. Loans to individuals increased to 24.5% of the gross loan portfolio as at 31 December 2012 from 18.4% as at 31 December 2011 and RUB 17.2% as at 31 December 2010, primarily due to the addition of new retail borrowers as a result of CBM's strategy to expand its retail banking business.

A large portion of CBM's client base is comprised of large Moscow-based wholesale and retail trading companies. While these companies operate in a range of sectors within the Russian economy, significant portions of them are concentrated in particular sectors. For the years ended 31 December 2012, 2011 and 2010, the five largest economic sectors represented in CBM's corporate banking loan portfolio accounted for 39.8%, 43.9% and 38.6%, respectively, of CBM's total gross loan portfolio. These sectors were: consumer electronics, appliances and computers; food and farm products; residential and commercial construction and development; industrial equipment and machinery; and clothing, shoes, textiles and sporting goods. See *"Risk Factors – Risks Relating to CBM's Business and Industry – The industry and key client concentration in CBM's loan and deposit portfolio could adversely affect CBM's business and financial condition"*.

Distribution of Loans by Geographic Location of Borrower

Substantially all of CBM's loans are to borrowers located in Russia. As at 31 December 2012, 97.7% of CBM's gross loans to customers were to borrowers located in Russia, as compared to 96.6% and 99.6% as at 31 December 2011 and 2010, respectively. The following table sets forth the distribution of CBM's loans by geographical location of the borrower as at the dates indicated:

	<i>As at 31 December</i>					
	<i>2012</i>		<i>2011</i>		<i>2010</i>	
	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>
Russia	196,582,729	97.7	153,650,417	96.6	103,401,019	99.6
OECD	2,362,253	1.2	4,236,030	2.7	451,290	0.4
Other non-OECD	2,289,540	1.1	1,133,374	0.7	–	–
Total net loans to customers	201,234,522	100.0	159,019,821	100.0	103,852,309	100.0

Distribution of Loans by Maturity

Of CBM's net loan portfolio as at 31 December 2012, RUB 77.8 billion or 38.7% had a maturity of more than one year, RUB 35.5 billion or 17.6% had a maturity profile of between six months and one year, RUB 28.3 billion or 14.1% had a maturity of between three months and six months and RUB 58.4 billion or 29.0% had a maturity of between one day and three months. Of CBM's net loan portfolio as at 31 December 2011, RUB 57.2 billion or 36.0% had a maturity of more than one year, RUB 28.2 billion or 17.8% had a maturity of between six months and one year, RUB 32.4 billion or 20.3% had a maturity of between three months and six months and RUB 39.7 billion or 25.0% had a maturity of between one day and three months. Of CBM's net loan portfolio as at 31 December 2010, RUB 39.1 billion or 37.7% had a maturity of more than one year, RUB 23.2 billion or 22.3% had a maturity of between six months and one year, RUB 20.6 billion or 19.8% had a maturity of between three months and six months and RUB 19.9 billion or 19.2% had a maturity of between one day and three months. See *"Risk Management – Liquidity Risk"*.

Non-Performing Loans to Customers

NPLs represent loans with payments of principal and/or interest overdue by more than 90 days. CBM had gross NPLs in the amount of RUB 2.0 billion, RUB 1.7 billion and RUB 1.6 billion as at 31 December 2012, 2011 and 2010, respectively. 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 increase from 31 December 2010 to 31 December 2011 was primarily due to an increase in NPLs in respect of consumer and other loans to individuals, which was offset in part by a decrease in NPLs in respect of mortgage loans to individuals.

The level of CBM's NPLs as a percentage of total gross loans to customers was 1.0%, 1.1% and 1.5% as at 31 December 2012, 2011 and 2010. NPLs in CBM's corporate loan portfolio accounted for 0.2% of total gross loans to customers as at 31 December 2012, as compared to 0.3% as at 31 December 2011 and 0.4% as at 31 December 2010. NPLs in CBM's retail loan portfolio accounted for 0.8% of total gross loans to customers as at 31 December 2012, as compared to 0.8% as at 31 December 2011 and 1.1% as at 31 December 2010.

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

	<i>Gross NPLs</i>	<i>Allowance for impairment</i>	<i>Net NPLs</i>	<i>Allowance for impairment to gross NPLs</i>
<i>RUB thousands, except percentages</i>				
Loans to corporate customers	352,373	(299,628)	52,745	85.0%
Consumer and other loans to individuals	1,052,501	(889,447)	163,054	84.5%
Mortgage loans to individuals.....	500,190	(207,341)	292,849	41.5%
Auto loans to individuals	62,099	(38,438)	23,661	61.9%
Total non-performing loans to customers as at 31 December 2012.....	1,967,163	(1,434,854)	532,309	72.9%

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

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

Renegotiated Loans

CBM's loan portfolio includes loans that have been renegotiated and would otherwise be included in NPLs or impaired. As at 31 December 2012, CBM's renegotiated loans amounted to RUB 225 million, as compared to RUB 905 million as at 31 December 2011 and RUB 1.2 billion as at 31 December 2010. Such renegotiating activity typically involves agreeing a new repayment schedule with the borrower in order to enable the borrower to return to the original payment schedule and is aimed at managing customer relationships and maximizing the quality of the loan portfolio. Renegotiated loans are included in loans not past due unless the borrower is unable to comply with the renegotiated terms.

NPLs together with renegotiated loans amounted to RUB 2.2 billion, or 1.1% of the gross loan portfolio, as at 31 December 2012, as compared to RUB 2.7 billion, or 1.6% of the gross loan portfolio, and RUB 2.9 billion or 2.7% of the loan portfolio, as at 31 December 2011 and 2010, 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The following tables set forth an analysis of the changes in CBM's allowance for loan impairment for the years indicated:

	<i>Amount</i>	<i>% of gross loans to customers</i>
	<i>RUB</i>	
	<i>thousands</i>	
Allowance for loan impairment as at 1 January 2012	3,682,432	2.3
Net provision charge for impairment during the year	1,864,717	
Loans and advances written off during the year	(848,423)	
Allowance for loan impairment as at 31 December 2012	4,698,726	2.3

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

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

CBM's allowance for loan impairment increased by 27.6% to RUB 4.7 billion as at 31 December 2012, from RUB 3.7 billion as at 31 December 2011, due to increased lending volumes by CBM. The effective allowance rate for loans to customers was 2.3% as at 31 December 2012 and 2.3% as at 31 December 2011.

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

In 2010, CBM wrote off RUB 41.9 million of losses (of which RUB 1.7 million was interest) related to a default by the Russian company "Capital Tour" on loans directly provided by CBM to "Capital Tour" of a principal amount of RUB 40.2 million as at the date of write-off.

CBM's ratio of total impairment allowance to overdue loans (classified as overdue by one day or more) was 151.0%, 141.5% and 128.0% as at 31 December 2012, 2011 and 2010, respectively. CBM's ratio of total impairment allowance to NPLs was 238.9%, 208.6% and 171.6% as at 31 December 2012, 2011 and 2010, respectively.

Cash and Cash Equivalents

Cash and cash equivalents represent items that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value. As at 31 December 2012, CBM had cash and cash equivalents of RUB 47.5 billion compared with RUB 34.4 billion as at 31 December 2011, representing an increase of 37.8%. This increase was primarily due to a RUB 5.7 billion, or 39.5%, increase in total amounts due from credit institutions with a maturity of less than one month, RUB 3.6 billion, or 49.7% increase of cash on hand and RUB 3.7 billion, or 69.4%, increase in Nostro accounts with other banks as at 31 December 2012 compared to 31 December 2011. The increase in total amounts due from credit institutions with a maturity of less than one month was due to several placements of excessive liquidity at the end of 2012 with banks offering competitive interest rates on short term deposits. As at 31 December 2011, CBM had cash and cash equivalents of RUB 34.4 billion, representing an increase of 47.6% from RUB 23.3 billion as at 31 December 2010, reflecting a RUB 6.8 billion, or 87.8%, increase in total amounts due from credit institutions with a maturity of less than one month, RUB 3.3 billion, or 85.8% increase of cash on hand and RUB 3.2 billion, or 147.1%, increase in Nostro accounts with other banks.

Obligatory Reserves with the CBR

As at 31 December 2012, CBM had obligatory reserves with the CBR of RUB 2.5 billion, representing an increase of 12.7% from RUB 2.3 billion at 31 December 2011. As at 31 December 2011, CBM had obligatory reserves with the CBR of RUB 2.3 billion, representing an increase of 198.6% from RUB 757 million as at 31 December 2010. This significant increase was primarily attributable to the CBR having increased its obligatory reserve rate from 2.5% as at 31 December 2010 to 4% (for individuals and financial institutions) and 5.5% (for legal entities) effective as from 1 April 2011. This increase can also partially be attributed to the accumulation of reserves during 2011 for a group of corporate deposits with a maturity of more than three years due to the early redemption of a portion of the deposits from this group.

Due from Other Credit Institutions

As at 31 December 2012, CBM had amounts due from other credit institutions of RUB 12.5 billion, representing an increase of 136.2% from RUB 5.3 billion at 31 December 2011. This increase was the result of the development of CBM's activities in the interbank borrowing and repo markets. As at 31 December 2011, CBM had amounts due from other credit institutions of RUB 5.3 billion, representing an increase of 803.2% from RUB 587 million as at 31 December 2010. This increase was a result of a RUB 2.8 billion increase in term deposits placed with high quality credit institutions rated from BBB+ to BBB- and a RUB 1.4 billion increase in term deposits placed with credit institutions rated from B+ to B-, both of which were in turn attributable to the recovery of the market for interbank borrowings following the most acute stage of the global financial crisis.

Securities Portfolio

As part of its liquidity management activities, CBM engages in the trading of Russian debt securities. CBM aims to invest in blue chip debt securities for these purposes. CBM's securities portfolio comprised 12.0%, 10.7% and 19.3% of CBM's total assets as at 31 December 2012, 2011 and 2010, respectively. CBM classifies its securities portfolio into two parts: securities designated at fair value through profit or loss and investment securities available-for-sale.

CBM's securities portfolio consists primarily of Russian government and municipal securities, corporate bonds and promissory notes of Russian banks. As at 31 December 2012, 80.2% of CBM's total securities designated at fair value through profit or loss consisted of highly liquid securities from the CBR Lombard and Repo lists, which are eligible for repo transactions, which gives CBM the flexibility to seek liquidity from the CBR if required, but also reflects the fact that the securities can be relatively easily exchanged for cash in the relevant market.

As at 31 December 2012, 99.6% of CBM's securities portfolio consisted of securities of Russian issuers, as compared to 100% and over 99% as at 31 December 2011 and 2010, respectively.

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

	<i>As at 31 December</i>					
	2012		2011		2010	
	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>
Securities designated at fair value through profit or loss	31,684,816	85.3	22,868,251	91.8	27,475,153	86.0
Securities available-for-sale.....	5,447,594	14.7	2,030,678	8.2	4,461,645	14.0
Total securities portfolio	37,132,410	100.0	24,898,929	100.0	31,936,798	100.0

CBM's portfolio of securities designated at fair value through profit or loss and available-for-sale securities increased by 49.1% to RUB 37.1 billion as at 31 December 2012, from RUB 24.9 billion as at 31 December 2011, mainly due to a RUB 8.8 billion increase in securities designated at fair value through profit or loss. CBM's total securities portfolio decreased 22.0% to RUB 24.9 billion as at 31 December 2011, from RUB 31.9 billion as at 31 December 2010, due to decreases in both securities designated at fair value through profit or loss and securities available-for-sale reflecting CBM's decision to use a higher proportion of its liquidity during this period for its core business of providing loans to customers.

Securities Designated at Fair Value Through Profit or Loss

Securities designated at fair value through profit or loss are securities designated (irrevocably) by CBM's management as such at the time of acquisition. In accordance with IFRS, CBM's management designates securities into this category only if a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with CBM's policy for securities portfolio classification, and information on that basis is regularly provided to and reviewed by CBM's key management. Securities designated at fair value through profit or loss constitute the largest component of CBM's total securities portfolio, representing 85.3%, 91.8% and 86.0% of the total securities portfolio as at 31 December 2012, 2011 and 2010, respectively.

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

	<i>As at 31 December</i>					
	2012		2011		2010	
	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>
Federal loan bonds (OFZ bonds)	3,575,134	11.3	9,286,846	40.8	6,960,112	25.3
Corporate bonds	23,936,576	75.6	10,407,649	45.7	16,395,094	59.7
Russian government Eurobonds	72	0.0	1,789,318	7.8	2,059,403	7.5
Municipal and sub-federal bonds.....	4,154,191	13.1	1,299,924	5.7	2,060,544	7.5
Equity investments	17	0.0	23	0.0	–	–
Total securities designated at fair value through profit or loss.....	31,684,816	100.0	22,783,760	100.0	27,475,153	100.0

CBM's total securities designated at fair value through profit or loss as at 31 December 2012 was RUB 31.7 billion, representing a 38.6% increase from RUB 22.8 billion as at 31 December 2011. This increase is primarily attributable to a 130.0% increase in corporate bonds and a 219.6% increase in municipal and sub-federal bonds. CBM's total amount of securities designated at fair value through profit or loss as at 31 December 2011 was RUB 22.8 billion, representing a 17.1% decrease from RUB 27.5 billion as at 31 December 2010. This decrease reflects CBM's decision to allocate more of its excess liquidity to lending to its customers during this period, as opposed to holding its excess liquidity in financial instruments at fair value through profit or loss. As part of its liquidity management plan, CBM accumulated this portfolio of highly liquid instruments in order to serve as a liquidity cushion. In addition, CBM has pledged certain of these financial instruments as security for interbank and other loans, or under sale and repurchase agreements. As at 31 December 2012, 80.3% of CBM's total securities designated at fair value through profit or loss held were included in the CBR's Lombard and Repo lists. See “*Business – Financial Markets, Treasury and Trading Securities*”.

Available-for-sale Securities

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

	<i>As at 31 December</i>					
	<i>2012</i>		<i>2011</i>		<i>2010</i>	
			<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>
Federal loan bonds (OFZ bonds)	—	—	—	—	50,529	1.1
Corporate bonds	3,116,474	57.2	1,993,395	98.2	4,334,177	97.2
Russian government Eurobonds	—	—	—	—	—	—
Municipal and sub-federal bonds.....	—	—	10,277	0.5	17,140	0.4
Promissory notes ⁽¹⁾	2,305,114	42.3	—	—	—	—
Total debt securities available-for-sale	5,421,588	99.5	2,003,672	98.7	4,401,846	98.7
Equity investments	26,006	0.5	27,006	1.3	59,799	1.3
Total securities available-for-sale.....	5,447,594	100.0	2,030,678	100.0	4,461,645	100.0

Note:

(1) Promissory notes as at 31 December 2012 includes RUB 440 million of promissory notes pledged under sale and repurchase agreements.

Available-for-sale securities as at 31 December 2012 increased by 168.3% to RUB 5.4 billion, from available-for-sale securities of RUB 2.0 billion as at 31 December 2011. This increase reflects CBM's decision to place its excess liquidity in such securities and the increase in the value of such securities between the two years. Available-for-sale securities as at 31 December 2011 amounted to RUB 2.0 billion representing a 54.5% decrease from RUB 4.5 billion as at 31 December 2010. This decrease reflects CBM's decision to allocate more of its excess liquidity to lending to clients in 2011 as compared to 2010, as opposed to holding its liquidity in the form of securities available-for-sale.

Property and Equipment

CBM's property and equipment consists of buildings, vehicles (including armoured cash collection vehicles), ATMs, payment terminals, computers and office equipment, furniture and other property and construction in progress. As at 31 December 2012, CBM's net value for property and equipment after accumulated depreciation was RUB 6.1 billion. Property and equipment after accumulated depreciation was RUB 5.0 billion as at 31 December 2011, compared with RUB 4.3 billion as at 31 December 2010. The increases in the value of CBM's property and equipment from 2010 to 2012 are primarily attributable to additions that have been made in order to support the expansion of CBM's business.

Other Assets

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

Total Liabilities

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

	As at 31 December					
	2012		2011		2010	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Deposits by credit institutions	35,183,733	13.1	24,964,128	12.1	27,863,284	18.3
Deposits by customers	189,014,104	70.1	146,690,886	70.9	95,088,028	62.7
Debt securities issued	40,013,790	14.9	31,118,869	15.1	27,251,096	18.0
Deferred tax liability	2,608,594	1.0	2,074,397	1.0	493,903	0.3
Current tax liability	125,817	0.0	15,870	0.0	142,237	0.1
Other liabilities	2,489,054	0.9	1,898,697	0.9	865,000	0.6
Total liabilities	269,435,092	100.0	206,762,847	100.0	151,703,548	100.0

As at 31 December 2012, CBM had total liabilities of RUB 269.4 billion, compared to RUB 206.8 billion as at 31 December 2011. The increase in total liabilities as at 31 December 2012 by RUB 62.7 billion, or 30.3%, was primarily due to a RUB 21.6 billion increase in amounts due to individuals, a RUB 20.7 billion increase in amounts due to corporate customers and a RUB 10.2 billion increase in amounts due to other banks. As at 31 December 2011, CBM had total liabilities of RUB 206.8 billion, compared to RUB 151.7 billion as at 31 December 2010. The increase in total liabilities in 2011 by RUB 55.1 billion, or 36.3%, was primarily due to a RUB 34.6 billion increase in amounts due to individuals.

Deposits by Credit Institutions

Deposits by credit institutions includes demand and term deposits, syndicated loans, subordinated loans and payables under repurchase agreements. Deposits by credit institutions represented 13.1%, 12.1% and 18.4% of total liabilities as at 31 December 2012, 2011 and 2010, respectively. The following table provides a breakdown of CBM's deposits by credit institutions as at the dates indicated:

	As at 31 December					
	2012		2011		2010	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Demand deposits	949,181	2.7	64,496	0.3	53,986	0.2
Term deposits	23,377,902	66.4	18,168,718	72.8	10,194,233	36.6
Syndicated loans	10,231,524	29.1	5,421,197	21.7	5,213,680	18.7
Payables under repurchase agreements	—	0.0	—	0.0	11,166,555	40.1
Subordinated debt	625,126	1.8	1,309,717	5.2	1,234,830	4.4
Total deposits by credit institutions	35,183,733	100.0	24,964,128	100.0	27,863,284	100.0

As at 31 December 2012, deposits by credit institutions were RUB 35.2 billion representing an increase of 40.9% from RUB 25.0 billion as at 31 December 2011. This increase was in line with the growth of CBM's business with the percentage of deposits by credit institutions to total liabilities increasing slightly to 13.1% as at 31 December 2012 from 12.1% as at 31 December 2011. As at 31 December 2011, deposits by credit institutions were RUB 25.0 billion representing a decrease of 10.4% from RUB 27.9 billion as at 31 December 2010, attributable to a decrease in payables under repurchase agreements, with repurchase agreements being used less as a source of funding by CBM during this period due to an increase in customer deposits.

As at 31 December 2012, there was one counterparty (compared to two counterparties as at 31 December 2011 and three as at 31 December 2010) whose balances exceeded 10.0% of CBM's total deposits by credit institutions. 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 2012 was RUB 6.5 billion, as compared with RUB 8.9 billion as at 31 December 2011 and RUB 14.4 billion as at 31 December 2010.

Term Deposits

Term deposits include trade finance, bilateral loans from international financial institutions and development banks, and interbank loans. CBM's term deposits from credit institutions were RUB 23.4 billion as at 31 December 2012, as compared to RUB 18.2 billion and RUB 10.2 billion as at 31 December 2011 and 2010, respectively.

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

- **IFC.** CBM's cooperation with IFC began in 2004 with the entry into a US\$10 million SME lending facility. Since then CBM has entered into several financing transaction with IFC. The outstanding transactions include a mortgage financing facility extended in 2005 in the amount of US\$5 million, which was the first housing finance loan to a Russian-owned bank, and a US\$40 million 5-year loan granted by IFC as part of CBM's 2010 syndicated loan transaction discussed above. In addition, since February 2006 CBM has been working with IFC as the issuing bank under its Global Trade Finance Programme, which provides support for trade finance operations worldwide, with a facility limit for CBM in the amount of US\$140.0 million, increased from US\$100.0 million in October 2010. CBM was the first Russian-owned bank to receive a mortgage facility from IFC and the first Russian bank to participate in its Global Trade Finance Programme. IFC currently beneficially owns 7.5% of CBM's equity as a result of its 2.9% direct shareholding and the 4.6% shareholding of the IFC Russian Bank Capitalization Fund. See "Shareholders".
- **EBRD.** CBM's cooperation with EBRD began in 2005 when CBM joined EBRD's Trade Facilitation Programme. Currently CBM has a US\$100.0 million facility under this programme, with a maximum tenor of three years. The programme limit has been increased at various stages from its initial level of US\$15 million in 2005. Since 2005 CBM has been engaged in various projects with EBRD, including several SME financing facilities, a subordinated loan and a syndicated loan. Outstanding transactions with EBRD include a US\$5.0 million five year facility for on-lending to local SMEs, which was the second such facility obtained by CBM from EBRD, and a five year US\$20.0 million credit line opened in 2010, also designated for SME financing. EBRD currently beneficially owns 7.5% of CBM's equity. See "Shareholders".
- **BSTDB.** Cooperation between CBM and the Black Sea Trade and Development Bank ("BSTDB") began in 2008, when CBM received a US\$20 million loan from BSTDB for the purpose of SME financing. In September 2010, this loan was converted into a US\$20.0 million subordinated loan, repayable in 2017. In 2011 BSTDB granted a US\$30.0 million revolving credit facility to CBM for a six-year period to support the development of SMEs in Russia.

The total outstanding balance of the funding provided to CBM by EBRD, IFC and BSTDB under the above mentioned facilities, excluding guarantee facilities, amounts to US\$100.0 million as at the date of this Prospectus.

Syndicated Loans

CBM has been active in the European syndicated loan market since 2003 and has obtained a total of 12 syndicated loans.

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

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

Deposits by Customers

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

	<i>As at 31 December</i>					
	<i>2012</i>		<i>2011</i>		<i>2010</i>	
	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>
Individuals						
Current/demand accounts	7,285,758	3.8	4,842,326	3.3	2,839,841	3.0
Term deposits	99,726,184	52.8	80,526,932	54.9	47,885,406	50.3
Total due to individuals.....	107,011,942	56.6	85,369,258	58.2	50,725,247	53.3
Corporate customers						
Current/settlement accounts.....	24,212,584	12.8	17,838,871	12.2	11,142,438	11.7
Term deposits	52,344,888	27.7	34,843,029	23.7	25,630,335	27.0
Subordinated.....	2,219,428	1.2	2,745,236	1.9	6,057,760	6.4
Term notes	3,225,262	1.7	5,894,492	4.0	1,532,248	1.6
Total due to corporate customers.....	82,002,162	43.4	61,321,628	41.8	44,362,781	46.7

Total due to individuals and corporate customers

	189,014,104	100.0	146,690,886	100.0	95,088,028	100.0
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Deposits by customers increased by 28.9% to RUB 189.0 billion as at 31 December 2012 from RUB 146.7 billion as at 31 December 2011. Deposits by customers increased by 54.3% to 146.7 RUB billion as at 31 December 2011 from RUB 95.1 billion as at 31 December 2010. These increases were primarily attributable to the recovery of the Russian economy, increased confidence in the banking sector, relatively high interest rates, the addition of companies operating at the federal level in the Russian Federation as corporate customers, attractive and competitive facilities offered by CBM and an aggressive advertising campaign.

As at 31 December 2012, the average maturity (excluding subordinated loans) of CBM's corporate and retail deposits was 191.1 days and 532.8 days, respectively, as compared to 258 and 574 days, respectively, as at 31 December 2011 and 294 days and 498 days, respectively, as at 31 December 2010.

In each of the years ended 31 December 2012, 2011 and 2010, deposits from individuals represented a larger share of CBM's total deposits by customers than deposits from corporate customers. Retail deposits represented 56.6%, 58.2% and 53.3% of CBM's total deposits by customers as at 31 December 2012, 2011 and 2010, respectively. Corporate deposits represented 43.4%, 41.8% and 46.7% of CBM's total deposits by customers as at 31 December 2012, 2011 and 2010, respectively. As at 31 December 2012, the average balance in CBM's corporate and retail deposits accounts was RUB 109.5 million and RUB 0.5 million, respectively, compared to RUB 84.5 million and RUB 0.4 million, respectively, as at 31 December 2011 and RUB 65.2 million and RUB 0.4 million, respectively, as at 31 December 2010.

CBM's controlling shareholder, Roman Avdeev, has since early 2010 made six capital contributions to CBM in the form of subordinated loans in an aggregate amount of RUB 8.3 billion. Four of such subordinated loans in amounts of RUB 1.5 billion each were made in 2010. Each of these loans matures in 2040, one of such subordinated loans in an amount of US\$35 million with a term of 30 years was received in 2011, and a US\$40 million subordinated loan with a term of 5.5 years was received in June 2012. Each of these subordinated loans was issued by Wellcreek Corporation, which is wholly-owned by Mr. Avdeev. In 2011, in line with IFRS rules with regard to the treatment of long-term loans, CBM converted part of these subordinated loans in the amount of RUB 3.5 billion into additional paid-in-capital. In 2012 CBM converted another part of these subordinated loans in the amount of RUB 1.5 billion into additional paid-in-capital. The CBR approved the early repayment of the US\$40 million subordinated loan that was granted in June 2012, and CBM subsequently repaid it on 5 March 2013. See “– Capital Adequacy”.

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

Debt Securities in Issue

CBM issues debt securities in the domestic and international markets to fund the ongoing growth of its business operations. Debt securities issued represented 14.9%, 15.1% and 18.0% of CBM's total liabilities as at 31 December 2012, 2011 and 2010, respectively. As at 31 December 2012, 84.9% of CBM's debt securities in issue were denominated in Roubles, with the remaining 15.1% 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					
	2012		2011		2010	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Promissory notes issued at nominal value	8,420,770	21.0	6,789,426	21.8	16,307,223	59.8
Accrued interest on promissory notes.....	18,723	0.0	32,768	0.1	215,005	0.8
Unamortised discount on promissory notes.....	(283,601)	(0.7)	(304,874)	(1.0)	(412,355)	(1.5)
Promissory notes after accrued interest and unamortised discount	8,155,892	20.4	6,517,320	20.9	16,109,873	59.1
Bonds issued.....	31,857,898	79.6	24,601,549	79.1	11,141,223	40.9
of which:						
Eurobonds	6,041,659	15.1	6,416,132	20.6	–	–
Other bonds.....	25,816,249	64.5	18,185,417	58.5	11,141,223	40.9
Total debt securities in issue	40,013,790	100.0	31,118,869	100.0	27,251,096	100.0

Debt securities issued by CBM increased by 28.6% to RUB 40.0 billion as at 31 December 2012 from RUB 31.1 billion as at 31 December 2011. Debt securities issued by CBM increased by 14.2% to RUB 31.1 billion as at 31 December 2011 from RUB 27.3 billion as at 31 December 2010. The increase in debt securities issued by CBM from 31 December 2010 to 31 December 2011 is primarily attributable to CBM's US\$200 million Eurobond issue in August 2011 in the form of an offering of loan participation notes by the Issuer.

Domestic and International Capital Markets

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

In April 2010, CBM issued domestic bonds in an amount of RUB 3 billion with a fixed coupon of 9.70% for the first 1.5 years, and with coupon rate adjustments after each subsequent six-month period until maturity in April 2015.

In July 2010, CBM issued domestic bonds in an amount of RUB 2 billion with a fixed coupon of 9.76% for the first 2 years, and with coupon rate adjustments after each subsequent six-month period until maturity in July 2015.

In February 2011, CBM issued domestic exchange bonds in an amount of RUB 3 billion with a fixed coupon of 8.50% for the first 2 years, and with coupon rate adjustments after each subsequent six-month period until maturity in February 2014.

In April 2011, CBM issued domestic exchange bonds in an amount of RUB 5 billion with a fixed coupon of 8.00% for the first 1.5 years, and with coupon rate adjustments after each subsequent six-month period until maturity in April 2014.

In June 2011, CBM issued domestic exchange bonds in an amount of RUB 5 billion with a fixed coupon of 9.20% and maturity in June 2014.

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

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

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

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

In January 2013, CBM bought back 599,738 domestic bonds series 07 (30.0%) from bondholders at par pursuant to a put option and then sold all of these bonds in the market. The par value of each bond is RUB 1,000.

In February 2013, CBM made a US\$500 million Eurobond issue in the form of loan participation notes issued by the Issuer. The notes mature in February 2018 and have an interest rate of 7.70%.

In February 2013, CBM issued RUB 2 billion of subordinated domestic bonds series 12 with a fixed coupon of 12.25% and a 5.5-year maturity. In March 2013, the CBR approved the inclusion of the proceeds from the issue into CBM's supplemental capital.

In March 2013, CBM bought back 1,003,307 exchange bonds series BO-01 from bondholders at par pursuant to a put option and then sold all of these bonds in the market. The par value of each bond is RUB 1,000.

Promissory Notes

As at 31 December 2012, CBM had promissory notes outstanding in the amount of RUB 8.2 billion, after adding accrued interest and deducting for unamortised discount, as compared to RUB 6.5 billion and RUB 16.1 billion as at 31 December 2011 and 2010, respectively.

Deferred Tax Liability

Deferred tax liability increased by 25.8% to RUB 2.6 billion as at 31 December 2012 from RUB 2.1 billion as at 31 December 2011. Deferred tax liability increased by 320 % to RUB 2.1 billion as at 31 December 2011 from RUB 494 million as at 31 December 2010. The significant increase in deferred tax liability in 2011 was primarily related to the accumulation of deferred tax liability on discount on subordinated loans reported as additional paid in capital on CBM's balance sheet.

Current Tax Liability

Current tax liability was RUB 125.8 million as at 31 December 2012, as compared to RUB 15.9 million as at 31 December 2011. Current tax liability decreased by 88.8% to RUB 15.9 million as at 31 December 2011 from RUB 142.2 million as at 31 December 2010. 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 increased by 31.1% to RUB 2.5 billion as at 31 December 2012 from RUB 1.9 billion as at 31 December 2011. Other liabilities increased during the year ended 31 December 2012 due to an increase in other reserves and accounts receivable related to letters of credit, factoring and cash collection and delivery transactions.

Other liabilities increased by 119.5% to RUB 1.9 billion as at 31 December 2011 from RUB 865 million as at 31 December 2010.

Equity

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

	<i>As at 31 December</i>		
	<i>2012</i>	<i>2011</i>	<i>2010</i>
	<i>RUB thousands</i>		
Share capital	13,539,763	11,638,088	7,138,088
Additional paid-in capital	9,019,295	3,699,047	162,686
Revaluation surplus for buildings	1,115,928	500,424	500,424
Revaluation reserve for available-for-sale securities	16,061	(53,017)	28,067
Retained earnings.....	15,601,246	9,823,364	5,937,830
Total equity	39,292,293	25,607,906	13,767,095

The total equity of CBM increased by 53.4% to RUB 39.3 billion as at 31 December 2012 from RUB 25.6 billion as at 31 December 2011. This increase was primarily attributable to additional issues of shares in a total amount of RUB 5.8 billion and conversion of subordinated shareholder loans into additional paid-in capital in a total amount of RUB 1.5 billion during the year ended 31 December 2012. Total equity increased by 86% to RUB 25.6 billion as at 31 December 2011 from RUB 13.8 billion as at 31 December 2010. This increase was primarily attributable to additional issues of shares in a total amount RUB 4.5 billion and conversion of subordinated shareholder loans into additional paid-in capital in a total amount of RUB 3.5 billion during 2011.

Funding

CBM's funding base relies primarily on deposits from retail and corporate customers. Other sources of funding include its promissory note programme, issues of Rouble-denominated bonds and Eurobonds, funds raised on the Russian interbank market, funds raised from international financial institutions and in the form of syndicated loans from foreign banks and subordinated loans from banks and CBM's controlling shareholder.

CBM also has access to funding from the CBR on a secured and unsecured basis, but in practice it generally does not utilise such funding. During the most acute stage of the global financial crisis, CBM used the credit lines provided by the CBR in order to fund further growth of CBM. As at each 31 December 2012, 2011 and 2010, CBM had nil deposits from the CBR.

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

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

	As at 31 December					
	2012		2011		2010	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Deposits by banks and other financial institutions						
Term deposits from local banks.....	9,923,772	3.7	6,476,041	3.2	15,715,847	10.5
Trade finance.....	11,401,375	4.3	9,822,714	4.8	4,596,567	3.1
Vostro accounts	949,181	0.4	64,496	0.0	53,986	0.0
Term deposits from foreign banks	2,052,755	0.8	1,869,963	1.0	1,048,374	0.7
Total	24,327,083	9.2	18,233,214	9.0	21,414,774	14.3
Current accounts and deposits by customers						
Term deposits from corporate customers.....	52,344,888	19.8	34,843,029	17.2	25,630,335	17.1
Current and demand deposits from corporate customers	24,212,584	9.2	17,838,871	8.8	11,142,438	7.4
Retail term deposits	99,726,184	37.7	80,526,932	39.7	47,885,406	31.9
Current and demand deposits from retail customers.....	7,285,758	2.8	4,842,326	2.4	2,839,841	1.9
Term notes	3,225,262	1.2	5,894,492	2.9	1,532,248	1.0
Total	186,794,676	70.7	143,945,650	71.0	89,030,268	59.3
Debt securities issued						
Promissory notes ⁽¹⁾	8,155,891	3.1	6,517,320	3.2	16,109,873	10.7
Senior loan participation notes (Eurobonds).....	6,041,659	2.3	6,416,132	3.1	–	–
Domestic bonds	25,816,240	9.8	18,185,417	9.0	11,141,223	7.4
Total	40,013,790	15.2	31,118,869	15.3	27,251,096	18.1
Syndicated loans	10,231,524	3.9	5,421,197	2.7	5,213,680	3.5
Total	10,231,524	3.9	5,421,197	2.7	5,213,680	3.5
Subordinated borrowings (banks).....	625,126	0.2	1,309,717	0.6	1,234,830	0.8
Subordinated borrowings (shareholder).....	2,219,428	0.8	2,745,236	1.4	6,057,760	4.0
Total funding.....	264,211,627	100.0	202,773,883	100	150,202,408	100

Note:

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

CBM's main source of funding is current accounts and deposits by customers. As at 31 December 2012, current accounts and deposits by customers comprised 70.7% of CBM's total funding, as compared to 71.0% and 59.3% as at 31 December 2011 and 2010, respectively. Deposits and balances from banks and other financial institutions comprised 9.2% of CBM's total funding, as compared to 9.0% and 14.3% as at 31 December 2011 and 2010, respectively. Debt securities issued comprised 15.2%, 15.3% and 18.1% of CBM's total funding as at 31 December 2012, 2011 and 2010, respectively. For further information on CBM's sources of funding, see “– Financial Condition – Total Liabilities”.

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

	<i>As at 31 December</i>					
	<i>2012</i>		<i>2011</i>		<i>2010</i>	
	<i>RUB</i>	<i>% of</i>	<i>RUB</i>	<i>% of</i>	<i>RUB</i>	<i>% of</i>
	<i>thousands</i>	<i>total</i>	<i>thousands</i>	<i>total</i>	<i>thousands</i>	<i>total</i>
Funding by currency						
Roubles.....	211.5	80.1	154.5	76.2	119.5	79.6
Foreign currencies	52.7	19.9	48.2	23.8	30.7	20.4
Total funding.....	264.2	100.0	202.7	100.0	150.2	100.0

Analysis by Segment

CBM has five reportable business segments. These segments are defined on the basis of the organisational structure of CBM. For further information on CBM's operating segments, see Note 27 to the 2012 Financial Statements. CBM's five business segments have historically been defined as corporate banking, retail banking, cash operations, international business and treasury. Treasury is not a profit centre and its primary function is to support CBM's liquidity. CBM's treasury segment does not engage in speculative transactions and is not actively involved in brokerage activity, although it trades in securities for liquidity purposes and engages in derivative transactions to hedge foreign currency risk.

Corporate banking represented 39.1% of CBM's revenues for the year ended 31 December 2012, as compared to 43.0% and 38.9% for 2011 and 2010, respectively. Corporate banking represented 49.7% of CBM's total assets as at 31 December 2012, as compared to 56.4% and 52.4% as at 31 December 2011 and 2010, respectively.

Retail banking represented 38.2% of CBM's revenues for the year ended 31 December 2012, as compared to 40.0% and 33.3% for 2011 and 2010, respectively. Retail banking represented 16.3% of CBM's total assets as at 31 December 2012, as compared to 13.0% and 10.8% as at 31 December 2011 and 2010, respectively.

Treasury represented 13.5% of CBM's revenues for the year ended 31 December 2012, as compared to 8.7% and 18.8% for 2011 and 2010, respectively. Treasury represented 27.9% of CBM's total assets as at 31 December 2012, as compared to 24.7% and 31.4% as at 31 December 2011 and 2010, respectively.

The following tables set forth certain data for 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>As at 31 December</i>					
	<i>2012</i>		<i>2011</i>		<i>2010</i>	
	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>
Segment assets						
Corporate banking	153,576,987	49.7	131,168,702	56.4	86,675,635	52.4
Retail banking.....	50,203,307	16.3	30,110,289	13.0	17,933,259	10.8
Treasury.....	86,282,788	27.9	57,314,123	24.7	51,965,735	31.4
International business	—	—	—	—	—	—
Cash operations	10,829,487	3.4	7,235,146	3.1	3,894,457	2.4
Unallocated.....	7,834,816	2.5	6,542,493	2.8	5,001,557	3.0
Total assets	308,727,385	100.0	232,370,753	100.0	165,470,643	100.0
Segment liabilities						
Corporate banking	82,002,162	30.5	61,321,627	29.7	42,830,533	28.2
Retail banking.....	107,011,942	39.7	85,369,257	41.3	50,725,247	33.4
Treasury.....	46,927,405	17.4	31,243,275	15.1	44,551,898	29.4
International business	28,270,118	10.5	24,839,723	12.0	12,094,730	8.0
Cash operations	—	—	—	—	—	—
Unallocated.....	5,223,465	1.9	3,988,965	1.9	1,501,140	1.0
Total liabilities	269,435,092	100.0	206,762,847	100.0	151,703,548	100.0

	<i>For the year ended 31 December</i>					
	<i>2012</i>		<i>2011</i>		<i>2010</i>	
	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>
Segment revenue						
Corporate banking	12,992,202	39.1	10,125,555	43.0	6,660,819	38.9
Retail banking.....	12,698,354	38.2	9,414,666	40.0	5,704,095	33.3
Treasury.....	4,479,087	13.5	2,050,596	8.7	3,227,525	18.8
International business	1,797,275	5.4	1,136,386	4.9	953,725	5.5
Cash operations	1,233,061	3.7	811,113	3.4	592,333	3.5
Unallocated.....	—	—	—	—	—	—
Total segment revenue.....	33 199 979	100.0	23,538,316	100.0	17,138,497	100.0
Segment expenses						
Corporate banking	4,794,762	18.5	(3,692,917)	19.8	(3,004,601)	22.4
Retail banking.....	11,901,455	45.9	(8,907,982)	47.7	(6,114,175)	45.7
Treasury.....	3,615,017	13.9	(3,398,741)	18.2	(2,567,769)	19.2
International business	1,126,667	4.3	(636,402)	3.4	(227,959)	1.7
Cash operations	983,266	3.8	(712,988)	3.8	(495,500)	3.7
Unallocated.....	3,531,764	13.6	(1,330,946)	7.1	(975,970)	7.3
Total segment expenses	25,952,931	100.0	(18,679,976)	100.0	(13,385,974)	100.0
Segment result						
Corporate banking	8,197,440	113.1	6,432,638	132.4	3,656,218	97.4
Retail banking.....	796,899	11.0	506,684	10.4	(410,080)	(10.9)
Treasury.....	864,070	11.9	(1,348,145)	(27.7)	659,756	17.6
International business	670,608	9.3	499,984	10.3	725,766	19.3
Cash operations	249,795	3.4	98,125	2.0	96,833	2.6
Unallocated.....	(3,531,764)	(48.7)	(1,330,946)	(27.4)	(975,970)	(26.0)
Total segment result	7,247,048	100.0	4,858,340	100.0	3,752,523	100.0

Segment Revenue

The corporate banking segment's contribution to CBM's total revenue decreased to 39.1% in the year ended 31 December 2012, from 43.0% in the year ended 31 December 2011. This decrease was primarily due to expansion of CBM's retail banking business at a faster rate than expansion of the corporate banking business as between the two years, as well as a 118.4% increase in treasury segment revenues from RUB 2.1 billion for the year ended 31 December

2011 to RUB 4.5 billion for the year ended 31 December 2012. The corporate banking segment's contribution to CBM's total revenue increased to 43.0% in the year ended 31 December 2011, from 38.9% in the year ended 31 December 2010. The increase from 2010 to 2011 was primarily due to an increase in the size of the corporate loan portfolio and growth of interest income from corporate loans, as well as a decrease in revenues from the treasury segment between the two years.

The retail banking segment's contribution to CBM's total revenue decreased to 38.2% in the year ended 31 December 2012, from 40.0% in the year ended 31 December 2011. The retail banking segment's contribution to CBM's total revenue was 33.3% in 2010. The decrease from 2011 to 2012 was primarily due to a larger percentage increase in the revenues of the treasury segment than in the retail segment between these two years. The increase from 2010 to 2011 was primarily due to the expansion of CBM's retail banking business across these years and was also attributable to the decrease in treasury segment revenues between these two years.

The treasury segment's contribution to CBM's total revenue increased to 13.5% in the year ended 31 December 2012, from 8.7% in the year ended 31 December 2011. The increase was primarily attributable to income received as a result of the revaluation of the securities portfolio between the two years. The treasury segment's contribution to CBM's total revenue was 18.8% in 2010. The decrease from 2010 to 2011 was attributable to a decrease in segment revenues from 2010 to 2011, while all other segments had increases in revenues between these two years.

The cash operations segment's contribution to CBM's total revenue was 3.7% in the year ended 31 December 2012 and 3.4% in the year ended 31 December 2011. The cash operations segment's contribution to CBM's total revenue was 3.5% in 2010. The consistency of the percentages between both years reflects the growth of this business area in line with the general growth of CBM's overall banking business.

The international business segment's contribution to CBM's total revenue increased to 5.4% in the year ended 31 December 2012 from 4.8% the year ended 31 December 2011. The increase was primarily attributable to an increase in the extent of CBM's international business transactions. The international business segment's contribution to CBM's total revenue was 5.6% in 2010. The decrease in the international business segment's contribution from 31 December 2010 to 31 December 2011 was primarily attributable to a slower rate of increase in revenues generated by international business, compared with the rate of expansion of other segments between the two years.

Segment Result

The corporate banking segment's contribution to CBM's total profit before income taxes decreased to 113.1% in the year ended 31 December 2012, from 132.4% in the years ended 31 December 2011. This decrease was mainly attributable to a decrease in losses in the treasury segment as between the two years as well as the expansion of CBM's retail banking business at a faster rate than expansion of the corporate banking business as between the two years.

The retail banking segment's contribution to CBM's total profit before income taxes increased to 11.0% in the year ended 31 December 2012, from 10.4% in the year ended 31 December 2011. The increase is primarily due to the expansion of CBM's retail banking business across the two years. The retail banking segment's contribution to CBM's total (loss) was (10.9)% in 2010. The change from 2010 to 2011 is attributable to the fact that this segment recorded a loss in 2010 but recorded a profit in 2011. The changes across all years reflect the development of CBM's retail banking business, both in size and efficiency over the relevant years, including the investments made by CBM into this business area in 2010.

The treasury segment's contribution to CBM's total profit before income taxes was 11.9% in the year ended 31 December 2012, as compared to (27.7)% in the year ended 31 December 2011. The change was primarily attributable to a decrease in the level of losses incurred in this segment between the two years. The treasury segment's contribution to CBM's total profit before income taxes was 17.6% in 2010. The change from 2010 to 2011 was attributable to this segment having been profitable in 2010 while recording a loss for 2011.

The cash operations segment's contribution to CBM's total profit before income taxes increased to 3.4% in the year ended 31 December 2012 from 2.0% in the year ended 31 December 2011. The cash operations segment's contribution to CBM's total profit before income taxes was 2.6% in 2010.

The international business segment's contribution to CBM's total profit before income taxes decreased to 9.3% in the year ended 31 December 2012, from 10.3% in the year ended 31 December 2011. The decrease is attributable to a decrease in losses in the treasury segment and the expansion of CBM's retail banking business and cash operations. The international business segment's contribution to CBM's total profit before income taxes was 19.3% in 2010. The decrease from 2010 to 2011 was primarily attributable to a decrease in profits from this segment between the two years.

Contingencies and Commitments

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

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

	<i>As at 31 December</i>					
	<i>2012</i>		<i>2011</i>		<i>2010</i>	
	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>	<i>RUB thousands</i>	<i>% of total</i>
Guarantees and letters of credit	40,586,746	94.9	29,869,161	95.8	15,419,408	96.8
Undrawn loan commitments.....	1,968,320	4.6	1,079,727	3.5	503,892	3.2
Other contingent liabilities	216,175	0.5	214,784	0.7	–	–
Total credit-related commitments.....	42,771,241	100.0	31,163,672	100.0	15,923,300	100.0

Principal unrecognised commitments of CBM are comprised of undrawn loan commitments and letters of credit and guarantees. As at 31 December 2012, CBM's outstanding commitments were undrawn loan commitments of RUB 2.0 billion, guarantees and letters of credit and of RUB 40.6 billion and other contingent liabilities of RUB 216.2 million. As at 31 December 2011, CBM's outstanding commitments were undrawn loan commitments of RUB 1.1 billion, guarantees and letters of credit of RUB 29.9 billion and other contingent liabilities of RUB 214.8 million. The increases in guarantees and letters of credit across the dates presented reflect increases of volumes in line with the general growth in CBM's business. In addition, the increase in guarantees and letters of credit from 31 December 2011 to 31 December 2012 was partly attributable to the fact that CBM's credit rating from Fitch was upgraded in June 2012, which enabled CBM to issue more guarantees than it could previously.

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

Capital Adequacy

The following table sets forth certain capital ratios of CBM as at the dates indicated. The capital ratios have been calculated in accordance with Basel I guidelines issued in 1988, with subsequent amendments, including the amendment to incorporate market risks, on the basis of IFRS data, as described in Note 26 to the 2012 Financial Statements included in this Prospectus.

	<i>As at 31 December</i>		
	<i>2012</i>	<i>2011</i>	<i>2010</i>
	<i>RUB thousands</i>		
Tier 1 capital			
Share capital and additional paid-in capital	22,559,059	15,337,135	7,300,774
Retained earnings.....	15,601,246	9,823,364	5,937,830
Total Tier 1 capital.....	38,160,304	25,160,499	13,238,604
Tier 2 capital			
Revaluation surplus for buildings	1,115,928	500,424	500,424
Revaluation reserve for investments available-for-sale	16,061	(53,017)	28,067
Subordinated loans			
Subordinated loan from EBRD.....	–	482,942	579,061
Subordinated loan from Black Sea Trade and Development Bank.....	485,963	643,922	609,538
Subordinated shareholder loans from Mr. Roman Avdeev (via Wellcreek Corporation)	2,217,635	2,745,236	6,000,000
Subordinated bonds	3,000,000	--	--
Less limitation of subordinated capital to 50% of Tier 1.....	–	–	(569,297)
Total Tier 2 capital.....	6,835,587	4,319,507	7,147,793
Total capital.....	44,995,891	29,480,006	20,386,397
Risk-weighted assets			
Banking book.....	245,565,378	184,090,083	119,410,805
Trading book.....	40,067,912	21,012,847	30,390,992
Total risk weighted assets.....	285,633,290	205,102,930	149,801,797
Total capital expressed as a percentage of risk-weighted assets (total capital adequacy ratio).....	15.8	14.4	13.6
Total Tier 1 capital expressed as a percentage of risk-weighted assets (Tier 1 capital adequacy ratio).....	13.4	12.3	8.8

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

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

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

CBM's Tier 1 capital increased by 51.7% to RUB 38.2 billion as at 31 December 2012 from RUB 25.2 billion as at 31 December 2011. This increase was due to an increase in retained earnings and the completion, in the third quarter of 2012, of CBM's share issuance to EBRD and IFC in an aggregate amount of RUB 5.8 billion. CBM's Tier 1 capital increased by 90% to RUB 25.2 billion as at 31 December 2011 from RUB 13.2 billion as at 31 December 2010. This increase is attributable to a 59% increase in retained earnings and due to an issuance in July 2011 by CBM of new shares to its controlling shareholder in the amount RUB 4.5 billion.

CBM's Tier 2 capital increased by 58.2% to RUB 6.8 billion as at 31 December 2012 from RUB 4.3 billion as at 31 December 2011 due to a RUB 3 billion subordinated domestic bond issue in December 2012, which was offset partially by the amortisation of a subordinated loan from BSTDB, the repayment of a subordinated loan from EBRD and the conversion of part of subordinated loans from CBM's controlling shareholder into additional paid-in capital. See “– *Financial Condition – Total Liabilities – Deposits by Customers*” for further information on the conversion of the subordinated loans to additional paid-in capital. CBM's Tier 2 capital decreased by 39.6% to RUB 4.3 billion as at 31 December 2011 from RUB 7.1 billion as at 31 December 2010 due to conversion of subordinated loans from its controlling shareholder into additional paid-in capital. See “– *Financial Condition – Total Liabilities – Deposits by Customers*”.

In December 2012, CBM issued subordinated domestic bonds in an amount of RUB 3 billion with a fixed coupon of 12.25% and maturity in June 2018. CBM applied to the CBR for approval of the early repayment of a US\$40 million subordinated loan from Roman Avdeev that was granted to CBM in June 2012. The CBR approved the early repayment of this subordinated loan, and CBM subsequently repaid it on 5 March 2013. The repayment of this subordinated loan did not have a material effect on CBM's capital adequacy position. In March 2013, the CBR approved the inclusion of proceeds from a further domestic bond issue into CBM's supplemental capital.

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

Base Capital Adequacy Ratio under Regulation 395-P

Regulation 395-P introduces a new Base Capital Adequacy Ratio, which is calculated as the ratio of (A) the net amount of a bank's base capital (i.e., the main part of the bank's Tier 1 capital less the deductions listed in paragraph 2.2 of Regulation 395-P) to (B) the sum of the bank's (i) credit risk on risk-weighted assets (decreased by the amount of reserves), (ii) credit risk on credit related commitments, (iii) credit risk on forward transactions and derivatives, (iv) operational risk and (v) market risk, as such terms are determined under applicable CBR regulations. The Base Capital Adequacy Ratio is calculated using numbers prepared based on Russian Accounting Standards (RAS). See “*Banking Regulation in Russia—Capital Requirements—Subordinated Debt—New Requirements Under Regulation 395-P*”.

CBM's Base Capital Adequacy Ratio will be prepared and reported to the CBR on a monthly basis beginning at the end of April 2013. Much of the financial information reported by Russian banks to the CBR is subsequently made available to the public, and CBM expects that its Base Capital Adequacy Ratios as filed with the CBR will be made publicly available on the CBR's website. CBM also intends to publish its monthly Base Capital Adequacy Ratio on its own website beginning at the end of October 2013.

CBM's Base Capital Adequacy Ratio under Regulation 395-P has been calculated as at 1 April 2013 and 31 December 2012 as 7.58% and 8.27%, respectively. These ratios as at 1 April 2013 and 31 December 2012 were calculated in accordance with Regulation 395-P by CBM's management. The underlying components of such ratios were calculated in accordance with Russian Accounting Standards (RAS), as required by Regulation 395-P, and were derived from CBM's RAS unaudited management accounts as at 1 April 2013 and CBM's RAS financial statements (audited in accordance with Russian federal standards of auditing) as at 31 December 2012, respectively. Financial information calculated under RAS differs materially from, and is not comparable to, financial information calculated under IFRS.

Accounting Policies

Significant Accounting Policies and New Accounting Standards

A detailed description of CBM's main accounting policies are set forth in Note 3 to the 2012 Financial Statements.

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

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

- IFRS 10 "Consolidated Financial Statements" will supersede IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). Where the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. CBM has not yet analysed the impact of adopting this standard on its financial position or performance.
- IFRS 11 "Joint Arrangements" will supersede IAS 31 "Interests in Joint Ventures". The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, in which case these arrangements are treated similarly to jointly controlled assets/operations under IAS 31, or as joint ventures, for which the equity method only is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results in a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control.
- IFRS 12 "Disclosure of Interests in Other Entities" contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.

Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

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

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

BUSINESS

Overview

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

CBM currently operates exclusively in Moscow and the Moscow region (other than a small part of its cash collection and delivery business which is conducted in regions neighbouring the Moscow region), as it considers these markets to be the most promising for its future business development. As at 31 December 2012, CBM had 60 branches, 14 cash offices, 694 ATMs and 3,906 payment terminals. According to RBC Rating, as at 31 December 2012, CBM was ranked 6th in Moscow based on number of ATMs and 2nd in Moscow and Russia based on number of payment terminals. As at 31 December 2012, CBM was the 19th largest bank in Russia based on net assets according to RBC Rating and the 23rd largest bank in Russia based on the size of its equity capital, according to Interfax-100, based on Russian Accounting Standards (RAS). According to RBC Rating, as at 31 December 2012 CBM was rated 17th among Russian banks based on the size of its loan portfolio and 18th among Russian banks based on amount of customer deposits.

Corporate banking is CBM's core business area, representing 75.5% of total gross loans to customers as at 31 December 2012, as compared with 81.6% and 82.8% of total gross loans to customers as at 31 December 2011 and 2010, respectively. CBM's strategy includes aiming to increase the size of its retail banking business as a percentage of its overall business. However, CBM expects corporate banking to continue to represent the majority of CBM's overall business for the foreseeable future.

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

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

As at 31 December 2012, CBM's total assets were RUB 308.7 billion, as compared with RUB 232.4 billion as at 31 December 2011 and RUB 165.5 billion as at 31 December 2010. CBM's net income for the year ended 31 December 2012 was RUB 5.8 billion compared to RUB 3.9 billion and RUB 3.0 billion for the years ended 31 December 2011 and 2010, respectively. CBM's total equity was RUB 39.3 billion, RUB 25.6 billion and RUB 13.8 billion as at 31 December 2012, 2011 and 2010, respectively.

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

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

Competitive Strengths

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

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

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

In addition to being a profitable business line for CBM, generating 25.6% of CBM's total fee and commission income in the year ended 31 December 2011 and 24.4% in the year ended 31 December 2012, CBM's cash collection and delivery business has enabled it to strengthen its relationships with its corporate banking customers and cross-sell its other services. Retail and wholesale trading businesses that use CBM's operations services represent a significant portion of

CBM's total loan portfolio. CBM's cash collection and delivery services also assist CBM in monitoring and controlling the credit risks of borrowers by identifying any warning signs of liquidity constraints at an early stage. Furthermore, CBM has the ability to offer specialised products to its customers that non-banking cash collectors and non cash-collecting banks cannot offer, such as lending against collected revenue. The Moscow market for cash collection and delivery services is highly concentrated with the three leading providers holding almost 80% of the overall market share, according to an Interfax survey conducted in 2011. The cash collection and delivery segment of the market also has substantial industry entry barriers, as only well-established businesses of sufficient scale can perform cash collection and delivery services efficiently.

CBM's business demonstrated strong resilience throughout the recent global financial crisis. Notwithstanding difficult economic conditions as a result of the global financial crisis, CBM's loan portfolio grew from RUB 103.9 billion as at 31 December 2010, to RUB 159.0 billion as at 31 December 2011 and to RUB 201.2 billion as at 31 December 2012. CBM's net interest income also increased in the years ended 31 December 2010, 2011 and 2012, in each case as compared to the previous year.

Established position in the Moscow banking market

CBM has an established presence in Moscow and the Moscow region, which is the area of its focus. Moscow and the Moscow region are the most developed and financially-active area in the Russian Federation, accounting for 27.1% of Russia's overall GDP in 2011 according to Rosstat. CBM's network, which currently consists of 60 branches, 14 cash offices, 694 ATMs and 3,906 payment terminals, serves as an effective physical platform for offering its products, including as a developed point-of-sale network for servicing retail banking clients. CBM's branches are located to provide maximum convenience to its customers and have long opening hours to suit the needs of its retail customers. Because its business is focused on Moscow and the Moscow region, CBM has lower operational costs than most of its competitors and is not exposed to the risks and costs involved in managing an extensive regional branch network.

Quality and liquidity in loan and securities portfolios

CBM's NPLs together with renegotiated loans amounted to RUB 2.2 billion, or 1.1% of the gross loan portfolio, as at 31 December 2012, as compared to RUB 2.7 billion, or 1.6% of the gross loan portfolio and RUB 2.9 billion or 2.7% of the loan portfolio, as at 31 December 2011 and 2010, respectively. CBM's relatively low NPL rates compared to other Russian banks are a result of its focus on quality corporate borrowers, such as retail business chains and top-tier companies, and on retail banking customers who are employees of CBM's corporate banking clients. The relatively high quality of CBM's loan portfolio is also a result of CBM's monitoring its clients, many of which regularly use CBM's cash collection and delivery services and CBM's conservative risk management practices, which were substantially improved in 2009.

In addition, a high proportion of CBM's corporate loans are of short maturities and therefore carry lower credit risk. Of CBM's net loan portfolio as at 31 December 2012, RUB 77.8 billion or 38.7% had a maturity of more than one year, RUB 35.5 billion or 17.6% had a maturity profile of between six months and one year, RUB 28.3 billion or 14.1% had a maturity of between three months and six months and RUB 58.4 billion or 29.0% had a maturity of between one day and three months. CBM also has a relatively high level of diversification in its loan portfolio across economic sectors, and it continues to pursue a policy of high loan portfolio diversification as a means of lowering credit risk.

CBM has a policy of maintaining a low level of engagement in high-risk products such as equity securities and illiquid securities. As at 31 December 2012, 0.07% of the securities in CBM's proprietary securities portfolio were equity securities, and 76.3% of CBM's total bonds portfolio was composed of highly-liquid securities from the CBR's Lombard and Repo lists. See “*Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Total Assets – Securities Portfolio*”. CBM uses its securities portfolio mainly for liquidity management purposes.

Long-term relationships with strategic international partners

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

History of strong shareholder support

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

Flexible and innovative approach to services

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

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

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

Experienced management team

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

Strategy

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

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

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

Continue to focus on core corporate banking business

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

clients and their employees. CBM intends to continue this strategy, which it believes has minimised its risk exposure during the global economic crisis.

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

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

Leverage corporate banking strengths to expand retail banking business

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

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

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

Maintain geographical focus on Moscow and the Moscow region

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

Continue to improve operational efficiency

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

Continue to diversify funding sources

CBM's funding strategy is to continue to develop a diversified funding policy in order to achieve an optimum balance between its own capital, domestic and international borrowings to cover the growing needs of CBM's business, both in terms of currency and maturity. CBM's funding base relies primarily on deposits from retail and corporate customers. Retail deposits represented 56.6%, 58.2% and 53.3% of CBM's total deposits by customers as at 31 December 2012,

2011 and 2010, respectively. Corporate deposits represented 43.4%, 41.8% and 46.7% of CBM's total deposits by customers as at 31 December 2012, 2011 and 2010, respectively. CBM aims to broaden its corporate banking deposit base and increase the share of on-demand funds in its liabilities. CBM plans to diversify its retail deposit funding by increasing the amount of "cost free" transactional balances of individuals by issuing plastic cards and encouraging customers to open "member areas" where they can deposit funds for future payments. As part of CBM's general strategy, it aims for the retail and corporate banking businesses to become self-financing from their funding sources.

Subsidiaries

CBM has two subsidiaries: MKB-Leasing LLC, which is CBM's leasing services company for corporate clients, and MKB Invest LLC, through which CBM conducts its proprietary trading activities. MKB-Leasing is a Russian limited liability company that as at 31 December 2012 was 100% owned by Lamont Alley Corp., a British Virgin Islands company represented by Mr. Igor Lebedev. MKB-Invest is a Russian limited liability company that as at 31 December 2012 was 100% owned by Twistlewood Corporation, a British Virgin Islands company. Twistlewood Corporation is currently represented by Mr. Andrey Novikov. Mr. Alexey Goryachev holds the position of General Director of MKB-Invest. CBM has concluded option agreements with Lamont Alley Corp. and Twistlewood Corporation under which CBM has control over these entities through its right to exercise an option to purchase these entities at any time. In accordance with IFRS accounting rules, each of these entities is consolidated into CBM's IFRS financial statements.

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

Competition

The Russian banking market is highly competitive. According to the CBR, as at 1 March 2013, 1,093 banks and non-bank credit organisations were registered in Russia and the 20 largest banks held 70.1% of total banking assets. A substantial part of the Russian banking industry is concentrated in Moscow and the Moscow region. The largest Russian banks are concentrated in Moscow (where CBM's business is concentrated), while large regional banks conduct most of their business in the central cities of their respective regions.

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

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

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

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

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

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

Corporate Banking

CBM offers its corporate clients traditional and tailored commercial banking products, including corporate loans and guarantees, cash management services, trade and structured finance, factoring, leasing, international payments, foreign exchange services and payroll projects. As at 31 December 2012, CBM had 26,089 corporate customers, compared to 24,200 as at 31 December 2011 and 22,300 as at December 2010. CBM was ranked 15th in Russia based on volume of corporate loans as at 31 December 2012 by RBC Rating. CBM's customers include 15 out of the 30 largest retail chains in Russia, according to INFOLine Retail Russian TOP-100 data on the 100 largest retail chains in Russia as at the end of 2011.

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

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

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

Corporate Lending

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

The gross volume of CBM's total corporate loan portfolio was RUB 155.5 billion as at 31 December 2012, as compared to RUB 132.8 billion and RUB 88.3 billion as at 31 December 2011 and 2010.

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

As at 31 December 2012, CBM had loans outstanding with 858 different corporate borrowers. The largest part of CBM's corporate client base has traditionally been large wholesale and retail trading companies. As at 31 December 2012, 12.5% of CBM's corporate loans were to companies in the consumer electronics, appliances and computers sector, 8.7% were to companies in the food and farm products sector, 8.5% were to companies in the residential and commercial construction and development sector and 5.2% were to companies in the construction and decorative materials, furniture sector. While CBM has several strategic corporate customers, it aims to maintain a diverse corporate loan portfolio to minimise the risk of any major impact on the overall business.

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

SME Lending

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

SME lending products CBM offers include overdrafts, loans against collected cash, traditional loans and guarantees. CBM's SME lending services are offered at its Lukov Pereulok corporate banking centre, which is one of CBM's four corporate banking centres. CBM also participates in implementation of the State Programme for Support of Small and Medium Businesses, and since February 2012 CBM has cooperated with the Fund of Small Business Credit Assistance of Moscow, which was formed in order to develop the system of guaranteeing loans to SMEs in Moscow. In March 2013, CBM and “Small Business of Moscow”, a state-funded institution, signed an agreement that enables SME clients of CBM to receive subsidies toward their interest payments on loans and payments under leasing contracts.

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

While the volume of CBM's SME loans is not significant relative to CBM's total gross corporate loan portfolio, CBM views lending to SME companies, particularly medium-sized companies, as a target market segment within the corporate banking area, and it intends to gradually increase the percentage of SME loans within its corporate loan portfolio as a means of increasing profitability.

Trade Finance

CBM currently transacts with more than 50 foreign banks in trade finance and is one of the leaders in this market segment among medium-sized Russian banks. CBM provides letters of credit, guarantees and pre-export financing.

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

The volume of CBM's trade finance transactions was US\$859.6 million in the year ended 31 December 2012, \$822.0 million in the year ended 31 December 2011 and US\$409.0 million in the year ended 31 December 2010. For the year ended 31 December 2012, CBM completed 506 trade finance transactions.

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

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

Guarantees and Letters of Credit

Bank guarantees and letters of credit represent an increasing and regular source of fee income for CBM and are particularly used by CBM's publicly-listed corporate customers. CBM offers bid guarantees, customs guarantees, performance bonds, instalment payments guarantees and advance payments guarantees. Guarantees and letters of credit represented 18.0% and 18.2% of CBM's total fee and commission income in the years ended 31 December 2012 and 2011, respectively. Guarantees and letters of credit are an attractive product for CBM because, unlike loans, they are not priced based on CBM's cost of funds, which enables CBM to compete effectively with state-owned banks in this area.

International Payments

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

Leasing

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

Factoring

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

10th in Russia based on the amount of companies served by CBM for factoring services for the six months ended 30 June 2012.

Corporate Funding

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

As at 31 December 2012, the volume of deposits by corporate customers amounted to RUB 82.0 billion, compared with RUB 61.3 billion as at 31 December 2011 and RUB 44.4 billion as at 31 December 2010. As at 31 December 2012, the ratio of corporate deposits to total deposits by customers was 43.4% compared to 41.8% and 46.7% as at 31 December 2011 and 2010, respectively.

As at 31 December 2012, CBM had 21,829 corporate depositors, as compared to 20,744 as at 31 December 2011 and 20,150 as at 31 December 2010. As at 31 December 2012, 24.8%, 11.9%, 11.4% and 10.4% of CBM's corporate deposit portfolio consisted of deposits by companies in the financial services sector, government sector, metallurgical sector and consumer electronics, appliances and computers sector, respectively. According to RBC Rating, as at 31 December 2012, CBM was ranked 20th among Russian banks based on amount of corporate deposits.

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

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

In addition to its current and term accounts and deposit services, CBM offers its corporate customers the option to acquire promissory notes issued by CBM, being liquid financial instruments that can be further traded or pledged. As at 31 December 2012, CBM had promissory notes outstanding of RUB 8.2 billion, as compared to RUB 6.5 billion and RUB 16.1 billion as at 31 December 2011 and 2010, respectively.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Total Liabilities – Deposits by Customers" and "Risk Management – Liquidity Risk".

Retail Banking

CBM's retail banking services include retail loan products, including consumer loans, car loans, mortgage loans and credit cards; services to employees of corporate banking clients (corporate plastic cards and payroll services); and personal services, including deposits, debit cards, payments and transfers, foreign exchange, investments in mutual funds, travellers cheques and safe deposit boxes. CBM previously provided point-of-sale loans for the purpose of financing consumer purchases, but CBM has ceased providing such loans as from November 2012. CBM has been an active player in the Moscow retail banking market since 2002.

The main focus of CBM's retail banking business is general purpose consumer loans and plastic cards. CBM cross-sells products to its retail customers by offering special products and services to existing customers on a continuous basis. This approach helps minimise costs of attracting new clients, improves customer loyalty and helps to retain customers when the terms of their existing products are drawing to a close.

As at 31 December 2012, CBM had approximately 484,000 retail clients (including approximately 102,670 retail borrowers), as compared to approximately 370,000 as at 31 December 2011 and approximately 251,000 as at 31 December 2010. CBM was ranked 15th in Russia based on retail deposits and 26th in Russia based on loans to individuals as at 31 December 2012 by RBC Rating.

CBM's retail loan portfolio was RUB 50.4 billion as at 31 December 2012, as compared to RUB 29.9 billion and RUB 18.3 billion as at 31 December 2011 and 2010, respectively. Retail loans represented 24.5%, 18.4% and 17.2% of CBM's total gross loan portfolio as at 31 December 2012, 2011 and 2010, respectively. CBM has set a target of increasing the proportion of retail loans in its loan portfolio to up to 30% in the medium-term.

CBM divides its retail customers into the following three categories of customer risk profile:

- Category 1 retail customers include existing retail banking customers of CBM who have a positive credit history with CBM and have had an account with CBM with monthly turnover of RUB 20,000 for at least 5 months or have had a deposit account with CBM in the amount of at least RUB 200,000 for at least six months in the past three years. Category 1 customers also include employees of CBM or of companies that CBM considers to be its "strategic partners". Category 1 retail customers are considered the lowest credit risk by CBM.
- Category 2 retail customers include existing retail banking customers that have had an account with monthly turnover of at least RUB 1,000 for at least six months, have a positive credit history with CBM or other banks or have had a deposit account with CBM in an amount of less than RUB 200,000 for at least six months in the past

three years. Category 2 customers also include customers on retirement pensions, employees of certain publicly listed companies, governmental organisations and state companies and companies that CBM considers to be its “partners”.

- Category 3 retail customers are those who are not in categories 1 or 2 and include new retail customers, including those customers who have been with CBM for less than six months, customers referred by family members and acquaintances, users of CBM's ATM and payment terminal networks, and customers who have been attracted to CBM from having been exposed to CBM's advertising. Category 3 retail customers are considered the highest credit risk by CBM and are carefully screened, with priority being given to those with a previous short-term relationship with CBM.

CBM's management estimates that approximately 80% of its retail customers are currently in categories 1 and 2.

CBM is planning to further expand its retail banking business through organic growth by opening new branches in Moscow and the Moscow region. CBM plans to optimise its branch network by closing ineffective branches and opening new ones in more favourable locations that have higher levels of client turnover. CBM also plans to attract new retail customers through the convenience of the services it offers, with branches remaining open until 9pm, 24 hour banking facilities for services such as automated deposits and an internet banking system which allows retail customers to manage their accounts online. In addition, CBM aims to expand its retail banking business particularly through cross-selling its retail products to the employees of its corporate clients and lending to other customers in categories 1 and 2. CBM targets growth in these categories, as this supports the quality of the retail loan portfolio, which is growing and is relatively young and unseasoned.

CBM seeks to attract high net worth retail customers (“**VIP customers**”) and offers an innovative range of products. CBM's VIP customers are generally retail banking customers with large amounts of deposits with CBM or who have conducted other large banking transactions with CBM. Many of CBM's VIP customers are owners or managers of CBM's corporate banking customers. CBM offers its VIP customers a higher level of customer service than its standard retail banking services and products that are more closely tailored to the customer's individual characteristics. For such VIP customers, CBM offers “Individual Banking”, a personal service package that is available for those with deposits of more than RUB 5 million and for VISA Infinite cardholders. This package provides the customer with a personal manager, who supports the customer with all transactions and non-standard financial solutions.

In 2012 CBM opened a dedicated Retail Business Centre (the “**Retail Business Centre**”) in the centre of Moscow, where retail banking customers have access to the full range of CBM's retail banking services maximum comfort and a high level of customer service and the use of advanced technology such as electronic queues, electronic cashiers and a pneumatic conveying system. Due to the “one stop shop” principle applied in the Retail Business Centre, the time needed for each transaction has decreased significantly compared to CBM's typical bank branch. Each floor of the Retail Business Centre has special devices aimed at efficient automated control over client flow, leading to faster client servicing. The Centre also has a special VIP zone dedicated for high net worth retail customers.

In February 2013, an additional VIP zone was opened within one of CBM's corporate banking centres, contributing to the development of this segment of CBM's retail business.

As at 1 January 2012, CBM was ranked by RBC Rating as the 12th Best Retail Bank in Russia. Senteo also ranked CBM 12th in Russia, according to its 2012 Customer Experience Index, which measures the quality and consistency of a bank's customer experience based on brand, communication, environment, offering and culture.

General Purpose Consumer Loans

CBM offers general purpose consumer loans to finance various purchases and other activities. General purpose consumer loans are currently offered with maturities ranging from six months to 15 years and with interest rates ranging from 15% to 34%. The market for general purpose consumer loans is highly competitive but is a profitable area due to high interest rates. The competitive advantages of CBM include selling through a network of terminals and easy loan repayment through CBM's own network of terminals and ATMs. CBM provides loans to borrowers with a good credit history and focuses on customers of categories 1 and 2.

General purpose consumer loans represented 14.1% of CBM's gross loan portfolio as at 31 December 2012, as compared to 9.8% and 4.9% as at 31 December 2011 and 2010, respectively.

As at 31 December 2012, CBM's gross consumer loan portfolio was RUB 29.0 billion, as compared with RUB 16.0 billion and RUB 5.2 billion as at 31 December 2011 and 2010, respectively.

In the second quarter of 2011, CBM introduced insurance contracts processing services in respect of its consumer loans. CBM partners with several insurance companies to provide group unemployment and life insurance to its consumer loan customers in support of their loan obligations. Part of the commission paid by the customer is paid to the insurance company and part of it is retained by CBM as fee and commission income.

General purpose consumer loans are the focus of CBM's retail business and are expected to be the main focus for CBM's retail loan portfolio growth in future.

Bank Cards

CBM is a principal member of the VISA International and MasterCard payment systems. CBM offers a wide variety of debit cards and credit cards to its customers. The variety of cards and features available to a customer depends on the tariff subscribed to by that particular customer. CBM began to offer its customers credit cards in 2006.

As at 31 December 2012, CBM had 858,000 plastic cards in issue, as compared with 601,000 as at 31 December 2011 and 389,000 as at 31 December 2010.

CBM generates both interest income and fee and commission income from its bank card products. Fee and commission income from plastic cards was RUB 354 million or 8.6% of CBM's fee and commission income, in the year ended 31 December 2012, as compared to RUB 273.7 million or 9.3% and RUB 116.9 million or 6.7% in the years ended 2011 and 2010, respectively.

CBM aims to offer its retail customers innovative bank card products and to attract VIP customers to its plastic card offering. CBM has offered the premium VISA INFINITE card since 2009 and was the first provider to offer the VISA INFINITE diamond-encrusted card to the Russian market. In 2010 and 2011, CBM introduced a bank card which can be combined with a Moscow metro pass; a credit card aimed at customers who frequently travel; and a bank card aimed at making customs payments easier. In 2012 CBM offered a new "union card" to customers, which combines the features of a debit card and credit card.

Card security is a priority for CBM and, since 2012, CBM has issued only chip cards and introduced a 3D Secure security system for on-line credit and debit card transactions.

In December 2012, CBM launched a mobile point-of-sale plastic card acquiring services pilot project jointly with VSK insurance company and VISA. Under this project, VSK's insurance agents use the CBM Mobile application on smartphones to read the plastic cards of customers when they pay for insurance services. CBM intends that this pilot project will form a basis for CBM to provide this service to other companies going forward.

CBM is also actively promoting the use of electronic payments made by its customers with CBM's bank cards and is developing numerous partner programmes with its corporate customers. CBM's cardholders receive special discounts on payments made with CBM's bank cards in various restaurants and shops, and also receive special bonuses for performing a particular number of transactions via CBM's bank cards.

Car Loans

CBM began offering car loans in Russia in 2002 and was one of the first banks in Russia to enter this market segment. With little competition at that time, CBM established a strong franchise for car loans, which has been of value to CBM as other banks have entered the market. Car loans represented 5.3% of CBM's gross loan portfolio as at 31 December 2012, as compared to 3.8% and 5.1% as at 31 December 2011 and 2010, respectively.

As at 31 December 2012, CBM's gross car loan portfolio was RUB 11.0 billion, as compared with RUB 6.2 billion and RUB 5.5 billion as at 31 December 2011 and 2010, respectively.

All of CBM's car loans are secured by the cars that the customer purchases with the loan proceeds. All customers obtaining car loans are obliged to insure the vehicle upon which the loan is secured, and to assign the benefit of such policy in favour of CBM. Under CBM's car loan programme launched in June 2011, CBM offers retail customers car loans for up to seven years with a minimum annual interest rate of 13.25%.

As at 31 December 2012, CBM was ranked by RBC Rating as 13th in Russia based on the aggregate Rouble amount of car loans extended in 2012, 13th in Russia by the number of car loans extended in 2012 and 12th in Russia by the size of its total car loans portfolio as at that date.

CBM plans to further develop partner and joint programs for auto loans with car manufacturers and dealers that are CBM's corporate borrowers.

Mortgage Lending

CBM's mortgage loan products are focused on retail customers with medium and high income for the purchase of residential properties generally of a value between RUB 0.7 million and RUB 7.0 million. CBM currently offers mortgages with maturities ranging from 12 months to 20 years and with interest rates ranging from 12.25% to 24%. The average interest rate is 13.8%. All mortgage loans are insured by one of the leading Russian insurance companies and secured by mortgage deeds.

As at 31 December 2012, CBM has outstanding mortgage loans of RUB 10.4 billion, as compared to RUB 7.7 billion and RUB 7.6 billion as at 31 December 2011 and 2010, respectively. Mortgage loans represented 5.1% of CBM's gross loan portfolio as at 31 December 2012, as compared to 4.7% and 7.2% as at 31 December 2011 and 2010, respectively.

CBM's mortgage lending programme is partly financed by a US\$5.0 million eight-year mortgage loan facility granted by the IFC, which was the first housing finance loan from the IFC to a Russian-owned bank when it was disbursed in 2005. This facility is due to expire in June 2013.

As at 1 July 2012, CBM was ranked 21st in Russia based on the volume of mortgage loans extended during the first half of 2012 and 17th in Russia by the size of its total mortgage loans portfolio as at that date. According to the market analyst Rusipoteka, CBM was ranked 20th Russian bank in terms of mortgage lending in 2012.

Retail Funding

Deposits from retail customers are a significant source of funding for CBM. As at 31 December 2012, retail deposits represented 56.6% of CBM's total deposits by customers, as compared to 58.2% and 53.3% as at 31 December 2011 and 2010, respectively.

Over the past several years, CBM has significantly increased its retail customer deposits base as a result of improvements it has made to its product range, an aggressive marketing campaign, the expansion of its branch network in Moscow and the improvement of customer service. As at 31 December 2012, CBM had 195,956 retail deposit customers. According to RBC Rating, as at 31 December 2012 CBM ranked 15th among Russian banks based on amount of retail deposits. As at 31 December 2012, CBM had retail deposits in the amount of RUB 107.0 billion, as compared to RUB 85.4 billion and RUB 50.7 billion as at 31 December 2011 and 2010, respectively.

CBM's deposit accounts include current and term accounts and are denominated in Roubles, U.S. dollars and Euros. The substantial majority of CBM's retail deposits are term deposits, which accounted for 93.2% and 94.3% of the total retail deposit portfolio as at 31 December 2012 and 31 December 2011, respectively.

The average term on CBM's deposits from retail customers as at 31 December 2012 was 18 months, as compared with 16 months as at 31 December 2011 and 9 months as at 31 December 2010.

Cash Collection and Delivery

CBM's cash collection and delivery services consist of cash collection and delivery solutions for businesses. CBM is one of the market leaders in providing cash collection and delivery services to businesses in Moscow and the Moscow region. CBM was the 3rd largest cash collection and delivery service provider in Moscow, the 4th largest in Russia as a whole and the largest private bank providing cash collection and delivery services in Moscow, in each case according to an Interfax survey conducted in 2011. Cash collection and delivery services are in high demand in Russia, where the majority of transactions are settled in cash. CBM believes that the provision of cash collection and delivery services helps to differentiate CBM from its competitors, thereby assisting CBM to attract and retain corporate clients.

CBM's clients in the cash collection and delivery area are comprised of large Moscow-based wholesale and retail trading companies which have cash-intensive businesses as well as other banks that outsource their cash collection and delivery function. CBM can credit collected cash to the deposit account of its customers at CBM, which is convenient for customers and also provides a source of funding for CBM's banking business. CBM offers an electronic banking system which is becoming increasingly popular, with the volume of payments routed through this system rapidly growing. CBM's cash collection and delivery services have enabled it to develop long-term customer relationships and offered it the opportunity to cross-sell its other corporate services and also allowed it to use the insight cash collection and delivery gives it into the financial condition of its corporate customers as part of its risk management strategy. In the course of its lending to corporate customers, CBM may take recourse to cash collected through its cash collection and delivery services should corporate borrowers fail to meet their obligations under their loan agreements with CBM.

CBM has cash collection settlement centres in both north and south Moscow, where cash is physically delivered, calculated and credited to clients' accounts. Approximately 95% of CBM's cash collection and delivery business is operated in Moscow and the Moscow region, with the remaining 5% operated in areas surrounding the Moscow region. CBM uses almost 200 armoured cash collection vehicles to perform its cash collection and delivery services.

As at 31 December 2012, CBM collected cash from 8,833 cash collection points, as compared to 6,483 and 4,753 as at 31 December 2011 and 2010. CBM's cash collection points are at the locations of its corporate clients. CBM collected cash with a value of over RUB 500 billion in the year ended 31 December 2012. As at 31 December 2012, CBM had over 150 cash collection routes, compared to 122 as at 31 December 2011 and 96 as at 31 December 2010. As at 31 December 2012, CBM had over 800 cash collection and delivery customers (of which 25 were banks) and CBM's client base is diversified across different segments of the retail trading sector, wholesale trading sector and financial sector.

For the year ended 31 December 2012, 24.4% of CBM's fee and commission income was generated from its cash collection and delivery services, compared to 25.6% for the year ended 31 December 2011 and 31.3% for the year ended 31 December 2010. CBM generated RUB 1 billion, RUB 750.5 million and RUB 549.5 million of fee and commission income from its cash collection and delivery services for the years ended 31 December 2012, 2011 and 2010, respectively.

Since 2009, CBM has provided cash collection and delivery services to other banks and their clients, which gives CBM exposure to the client bases of other banks. Banks tend to outsource cash collection and delivery as they fall outside of what they consider to be their core banking business. CBM, therefore, has the ability to offer specialised products to its customers that non-banking cash collectors and non cash-collecting banks cannot offer, such as lending against collected revenue.

In December 2010, CBM began to provide a new banking service named “INKASSLOGIST”, which collects accounting documents from cash collection points for further delivery to the client's head office or to a branch of CBM near to an office of the client.

Financial Markets, Treasury and Trading Securities

CBM participates in the interbank foreign exchange, international, domestic, government and corporate bonds and securities markets.

CBM conducts foreign exchange activities both for its own account and on behalf of customers. CBM's income or expense from net foreign exchange gains or losses primarily represents net gains or losses from currency transactions performed on behalf of corporate and retail customers and the purchasing and selling by CBM of currency derivatives. CBM generates income from net foreign exchange transactions performed on behalf of customers because CBM's selling price for a particular currency is higher than its purchase price. CBM typically incurs losses on its derivative transactions, which are hedging expenses that CBM incurs in order to limit its foreign currency exposure and to manage its liquidity position. CBM does not engage in derivative transactions for speculative purposes. CBM's foreign currency position is managed by the Treasury, which reports to CBM's Analytical Division and the Assets and Liabilities Committee (the “ALCO”). See “*Risk Management – Market Risk – Currency Risk*”.

In the year ended 31 December 2012, CBM had a net foreign exchange loss of RUB 208 million, as compared to a net gain of RUB 255 million in the year ended 31 December 2011. This loss was attributable to losses in CBM's operations with foreign currency derivatives aimed at hedging foreign currency risk, the volume of which increased significantly during 2012 as compared to 2011 as a result of an expansion in CBM's business and a significant increase in the volume of CBM's international funding. Also contributing to the loss was an increase in the cost in the market for executing currency derivative transactions. In the year ended 31 December 2010, CBM had a net foreign exchange gain of RUB 232 million.

CBM's securities portfolio consists primarily of Russian government and municipal securities, corporate bonds and promissory notes at Russian banks. CBM has a conservative policy with respect to its securities portfolio and trades securities on a proprietary basis solely for the purpose of managing its liquidity. CBM's securities portfolio is almost exclusively bonds, with equity securities representing 0.07% of CBM's total securities portfolio as at 31 December 2012, as compared to 0.1% and 0.2% as at 31 December 2011 and 2010, respectively. CBM's financial instruments at fair value through profit or loss, together with available-for-sale securities, represented 12.0% of its total assets as at 31 December 2012, as compared to 10.7% and 19.3% of CBM's total assets as at 31 December 2011 and 2010. As at 31 December 2012, 76.3% of CBM's total bond portfolio was represented by bonds in the CBR's Lombard and Repo lists. The CBR Lombard list is a list of securities which are accepted by the CBR as security for the loans granted by the CBR. The CBR Repo list is a list of securities which are accepted for repo transactions.

CBM has established internal limits applicable to proprietary transactions in respect of individual issuers of bonds and promissory notes, interbank limits, and limits on the total volume of equity and debt instruments. The limits are established by the Analytical Division of CBM and approved by the ALCO.

See “*Management Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Total Assets – Securities Portfolio*” and “*Risk Management – Market Risk – Securities Portfolio Risk*”.

Branches, Payment Terminals and ATMs

Branches and Other Bank Offices

The number of CBM's branches increased from 51 as at 31 December 2010 to 60 as at each of 31 December 2011 and 2012. CBM's current 60 branches include four corporate banking centres dedicated to serving corporate customers (one of which also offers SME lending services) as well as CBM's Retail Business Centre in the centre of Moscow.

CBM owns four of its 60 branch offices, including its head office and its Retail Business Centre. Other CBM branches operate in leased premises. CBM owns each of its two cash collection and delivery centres.

ATMs

CBM had 694 ATMs in its ATM network as at 31 December 2012, as compared to 604 and 402 as at 31 December 2011 and 2010, respectively. According to RBC Rating, as at 31 December 2012, CBM was ranked 6th in Moscow based on number of ATMs. CBM leases the space where its ATMs are located.

Since February 2011 CBM's retail banking customers have also been able to use ATMs of another Russian bank, Rosgosstrakh Bank (formerly Russ-Bank), which has ATMs located in 60 cities of the Russian Federation. CBM also has a similar arrangement in place with UniCredit Bank. In December 2012, CBM and Alfa-Bank united their ATM networks as the first step towards the integration of their payment devices. As a result of this process, CBM's customers can use ATMs in a network that includes more than 2,700 ATMs in 232 cities throughout Russia on the same terms as using CBM's ATMs.

In March 2013, the second step of the integration of CBM's and Alfa-Bank's payment devices was completed with the creation of a single joint network of payment devices. Customers of both CBM and Alfa-Bank can now withdraw cash, repay loans and top-up debit or credit card balances free of any fees, from a united network of 6,700 devices, of which 2,700 are ATMs and 4,000 are payment terminals. The total number of devices with a cash-in option is 6,000. See "*Payment Terminals*".

Payment Terminals

CBM has a network of payment terminals at which a wide range of payments by individuals can be made, including payments for mobile telecommunications services, internet and cable television services, housing services, utilities services and traffic fines. Customers can also use CBM's payment terminals to repay loans extended by CBM and by other banks.

As at 31 December 2012, CBM had 3,906 payment terminals, compared with 4,014 as at 31 December 2011 and 1,737 as at 31 December 2010. This decrease is the result of CBM's strategy to modernise its payment terminals and to the remove such terminals from places that are deemed to be economically inefficient and subsequently transfer them to places with a higher profile. As a result of this strategy, payment volumes and loan repayments made via CBM's payments terminals increased in 2012. CBM's payment terminal network is one of the largest such networks in Russia. According to RBC Rating, as at 31 December 2012, CBM was ranked 2nd in Moscow based on the number of its payment terminals.

Payments to over 400 companies can be made through CBM's payment terminals. It is also possible for individuals to repay loans to CBM and other banks through such payment terminals and the payment terminals also provide a service whereby change for excess payments made through a payment terminal can be directed towards an individual's mobile telephone account. The functionality of CBM's payment terminals corresponds to the best market practices, and CBM aims to continue to expand such functionality by offering a wide range of banking services unavailable from most other payment terminal networks in Moscow and the Moscow region.

In addition to generating fee and commission income for CBM, CBM's payment terminals help to reduce credit risk, because CBM uses information related to customer payments made through payment terminals, by customers who have set up a payment terminal registration account with CBM, to make credit decisions on making loans to such customers. CBM's customer relationships with retail chains have assisted CBM with placing its payment terminals in the stores of a number of retail chains.

CBM leases the space where its payment terminals are located. CBM's payment terminals are located in CBM's branches and also in shopping malls, entertainment complexes and supermarkets located in Moscow, the Moscow region and the neighbouring regions of Tver, Ryazan, Kaluga and Vladimir.

Information Technology

Information technology is an integral part of CBM's operations. CBM's IT development policy is directed at the improvement of CBM's technologies as well as the development, optimisation and enhancement of CBM's information systems. CBM seeks to continuously improve its IT systems in order to increase CBM's competitive position and improve the quality of client services.

CBM has invested in a reliable IT infrastructure. It is based on equipment manufactured by leading firms such as IBM, HP and Cisco. CBM has three secure independent data processing centres, which were established in 2007, 2008 and 2012. These centres have independent power supplies and are fitted with firefighting and air conditioning systems.

CBM uses software purchased from vendors such as Oracle, Microsoft, IBM, SAP, SAS, and software developed by CBM specialists. All of CBM's systems are regularly reviewed and updated in order to ensure the reliability of the system and security of the data which CBM holds. As at the date of this Prospectus, there have been no system failures which have affected CBM's operations.

CBM is a principal member of MasterCard WorldWide and VISA International. CBM's card processing centre is based on TSYS Card Tech software, and this year the processing centre was upgraded to EMV technology for both acquiring (processing card payments for a merchant) and issuing cards. The centre has its own personalisation bureau, ATM, POS terminal and kiosk networks. CBM's cards are protected by 3d-Secure and fraud monitoring systems.

CBM provides a wide range of remote services for individual and corporate clients, in addition to CBM's physical network of payment terminals and ATMs. In addition to its existing internet banking system, CBM Online, in 2012 CBM launched its new mobile application banking service, CBM Mobile, which can be accessed through the use of a mobile phone, iPad or similar devices based on the iOS or Android platforms. In terms of operability of its internet banking system, CBM Online was ranked 8th in Russia by Expert RA and 9th in terms of information and financial security of its internet banking system as at 1 April 2012. CBM Mobile was ranked joint 9th in Mobile Banking Rank 2012 by Marksworld Rank & Report. Banki.ru recognised CBM's internet banking system as one of the safest and most user-friendly systems and accordingly, in March 2013, it ranked CBM Online as the 3rd best internet banking system in Russia.

CBM is currently in the process of implementing an upgrade to its customer relationship management (CRM) system. The first stage of the process involved the launch of a new “credit factory” system for the approval of general consumer loan applications. This system was awarded “The most innovative project of the year” by Oracle in 2013. The remaining stages of the upgrade are expected to be completed in 2013 and 2014.

See “*Risk Factors – Risks Relating to CBM's Business and Industry – CBM's IT systems may malfunction or be insufficient to support future operations*”.

Insurance

CBM has a comprehensive BBB insurance policy with Ingosstrakh Joint Stock Insurance Company (“**Ingosstrakh**”), one of Russia's major insurance companies. This policy covers a range of risks associated with CBM's operations, including, among other things, property (and the provision of temporary alternative premises when required), all deposits (such as those received via cash collection operations) and the risk of electronic fraud. The policy also covers the risk of criminal acts by CBM's employees. The policy also provides cover for CBM's property interests with regard to any damage caused to third parties in the course of its banking activities. The policy has no excess. The cost of the policy varies with the changing level of insurable assets, but CBM monitors the coverage to ensure that, as far as possible, it is neither under-insured nor over-insured.

In addition to the BBB insurance policy, CBM also has real estate and property insurance policies covering buildings/premises owned by CBM. CBM insures valuables on its premises, including cash in the operational offices, payment terminals and ATMs. CBM also maintains corporate and individual public liability insurance policies and policies covering CBM's property interests related to its liability to indemnify third parties for any bodily injury or property damage with regard to the rented premises. CBM also has a general liability policy, which, among other things, protects against unlawful acts of employees, loss of property, loss from fraud transaction with payments, securities and false bank notes. CBM insures its car loans and mortgages and is a member of the Russian Deposit Insurance System.

CBM's insurance does not cover all of CBM's assets and liabilities. The Russian insurance industry is poorly developed, and many forms of insurance offered in economically developed countries are unavailable to CBM on the terms common in such countries, including insurance coverage for business interruption. See “*Risk Factors – Risks Relating to CBM's Business and Industry – CBM may lack sufficient insurance coverage*”.

Employees

The following table sets forth the number of employees of CBM as at 31 December 2012, 2011 and 2010 by functional category.

	As at 31 December					
	2012		2011		2010	
	Number	% of total	Number	% of total	Number	% of total
Management Board	8	0.2	5	0.2	7	0.3
Senior management	13	0.3	11	0.3	3	0.1
Middle management	320	7.9	268	8.1	188	7.8
Specialists	1,926	47.6	1,751	52.7	1,210	50.1
Cashiers and operators	1,025	25.4	712	21.4	561	23.3
Cash collectors	657	16.2	520	15.6	410	17.0
Other	92	2.4	55	1.7	35	1.4
Total	4,041	100.0	3,322	100.0	2,414	100.0

CBM had 4,041 employees as at 31 December 2012, as compared to 3,322 as at 31 December 2011 and 2,414 as at 31 December 2010. The average age of CBM's employees is 32 years old and the majority of CBM's employees (more than 60%) have a higher professional education. The majority of CBM's employees who do not have a higher professional education are students at higher educational institutions.

The increase in the number of CBM's employees is a result of the growth of CBM as described above, including the opening of new branches and the expansion of CBM's cash collection and delivery business.

CBM has its own internal corporate training centre where training specialists conduct various training programmes and courses on a regular basis. Training programs are in place for all employees and management including basic training for employees of any business line, skills training for the retail segment, a “Staff Reserve” program for the training of future directors of branches, a training and development program for the underwriting department, a training and development program for employees of the contact centre and a “Promotion School” project.

CBM has incentive programs for employees in the areas of corporate banking, retail banking, underwriting, loan recovery, legal and contact centre. The incentive programs involve payment of bonuses based on achieving target key

quantitative performance indicators or success in specific projects for a particular business area or position, subject to defined criteria.

CBM does not have pension arrangements aside from the state pension of the Russian Federation. The Russian Federation pension system requires contributions from CBM in respect of its employees, calculated as a percentage of current gross salary payments. CBM does not have any stock option plans for its employees.

CBM's salaries and employment benefits increased by 65.3% to RUB 3.5 billion in the year ended 31 December 2012 from RUB 2.1 billion in the year ended 31 December 2011 and RUB 1.4 billion in the year ended 31 December 2010. These increases were primarily due to increases in the number of employees of CBM as a result of the expansion of CBM's retail and corporate businesses during the periods covered.

As at the date of this Prospectus, there were no collective bargaining agreements among CBM's employees.

Legal Proceedings

Although CBM is the subject of legal proceedings and adjudications from time to time, as at the date of this Prospectus, there are no, and have not been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which CBM is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of CBM.

RISK MANAGEMENT

Overview

The principal categories of risk inherent in CBM's business are solvency risk, liquidity risk, credit risk, market risk (including price, interest rate, foreign currency and securities portfolio risks), operational risk and reputational risk. The purposes of CBM's asset, liability and risk management policy are as follows:

- **Risk identification and analysis:** the identification of risk factors and the determination of risk sensitivity.
- **Risk assessment:** setting out a methodology to assess each of the risks and assessing of the acceptability and reasonableness of the risks.
- **Risk response:** using a system of early risk monitoring and a division of quick and appropriate response to prevent or mitigate the risk and setting out methods for responding to financial risk.
- **Risk control:** monitoring compliance with the limits approved by ALCO, the Credit Committee and the Management Board; reporting current open positions, risk magnitude, the state of limits and any violations to CBM's management; identifying and reporting any limit violations; and reviewing its risk assessment methods at least once a year.

CBM has designed its risk management policy to manage these risks by establishing procedures and setting limits, which are monitored by independent departments using advanced administrative and information systems. These systems can be modified to reflect changes in market conditions and product demand.

Organisation

CBM's risk management functions are carried out by several bodies that are responsible for establishing risk management policies and procedures, including the establishment of limits, and implementing CBM's policies and procedures, including monitoring and controlling risks and limits on a continuous basis. The following are CBM's principal risk management bodies:

- **Audit and Risk Committee.** The Audit and Risk Committee is formed by the Supervisory Board. The committee's functions include:
 - o advising the Supervisory Board on:
 - selecting an independent auditor to undertake the annual independent external audit of CBM's financial statements;
 - appraising the quality of services provided by the independent auditor and its compliance with independence requirements;
 - efficiency of internal control and risk management procedures;
 - prioritising CBM's activities within the acceptable level of risk; and
 - compliance with applicable laws and regulatory requirements;
 - o maintaining the Supervisory Board's control over activities of CBM's executive bodies and ensuring co-operation with CBM's executive bodies on matters within the committee's competence; and
 - o implementing and promoting a culture of risk management within CBM;
- **Management Board.** The Management Board is the executive body which is responsible for CBM's operations and the implementation of decisions of the General Shareholders' Meeting and Supervisory Board. The Management Board is responsible for the overall direction of CBM's activities and makes decisions with respect to its current performance.

The Management Board's functions include:

- o forming committees and delegating to such committees part of its authority under the relevant regulations;
- o approving risk limits and making decisions in relation to transactions that fall beyond the relevant management/committees authority;
- o approving internal regulations, policies, guidances, instructions, rules and other internal documents;
- o forming committees to ensure control over particular risks; and
- o approving interest rates and tariffs for banking services.

- **Corporate Credit Committee.** The Corporate Credit Committee contains two individual committees: the Smaller Credit Committee and the Main Credit Committee. The Smaller Credit Committee approves credit limits up to RUB 1 billion and consists of five permanent members. The Main Credit Committee approves credit limits above RUB 1 billion and consists of six permanent members. Credit limits and transactions in above RUB 2,000 million are required to be approved by the Management Board. The committees' responsibilities include the following:
 - o organising and managing CBM's lending activity and credit risks;
 - o controlling the quality of CBM's loan portfolio;
 - o approving credit exposure limits for borrowers, sectors, and industries;
 - o delegating authority for the approval of loans to CBM's officers, within certain limits;
 - o qualifying loans as problem loans;
 - o setting credit ratings to reflect the relative risk of the various categories of borrowers; and
 - o changing approved credit risk limits;
- **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:
 - o approving credit loans to individuals;
 - o approving individual restructuring conditions;
 - o approving non-standard conditions for basic products;
 - o reviewing high risk applications; (with the authority to decline them)
 - o reviewing analytical portfolio reports; and
 - o escalating approval of applications to the Board level;
- **ALCO.** ALCO is responsible for establishing the strategy for the attraction and allocation of funds, the strategic and operating management of risks related to the deterioration of capital and liquidity, and currency and interest rate risks. ALCO's functions include:
 - o defining the general structure of the Bank's assets and liabilities, including distributing assets by risk, profitability and maturity;
 - o establishing types of financial instruments used by CBM and operations performed in the financial markets;
 - o establishing credit risk limits for financial market counterparties and debt securities;
 - o managing CBM's open currency position;
 - o interest risk management; and
 - o liquidity management;
- **Risk Division.** CBM's Risk Division identifies, evaluates and manages banking risks. The Risk Division is responsible for:
 - o evaluating, analysing and preparing independent opinion on credit risks;
 - o evaluating and monitoring business reputation and sector research;
 - o evaluating industry risks and their impact on the creditworthiness of corporate clients and the development of CBM's industry risk policy;
 - o monitoring the credit portfolio in respect of sectors, customers (aggregate exposure within limits), collateral value and quality based on regular reviews, quarterly revaluation of collaterals and financial condition;
 - o monitoring of customers' compliance with covenants;
 - o monitoring of the lending activities of CBM's divisions;
 - o monitoring of the compliance of CBM's divisions with established limits;
 - o assessing credit, financial and sector risks when executing financial markets operations, including recommendations on the amounts, structure and limits for the financial market counterparties;
 - o assessing and analysing market risks including interest, currency and price risks;

- o assessing proposals made by the Treasury Department on liquidity management and market risks;
- o controlling the compliance of CBM's subdivisions with regard to the limits placed on transactions with financial markets counterparties; and
- o controlling the compliance of CBM with regard to market risks limits.

Credit risk factors are identified and reported to departments and management on an ongoing basis. Management decisions are made on the basis of daily, monthly and quarterly reporting across business lines.

CBM's current Chief Risk Officer is also the Director of CBM's Risk Division. The Risk Division includes the Corporate Risk Department, Retail Risk Department, Information and Analytical Department, Project Finance Department and Collateral Appraisal and Monitoring Service.

- **Treasury Department.** The Treasury Department conducts the attraction and allocation of funds in financial markets and over-the-counter markets, and develops the principles of CBM's activities in financial markets for the purpose of managing CBM's liquidity position. The Treasury Department's main functions are:
 - o generating the preliminary daily financial plan for CBM;
 - o providing sufficient funds to CBM's correspondent accounts in order for rouble and foreign currency payments to be made;
 - o controlling CBM's liquidity and maturity forecast;
 - o analysing maturity forecasts in relation to severe market condition scenarios;
 - o monitoring and controlling the open foreign exchange position structure;
 - o forecasting changes in CBM's interest margin;
 - o attracting and placing funds into interbank loans and deposits, foreign exchange buying and selling, interbank bank note transactions, conversion operations, executing operations on allocation/attracting funds at the exchange or OTC markets with the aim to settle CBM's liquidity position control; and
 - o providing recommendations on maturity, amounts and currency structure of the issued loans;
- **Internal Control Division.** The main responsibilities of the Internal Control Division include:
 - o ensuring CBM's compliance with the Russian law;
 - o ensuring an efficient and reliable system of internal control;
 - o controlling compliance with CBM's requirements regarding banking risk assessment and risk management; and
 - o controlling the assessment of financial viability and efficiency of banking transactions.

The Internal Control Division consists of the Internal Audit Department and the Operational Risk Control Department.

Solvency Risk

CBM monitors its own solvency on a daily basis using a methodology developed within CBM. According to this methodology, CBM's assets are measured at their market values by applying discounts to the book value of assets, thus allowing CBM to calculate its "net conventional capital" conservatively. CBM's objective is to maintain its solvency at a high level. Adherence to maintaining solvency within predefined levels protects CBM from making further investments in risky assets and allows it to reduce the risk of losses on the impairment of existing assets by selling them on the market at an appropriate time.

Liquidity Risk

Liquidity risk is the risk of a mismatch between the maturities of assets and liabilities, which may result in CBM being unable to liquidate a position in a timely manner at a reasonable price to meet its funding obligations. CBM is exposed to liquidity risk primarily in the funding of its customer loan and securities portfolio. CBM seeks to have sufficient liquidity to meet its current and future obligations and funding needs at reasonable market rates. CBM's operations are principally funded through customer deposits (both corporate and retail). CBM also has some interbank borrowings and debt funding in both Russian and international capital markets. In addition, a substantial portion of its securities portfolio is highly liquid and could be used to help CBM meet liquidity needs. CBM also has access to liquidity from the CBR on a secured and unsecured basis, but in practice it generally does not utilise such liquidity.

The ALCO approves liquidity assessment and management procedures, determines liquidity requirements and sets minimum necessary levels of liquid assets and maturity mismatch limits. Oversight of CBM's liquidity risk is shared with CBM's Treasury Department.

CBM is subject to liquidity requirements set by the CBR, which exercises strict control over liquidity risk by establishing instant (N2) and current (N3) liquidity statutory ratios. The risks relating to sources of funding are controlled by the CBR in accordance with the capital adequacy (N1) standard and long-term (N4) liquidity standard. The CBR requires that such ratios are complied with on a daily basis and CBM is required to provide a monthly statement demonstrating that it has complied with such ratios on a daily basis for the relevant statement period.

Managing liquidity risk includes monitoring CBM's asset and liability structure and forecasting its future movements. Liquidity risk is analysed by CBM in the following manner:

- projections are consolidated into cash-flow charts for each group of assets and liabilities;
- statistical analysis methods (such as stress tests) are employed in order to identify necessary levels of short- and long-term liquidity;
- liability forecasts are counterbalanced by highly liquid and liquid asset reserves, as needed to discharge payment obligations in full, even under stress;
- liquidity surpluses/shortages are identified throughout the forecast period, together with respective allocation/funding options;
- CBM uses temporary liquidity surpluses for the provision of interbank loans, repo deals and in some cases for short-term lending to corporate clients; and
- final decisions with respect to setting limits are carried out by the ALCO, which ensures ALCO has comprehensive control over liquidity risk.

The following table sets forth CBM's consolidated liquidity position as at 31 December 2012 and shows financial assets and liabilities by their remaining contractual maturity as at 31 December 2012.

<i>As at 31 December 2012</i>	<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 thousands</i>				
ASSETS								
	47,459,07							47,459,07
Cash and cash equivalents	5	-	-	-	-	-	-	5
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	2,545,772	-	2,545,772
								12,520,79
Due from credit institutions	2,536,527	3,011,120	3,973,144	3,000,000	-	-	-	1
Financial instruments at fair value through profit or loss.....	25,438,51							31,684,81
	6	401,448	1,863,907	3,880,250	100,678	17	-	6
Available-for-sale securities	2,893,914	1,864,714	492,350	170,610	-	26,006	-	5,447,594
	13,149,86	73,548,18		67,563,27	10,219,22			201,234,5
Loans to customers	4	9	35,454,906	0	2	-	1,299,071	22
Property and equipment	-	-	-	-	-	6,079,620	-	6,079,620
Other assets.....	979,047	329,773	446,375	-	-	-	-	1,755,195
	92,456,94	79,155,24		74,614,13	10,319,90			308,727,3
Total assets	3	4	42,230,682	0	0	8,651,415	1,299,071	85
LIABILITIES								
								35,183,73
Deposits by credit institutions	2,242,563	9,721,055	16,875,223	6,139,433	205,459	-	-	3
	65,679,68	44,940,54		27,932,23				189,014,1
Deposits by customers	0	6	49,541,792	7	919,849	-	-	04
				29,426,42				40,013,79
Debt securities issued.....	1,081,497	4,091,296	2,399,573	4	3,015,000	-	-	0
Income tax liability	-	125,817	-	-	-	2,608,594	-	2,734,411
Other liabilities	1,030,522	419,446	241,910	-	-	797,176	-	2,489,054
	70,034,26	59,298,16		63,498,09				269,435,0
Total liabilities.....	2	0	69,058,498	4	4,140,308	3,405,770	-	92
	22,422,68	19,857,08	(26,827,81	11,116,03				39,292,29
Net liquidity position	1	4	6)	6	6,179,592	5,245,645	1,299,071	3
	22,422,68	42,279,76		26,567,98	32,747,57	37,993,22	39,292,29	
Accumulated gap	1	5	15,451,949	5	7	2	3	

The following table sets forth CBM's consolidated net liquidity position and accumulated gap as at 31 December 2012, 2011 and 2010.

	<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 thousands</i>							
Net liquidity position as at 31 December 2012....	22,422,681	19,857,084	(26,827,816)	11,116,036	6,179,592	5,245,645	1,299,071	39,292,293
Accumulated gap as at 31 December 2012....	22,422,681	42,279,765	15,451,949	26,567,985	32,747,577	37,993,222	39,292,293	
Net liquidity position as at 31 December 2011....	19,662,253	14,316,502	(25,057,507)	6,650,432	3,660,224	4,889,103	1,486,899	25,607,906
Accumulated gap as at 31 December 2011....	19,662,253	33,978,755	8,921,248	15,571,680	19,231,904	24,121,007	25,607,906	
Net liquidity position as at 31 December 2010....	19,065,046	(4,641,315)	(12,301,765)	8,062,152	(1,798,580)	4,330,272	1,051,285	13,767,095
Accumulated gap as at 31 December 2010....	19,065,046	14,423,731	2,121,966	10,184,118	8,385,538	12,715,810	13,767,095	

Credit Risk

As a result of its credit operations, CBM is exposed to credit risk, which is the risk that a counterparty will be unable to pay its obligations when due. Credit risk arises in the context of CBM's corporate and retail lending activities and interbank operations, as well as with respect to repo transactions and granting letters of credit or guarantees to third parties.

CBM has policies and procedures for the management of credit exposures (both for recognised and unrecognised exposures), including guidelines to limit portfolio concentration. CBM seeks to continuously monitor the performance of individual credit exposures and regularly assesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by CBM. The current value of collateral is regularly assessed by either independent appraisers or internal specialists and in the event of negative movements in market prices, the borrower is usually required to provide additional collateral.

Lending Policies and Procedures

In making a lending decision, CBM considers the following principal factors:

- information transparency (the ability to provide data that is sufficient to assess the borrower's financial position);
- personal responsibility of the business owners;
- the ability to provide collateral and the ability to service loans through operating cash flow; and
- whether the client is involved in any activities that are prohibited under the terms of CBM's borrowing arrangements with EBRD, IFC and BSTDB.

CBM has established procedures for approving loans and monitoring loan quality and for the extension and refinancing of existing loans. These procedures are set out in CBM's credit policy, established by CBM's Management Board. The credit policy sets out the framework for the provision of loans and clearly defines the criteria for the evaluation of potential and existing customers. CBM's credit policy also creates the framework for lending to corporate clients, requiring sufficient categories and values of security to be taken by CBM in respect of the loans that it originates in order to satisfy certain liquidity thresholds.

Corporate Loan Approval Process

CBM's Corporate Client Directorate and Corporate Lending Department analyse loan applications and prepare a borrower's creditworthiness report. The Risk Division then analyses the loan application and assesses the credit risks based on the reports of CBM's respective units on the borrower's corporate credit risk, collateral, legal risks and reliability. CBM's assessment procedure for corporate loans is ratings-based. The Risk Division of CBM also meets the borrower's management and undertakes site visits. The value of the collateral offered by the borrower is generally evaluated by CBM's Collateral Appraisal and Monitoring Service of Risk Division. CBM employs external specialists

in cases where it requires additional capacity. CBM also assesses the feasibility of the proposed use of the loan with regard to its capacity to generate revenue to fund the repayment of the loan.

The level of authorisation required for risk approval of corporate loans, depends on the amount of credit risk and the extent to which a particular transaction deviates from CBM's standard lending terms. Loans provided for an amount:

- not exceeding RUB 100 million, are approved by the Vice-President of CBM;
- not exceeding RUB 150 million, are approved by the First Vice-President;
- not exceeding RUB 200 million, are approved by the Deputy Chairman of the Management Board or by the First Deputy Chairman of the Management Board;
- exceeding RUB 200 million, and up to RUB 1 billion, are approved by the Smaller Credit Committee; and
- exceeding RUB 1 billion, and up to RUB 2 billion, are approved by the Main Committee.

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

Retail Loan Approval Process

CBM divides potential retail borrowers into different categories when reviewing their applications, with CBM's employees being the lowest risk, together with employees of publicly listed companies, clients with a good credit history (internal or external), public sector workers, and employees of certain corporate clients of CBM. CBM also lends to "walk-in" retail customers not connected with CBM, but subject to a more rigorous risk-evaluation procedure. See "*Business – Retail Banking*".

CBM assesses retail customers using a credit scoring methodology by which applicants are rated according to established criteria including the applicant's age, income, place of employment, employment history and credit history. Each criterion has a certain weighting depending on its performance and the credit decision is taken on the basis of the applicant's resulting credit score.

Decisions as to whether to approve a retail loan are made at different levels within CBM depending on the customer's credit limit. All applications are examined by an underwriter. Approval by at least two employees of CBM's Underwriting Department are required to approve a retail loan.

Various authorised persons within CBM have authority to approve retail loans, including the Head of the Underwriting Department, Director of Retail Business Directorate, First Deputy Chairman of the Management Board, Vice-President of Retail Network Directorate or heads of relevant units of the Underwriting Department of the Retail Business Directorate, subject to specified limits depending on the credit product type and standards applicable to such product.

Authority to approve loans of more than RUB 1 million is granted to particular persons by decision of the Management Board. Authority to approve loans of more than RUB 10 million is subject to approval either by the Credit Committee or by the Management Board. The Credit Committee comprises representatives from the Risk Division, Retail Business Directorate, Loan Recovery Department and Legal Division. Authority limits of Deputy Chairmen of the Management Board are set individually.

CBM's review of loan applications by product has several particular features:

- Pledged real estate is analyzed by the Legal Division and property with collateral value exceeding RUB 15 million is additionally appraised by the Collateral Appraisal and Monitoring Service of the Risk Division.
- Applications for loans for the purpose of purchasing commercial property and loans guaranteed by legal entities are reviewed by the Risk Division regardless of the amount.
- Applications for different types of loans have different threshold amounts, depending on which they can be qualified as applications subject to mandatory review by the Risk Division. For example, general-purpose loans filed by business owners are reviewed by the Risk Division when exceeding RUB 3 million, and mortgage loans are reviewed by the Risk Division when exceeding RUB 10 million).
- Applications, the analysis of which differs from the standard decision-making procedure, are escalated to a higher level of approval.

CBM regularly improves the procedure for making credit decisions, taking into account market trends and focusing on improving the efficiency of the retail loan portfolio and the reduction of credit risks.

In 2012, CBM introduced several new procedures to retail loan approval. These included making the complexity of verification dependent on an applicant's score, maintaining lists of companies with high or low credit risk employees, introducing a cross-sale strategy, the implementation of new authorisation limits and introducing new risk-based pricing.

The borrower appraisal process for retail loans includes the following steps:

- prioritisation of applications;
- review of the document package provided for accurate, and compliance with CBM's requirements;
- review of the borrower's credit history;
- verification of the information supplied;
- review of the applicant's capacity to adequately service the proposed borrowing;
- appraisal of the applicant's income and future stability of such income;
- analysis of the applicant's monthly expenses (i.e., current debt servicing), and disposable income available for servicing debt;
- calculation of the appropriate credit limit;
- with respect to mortgage loans, verification of the title and the enforceability of any pledged security, verification of the seller's authorisation to sell the property and verification of compliance with land use regulations, with the involvement of CBM's Collateral Evaluation and Monitoring Service, part of the Risk Division, where the value of the pledged collateral is over RUB 15 million (in which cases site visits may also be performed);
- preparation of an analyst's report, determining the applicant's eligibility and confirmation of the correct completion of the relevant documentation; and
- approval by the authorised person.

As part of its retail loan approval process, CBM utilises the services of several credit bureaus in Russia that maintain databases of retail borrowers' credit histories.

Collateral

To minimise risks and as required by existing regulations, CBM has an internal requirement that all corporate loan products and some retail loan products must be secured by either a pledge of assets or a corporate guarantee. Collateral is evaluated by the Risk Division's Collateral Appraisal and Monitoring Service and evaluation and suitability reports are prepared internally by the Collateral Appraisal and Monitoring Service) and/or independent experts or accredited independent appraisal companies. Collateral is also subject to the Legal Division's legal opinion.

Under its collateral policy, the Bank accepts as security any commercial and residential property, plots of land, combined property, equipment, vehicles (including self-propelled ones), inventory, property interests, claims, shares, participatory interests, securities, participation units and debt securities. The collateral portfolio is revaluated and maintained on the basis of regular on-site visits and reports by the Collateral Appraisal and Monitoring Service. As at 31 December 2012, approximately 55.1% of CBM's corporate loan portfolio was secured by a pledge of assets, with a majority of the remainder being secured by a corporate guarantee.

For CBM's retail loans, mortgage loans are secured by the underlying real estate and car loans are secured by the underlying car. Credit card overdrafts and general purpose consumer loans are unsecured.

The following table sets out information on collateral securing loans to CBM's corporate customers, net of impairment, by types of collateral as at 31 December 2012 and 31 December 2011. Such information is not available as at 31 December 2010.

	<i>As at 31 December</i>	
	<i>2012</i>	<i>2011</i>
	<i>(RUB thousands)</i>	
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 receivable	12,034,429	5,052,161
Equipment and motor vehicles	6,128,842	5 863,536
CBM's own debts	-	5,377,645
Guarantees by other banks	344,878	344,561
Corporate guarantees and no collateral	68,476,923	58,338,182
Total loans to corporate customers	152,482,305	130,219,851

Loan Portfolio Monitoring and Control

CBM monitors its loan portfolio at three levels:

- **General monthly macro-monitoring.** This process involves the assessment of the overall loan portfolio quality, including the total number and amount of overdue loans, breakdown of loans by risk groups, regional, industrial, currency and product breakdown, the observance of limits and an assessment of the overall profitability.
- **Micro-monitoring.** This process involves the analysis of individual loans by monitoring a borrower's compliance with its lending restrictions, and monitoring its repayment profile (including the time of repayments and identifying any deterioration in credit quality). CBM's strong cash collection and delivery franchise gives it a good insight into the financial condition of some of its customers and CBM uses this insight to adjust its exposure to certain of its corporate customers based on an analysis of the dynamics of the customers' revenues. CBM is in a position to identify potential problems at an early stage by monitoring the customers' cash flows through its cash collection and delivery activities.
- **Collateral monitoring.** This is required on a continuous basis by internal regulations to confirm the actual condition and value of collateral, and timely identify any possible legal risks which could affect the quality of the collateral portfolio. The Collateral Appraisal and Monitoring Service reports any breaches identified to CBM's authorised bodies and recommends how to mitigate the risk of loss of collateral.

Loan Recovery

CBM has certain loan recovery procedures to deal with both corporate and retail loan customers that have been identified as problematic loan customers. These functions are performed both internally by CBM and by external agencies. Retail loan recovery consists of the following multi-stage procedure:

- **"Zero-stage".** From 10 days prior to the due date, CBM sends 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.
- **Soft collection.** From up to 60 days past the due date, CBM's call centre contacts borrowers from the first day past the due date, for confirmation of payment or fraud detection. This procedure is aimed at motivating the customer to repay the debt.
- **Hard collection.** From 60 days past the due date, or earlier in the case of fraud, the loan recovery process is delegated to CBM's collection service that works with CBM under an agency agreement. The procedure for claiming the debt includes negotiating with the borrower or guarantor, mailing an official claim to the borrower, commencing pretrial proceedings and visiting the client in attempt to negotiate an out of court settlement.
- **Legal.** If hard collection does not produce the required results, CBM institutes court proceedings, court enforcement proceedings, arrest of pledge and sale of property.

Corporate loan recovery is dealt with on a case-by-case basis. It may include court proceedings, loan restructuring, arrest and sale of collateral, arrest of accounts or working with receivables assigned or with guarantors. Corporate loan recovery is also performed by a collection service that receives from CBM registers of past due loans once they are recognised as such by CBM's Credit Committee.

Loan Portfolio Lending Limits

To limit its credit risk exposure, CBM has set limits in respect of credit risk by reference to product, type of collateral, geographical and industry concentrations. These limits are contained in covenants that CBM is subject to in certain of its financing arrangements. The most significant of such lending limits are:

- No economic industry sector may represent more than 20% of CBM's total gross corporate loan portfolio.
- CBM's exposure to an economic group (a single borrower or group of related borrowers) may not exceed 20% of CBM's total capital.
- CBM's aggregate exposure to all economic groups to which CBM individually has exposure in excess of 10% of CBM's total capital may not exceed 400% of CBM's total capital.
- CBM's total volume of point-of-sale consumer loans may not exceed 15% of CBM's total capital.
- CBM's internal limits for related party transactions are 5.0% of CBM's assets or 15% of CBM's total capital.

As at 31 December 2012, CBM's largest single borrower (grouped by holding company) to which it was exposed accounted for RUB 5.4 billion or 2.6% of CBM's gross loan portfolio, compared to RUB 4.5 billion or 2.8% of CBM's gross loan portfolio as at 31 December 2011 and RUB 2.4 billion or 2.3% of CBM's gross loan portfolio as at 31 December 2010. CBM's largest related party lending exposure as a percentage of total capital was 0.9% as at 31 December 2012, 0.3% as at 31 December 2011 and 2.3% as at 31 December 2010.

Loan Classification, Provisioning and Write-offs

CBM classifies loans overdue by 90 days or more as NPLs. CBM's loan portfolio also includes loans that have been renegotiated and would otherwise be past due or impaired. Such renegotiating activity typically includes agreeing a new repayment schedule with the borrower that enables the borrower to return to the original repayment schedule and is aimed at managing customer relationships and maximizing the quality of the loan portfolio. Renegotiated loans are included in loans not past due unless the borrower is unable to comply with the renegotiated terms.

CBM aims to identify potential NPLs at an early stage and has established an internal policy on dealing with potential and actual NPLs. CBM writes off its NPLs and the respective allowances for impairment only if it believes that actions to recover debt would imply more costs than the amount recovered. Under CBM's internal policy, an NPL can be written off on the basis of the relevant credit committee's decision if the amount of the debt is less than 1% of CBM's own capital, or on the basis of a decision by the Management Board if the debt amount is over 1% of CBM's own capital, provided that there are documents evidencing the impossibility of recovering the debt, such as judicial orders or documents issued by state authorities.

The level of CBM's NPLs as a percentage of total loans to customers was 1.0%, 1.1% and 1.5% as at 31 December 2012, 2011 and 2010. NPLs in CBM's corporate loan portfolio accounted for 0.2% of total loans to corporate customers as at 31 December 2012, as compared to 0.4% as at 31 December 2011 and 0.5% as at 31 December 2010. NPLs in CBM's retail loan portfolio accounted for 3.2% of total loans to retail customers as at 31 December 2012, as compared to 4.3% as at 31 December 2011 and 6.5% as at 31 December 2010.

NPLs together with renegotiated loans amounted to RUB 2.2 billion, or 1.1% of the gross loan portfolio, as at 31 December 2012, as compared to RUB 2.7 billion, or 1.6% of the gross loan portfolio and RUB 2.9 billion or 2.7% of the loan portfolio, as at 31 December 2011 and 2010, respectively.

CBM's ratio of total impairment allowance to overdue loans (classified as overdue by one day or more) was 151.0%, 141.5% and 128.0% as at 31 December 2012, 2011 and 2010, respectively. CBM's ratio of total impairment allowance to NPLs was 238.9%, 208.6% and 171.6% as at 31 December 2012, 2011 and 2010, respectively.

CBM regularly sells its NPLs to third parties. Under IFRS, such sales are treated as loans written off.

See Note 13 to the 2012 Financial Statements, Note 13 to the 2011 Financial Statements and Note 12 to the 2010 Financial Statements and *“Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for the Years Ended 31 December 2012 and 2011 – Allowance for Impairment of Loans”*, *“Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for the Years Ended 31 December 2011 and 2010 – Allowance for Impairment of Loans”*, and *“Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Total Assets – Loans to Customers – Non-performing Loans”*, *“– Renegotiated Loans”* and *“– Allowance for Loan Impairment.”*

Market Risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and securities prices will affect income or the value of portfolios. Market risk, *inter alia*, comprises currency risk, interest rate risk and securities portfolio risks. Market risk arises from open positions in interest rates, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

CBM manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. Limits and positions are monitored on a regular basis and reviewed and approved by CBM's ALCO. In addition, CBM uses stress tests to model the financial impact of different market scenarios. CBM keeps a securities portfolio largely as a liquidity cushion.

Currency Risk

Since CBM's assets, liabilities and other commitments are denominated in several currencies, it is exposed to currency risk as a result of the effects on its financial position and cash flows of fluctuations in the prevailing foreign currency exchange rates. CBM's currency risks primarily arise in the context of raising funds in foreign currency and that the majority of its operations are undertaken in the domestic currency

CBM conducts foreign exchange activities both for its own account and on behalf of customers. In the year ended 31 December 2012, CBM had a net foreign exchange loss of RUB 208.2 million, a net gain of RUB 255.0 million and a net gain of RUB 232 million in 2011 and 2010, respectively. CBM uses currency forwards to hedge its foreign currency exposure and to manage its liquidity position. CBM does not engage in derivative transactions for speculative purposes.

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

- CBM's compliance with CBR Instruction #124-I is ensured by the Treasury Department checking that CBM's open foreign currency position in certain foreign currencies and precious metals is below 3% of CBM's equity capital which is an internal limit of CBM that is significantly below the 10% limit of CBR Instruction #124-I.

- Limits are set on the amount of CBM's open position in each currency and are regularly reviewed using the VAR method and limits on losses connected with unfavourable currency exchange rates changes are set (stop-loss limits).
- CBM uses an automated system controlling the amount of its open foreign currency position.

These measures allow CBM to minimise the influence of currency risk on its performance.

The table below sets out the exposure of CBM's assets and liabilities to foreign currency risk as at 31 December 2012 and 2011.

	As at 31 December							
	2012				2011			
	<i>RUB</i>	<i>USD</i>	<i>Other curren- cies</i>	<i>Total</i>	<i>RUB</i>	<i>USD</i>	<i>Other curren- cies</i>	<i>Total</i>
	<i>RUB thousands</i>							
Assets								
Cash and cash equivalents	36,895,4	6,526,49	4,037,16	47,459,0	28,513,4	2,853,8	3,066,0	34,433,4
Obligatory reserves with the Central Bank of the Russian Federation.....	21	3	1	75	66	89	64	19
Due from credit institutions.....	2,545,77			2,545,77	2,259,17			2,259,17
Financial instruments at fair value through profit or loss	2	-	-	2	0			0
Available-for-sale securities	9,493,74	3,027,05		12,520,7	1,620,33	3,262,8	418,207	5,301,41
Loans to customers	1	0	-	91	2	73		2
Property and equipment.....	29,849,1	1,835,68		31,684,8	20,994,4	1,789,3		22,783,7
Other assets	29	7	-	16	42	18		60
Total assets	3,213,55	2,234,03		5,447,59	1,483,93			2,030,67
Deposits by the Central Bank of the Russian Federation	7	7	-	4	0	546,748		8
Deposits by credit institutions	166,113,	28,419,9	6,701,06	201,234,	132,935,	18,186,	7,898,5	159,019,
Deposits by customers	500	60	2	522	173	054	94	821
Debt securities issued	6,079,62			6,079,62	4,969,93			4,969,93
Income tax liability.....	0	-	-	0	2			2
Other liabilities	1,688,14			1,755,19	1,494,06			1,572,56
Total liabilities	9	32,264	34 782	5	3	38,388	40,110	1
Total assets	255,878,	42,075,4	10,773,0	308,727,	194,270,	26,677,	11,422,	232,370,
	889	91	05	385	508	270	975	753
Deposits by the Central Bank of the Russian Federation	10,459,9	21,701,9	3,021,86	35,183,7	6,504,53	16,752,	1,707,1	24,964,1
Deposits by credit institutions	68	01	4	33	9	464	25	28
Deposits by customers	167,087,	14,271,8	7,654,72	189,014,	123,628,	12,883,	10,178,	146,690,
Debt securities issued	563	18	3	104	785	207	894	886
Income tax liability	33,959,9	6,043,17		40,013,7	24,407,3	6,700,5		31,118,8
Other liabilities	10	8	10,702	90	70	68	10,931	69
Total liabilities	2,734,41			2,734,41	2,090,26			2,090,26
Spot contracts	1	-	-	1	7	-	-	7
Net position	2,178,77			2,489,05	1,			1,898,69
Deposits by the Central Bank of the Russian Federation	4	171,752	138,528	4	840,441	28,413	29,843	7
Deposits by credit institutions	216,420,	42,188,6	10,825,8	269,435,	158,471,	36,364,	11,926,	206,762,
Deposits by customers	626	49	17	092	402	652	793	847
Debt securities issued	(1,558,52	786,652	771,876	-	(9,606,6	9,606,6	-	-
Income tax liability	8)			-	35)	35	-	-
Other liabilities	37,899,7	673,494	719,064	39,292,2	26,107,9	3,744	(503,81	25,607,9
Spot contracts	35			93	80	3,744	8)	06
Net position								

The table below sets out the exposure of CBM's assets and liabilities to foreign currency risk as at 31 December 2010.

As at 31 December 2010

	<i>RUB</i>	<i>USD</i>	<i>Other currencies</i>	<i>Total</i>
	<i>RUB thousands</i>			
Assets				
Cash and cash equivalents	17,550,107	1,887,758	3,898,561	23,336,426
Obligatory reserves with the Central Bank of the Russian Federation	756,584	–	–	756,584
Due from credit institutions	150,000	235,303	201,665	586,968
Financial instruments at fair value through profit or loss	25,415,750	2,059,403	–	27,475,153
Available-for-sale securities	4,333,762	127,883	–	4,461,645
Loans to customers	84,589,069	13,853,038	5,410,202	103,852,309
Property and equipment	4,255,117	–	–	4,255,117
Other assets	668,208	75,648	2,585	746,441
Total assets	137,718,597	18,239,033	9,513,013	165,470,643
LIABILITIES				
Deposits by the Central Bank of the Russian Federation	–	–	–	–
Deposits by credit institutions	15,463,943	10,978,350	1,420,991	27,863,284
Deposits by customers	76,321,425	8,341,260	8,893,095	93,555,780
Debt securities issued	27,681,738	702,440	399,166	28,783,344
Income tax liability	636,140	–	–	636,140
Other liabilities	853,417	9,263	2,320	865,000
Total liabilities	120,956,663	20,031,313	10,715,572	151,703,548
Net position before hedging	16,761,934	(1,792,280)	(1,202,559)	13,767,095
Spot contracts	(2,263,026)	1,316,113	946,913	–
Net position	14,498,908	(476,167)	(255,646)	13,767,095

Interest Rate Risk

CBM is exposed to interest rate risk, which is the risk of changes to CBM's financial condition or results of operations based on adverse movements in interest rates, when it lends to customers at interest rates, in amounts and at maturities that differ from the interest rates, amounts and maturities at which CBM attracts funding. Although most of CBM's assets and liabilities have fixed interest rates, the terms of CBM's main corporate loan products with terms of over one month generally provide for CBM's right to revise interest rates in accordance with market benchmark trends. However, this right is only exercised in extreme situations.

Fluctuations in interest rates have an impact upon the operations of CBM. Over the periods under review movements in short- and long-term interest rates have affected both CBM's interest income and interest expense, as well as CBM's level of gains and losses on its securities portfolio. From 2002 until the second half of 2007, borrowing conditions for Russian borrowers in the international markets were generally favourable, but they became more challenging amidst the global financial crisis. For example, in January 2008, the average rouble lending rate on the Russian interbank market was 3.0%, while in January 2009, it increased to 15.3%. At the end of 2009, 2010, 2011 and 2012, the interbank lending rates were 5.4%, 3.2%, 3.9% and 5.4%, respectively.

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

To minimise the impact of adverse interest rate fluctuations on CBM's financial results, CBM performs statistical analyses and makes projections to determine the optimal allocation of CBM's assets and the composition of its liabilities. CBM manages interest rate risk by maintaining an interest margin (including an interest risk component), by matching funding and exposures with floating and fixed interest rates, and by matching maturities.

The table below sets out CBM's exposure to interest rate risk, based on matching maturities of interest-bearing assets and liabilities, as at 31 December 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>	<i>Total</i>
<i>RUB thousands</i>					

As at 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
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As at 31 December 2011

Interest-bearing assets.....	25,742,936	66,905,576	29,718,988	78,704,652	1,486,900	202,559,052
Interest-bearing liabilities	23,680,936	51,799,268	54,273,753	49,427,278	-	179,181,235

Net interest sensitivity gap as

at 31 December 2011.....	2,062,000	15,106,308	(24,554,765)	29,277,374	1,486,900	23,377,817
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See Note 28 to the 2012 Financial Statements, Note 28 to the 2011 Financial Statements and Note 29 to the 2010 Financial Statements.

Securities Portfolio Risk

Securities portfolio risk is the risk of changes in the value of securities as a result of interest rate or price movements. CBM's securities portfolio, which it actively trades, consists primarily of Russian government and municipal securities, corporate bonds and promissory notes of Russian banks. CBM's total amount of financial instruments at fair value through profit or loss as at 31 December 2012 was RUB 31.7 billion, as compared to RUB 22.9 billion as at 31 December 2011 and RUB 27.5 billion as at 31 December 2010. Available-for-sale securities as at 31 December 2012 were RUB 5.4 billion, as compared to RUB 2.0 billion as at 31 December 2011 and RUB 4.5 billion as at 31 December 2010.

As at the date of this Prospectus, more than 91% of CBM's total bond portfolio consisted of highly liquid bonds from the CBR Lombard and Repo lists, which are eligible for repo transactions, which gives CBM the flexibility to seek liquidity from the CBR if required, but also reflects the fact that the securities can be relatively easily exchanged for cash in the relevant market.

CBM has established internal limits applicable to proprietary transactions in respect of individual issuers of bonds and promissory notes, interbank limits, and limits on the total volume of equity and debt instruments. The limits are established by the Risk Division and approved by ALCO, taking into consideration CBM's liquidity position and various liquidity management scenarios. CBM has a general policy of not investing in equity securities. CBM's equity investments are insignificant and limited to liquid shares of Russian blue chips. Equity securities represented 0.07% of CBM's total securities portfolio as at 31 December 2012, as compared to 0.1% and 0.2% as at 31 December 2011 and 2010, respectively.

See "Management's Discussion and Analysis of Financial Condition and Result of Operations – Total Assets – Securities Portfolio" and "Business – Financial Markets, Treasury and Trading Securities".

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. CBM is exposed to several types of operational risk, including unauthorised transactions by employees, operational errors by employees such as clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems and the risk that CBM will be used for money laundering and financing of terrorist activities. To manage its operational risks, CBM has an Operational Risk Control Department, which is part of the Internal Control Division. The Internal Control Division reports directly to the Supervisory Board and conducts internal audits of CBM on an ongoing basis.

The aims of the Operational Risk Control Department are to obtain an operative and fair view of the state and extent of the operational risks facing CBM, evaluate the risk both qualitatively and quantitatively, identify the risk at an early stage and respond so as to prevent the risk from reaching levels that are considered substantial for CBM.

CBM's approach to dealing with operational risk is set out in the Operational Risk Management Policy, which implements Russian statutory requirements, recommendations of the CBR and the Basel Committee on Banking Supervision, and internationally recognised principles. CBM uses both qualitative and quantitative tools to identify, evaluate, monitor and minimise risks. CBM gathers data on operational risk occurrences, continuously controls the risk level based on key risk indicators, and CBM's organisational units carry out self-assessment of risk and subsequently provide operational risk mapping across CBM.

To minimise its operational risks, CBM recruits qualified staff, provides training, updates operational procedures, monitors the security of its IT systems and ensures that its infrastructure systems are robust. Furthermore, CBM decreases its operational risk level by insuring its assets.

The efficiency of the arrangements put in place is controlled under the existing internal control system and is compliant with CBR regulations and recommendations of the Basel Committee on Banking Supervision.

Procedures for Prevention of Money Laundering and Terrorist Financing

CBM's anti-money laundering measures are based on relevant Russian legislation and international requirements for internal control in the area of anti-money laundering and combating financing of terrorism. CBM has procedures aimed at preventing money laundering and financing of terrorist activities, including a general anti-money laundering policy, internal control procedures that include a refusal policy whereby CBM refuses to conduct business with suspicious entities or individuals and rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities, as well as procedures for regular reporting to the FSFM.

CBM's procedures relating to the prevention of money laundering and financing of terrorist activities include "know-your-customer" procedures which require clear identification of clients, verification of their identities and evaluation of the risk that they may be involved in money-laundering activities or terrorist financing; detection of transactions that the Russian anti-money laundering legislation places under compulsory control, as well as suspicious transactions and activities; reporting; record-keeping; confidentiality; and training of personnel. CBM's "know-your-customer" procedures are designed to help recognise suspicious activity in a timely manner, to minimise the risk that CBM will be used as a channel for illegal activities of any kind, to prevent establishment of banking relationships with a clients until its true identity is known and to identify unusual or suspicious transactions or transactions inconsistent with the information that CBM has about the client or its regular business activities. See *"Risk Factors – Risks Relating to CBM's Business and Industry – CBM's measures to prevent money laundering and/or terrorist financing may not be completely effective"*.

CBM uses an automated monitoring system that identifies client transactions, which are subject to mandatory control or appear suspicious in nature. A main priority of the internal monitoring system is the development of a risk-oriented approach, which is the primary means for increasing the operational efficiency of internal control mechanisms and procedures. The following measures are taken by CBM in its risk-oriented approach, in accordance with Financial Action Task Force on Money Laundering ("**FATF**") requirements:

- paying particular attention when establishing correspondent relationships with, and performing transactions with, foreign banks incorporated in jurisdictions offering beneficial tax regimes and/or requiring no disclosure of information on financial transactions (offshore jurisdictions);
- not having accounts with banks incorporated in jurisdictions which do not comply with the recommendations of FATF;
- not establishing correspondent relationships with shell banks, which are incorporated in a jurisdiction in which they have no physical presence or in a jurisdiction with no permanent regulatory authorities; and
- taking measures to prevent the establishment of correspondent relationships with banks that are known to have correspondent relationships with banks incorporated in jurisdictions with no permanent regulatory authorities.

CBM's Anti-Money Laundering Officer is responsible for CBM's anti-money laundering internal controls and reports directly to the Chairman of the Management Board. The Anti-Money Laundering Officer is the head of CBM's Financial Monitoring and 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).

Reputational Risk

Reputational risk has the potential to negatively affect revenue, as a negative perception of CBM's creditworthiness, reliability, quality of services and its general trustworthiness may lead to a reduction in the number of customers. The possibility and amount of reputational risk-connected losses depend on the risk level in the Russian banking sector on the whole.

Financial Rehabilitation Plan

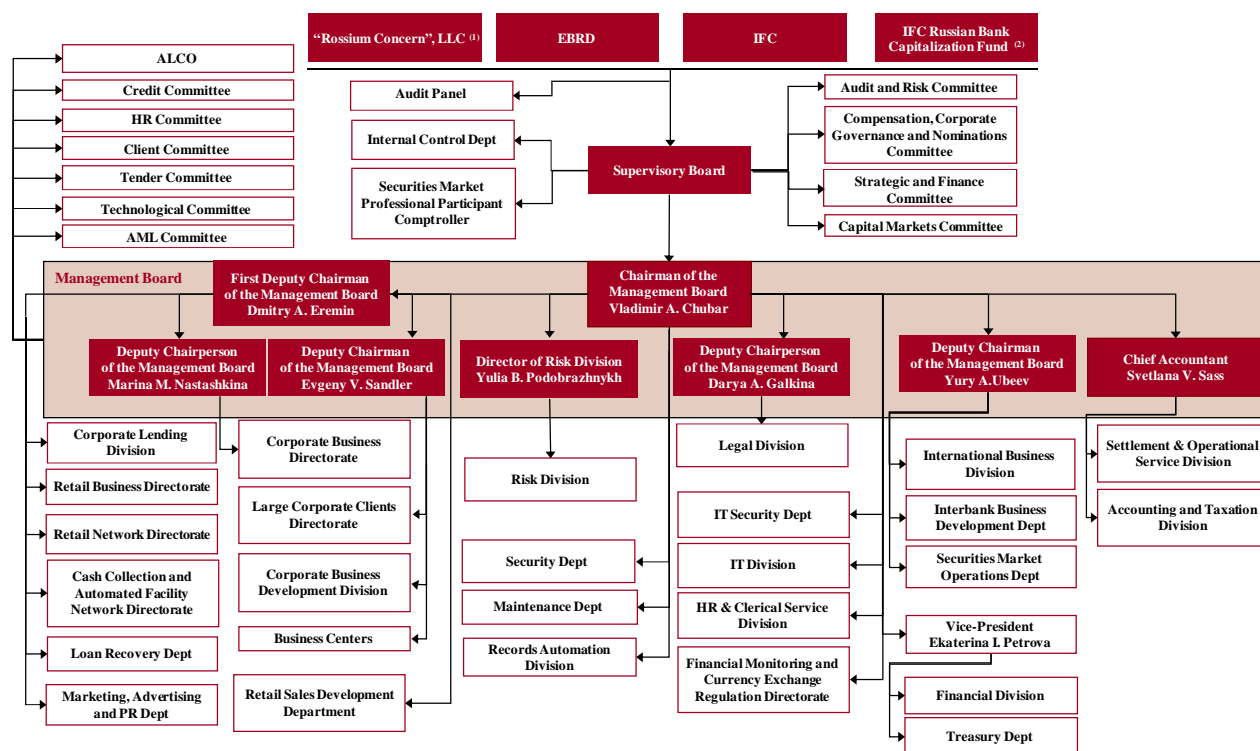
On 11 April 2013, the Supervisory Board approved the Rehabilitation Plan of Credit Bank of Moscow (the "**Rehabilitation Plan**"). The Rehabilitation Plan sets out measures which may be implemented by CBM in the event that it breaches Russian legal and regulatory requirements relating to mandatory ratios or the occurrence of a Loss Absorption Event (as defined in *"Banking Regulation in Russia – Capital Requirements – Subordinated Debt – New Requirements Under Regulation 395-P"*). The main objectives of the Rehabilitation Plan include developing measures aimed at recovering CBM's financial stability and maintaining the continuity of CBM's operations in the event of a significant deterioration in its financial condition and assessing CBM's ability to withstand stressful situations and support its operations through means not related to attracting funds from government entities. The Rehabilitation Plan was prepared based on a set of scenarios based on a variety of stress tests, and it contains conditions in the event of

which implementation of the scenarios should be started. The Rehabilitation Plan defines the sequence of actions of the management of CBM and terms and conditions under which the shareholders and creditors of CBM are involved in overcoming crisis situations related to significant deterioration of the financial standing of the Bank. The Rehabilitation Plan was prepared based on stress tests taking into account risks specific to CBM and risks affecting the Russian banking sector in general. According to the Rehabilitation Plan, specific measures which may be implemented by CBM depend on the particular circumstances and may generally include: limiting the authority of management bodies and officers of CBM in respect of liquidity management (allocation); a moratorium on lending, investing in financial instruments and paying dividends; agreeing early repayments with major borrowers; creation of liquidity reserves in an amount not less than 15% of the assets of CBM; selling liquid assets (such as securities, precious metals), non-core assets (such as real property, motor vehicles and equipment) and homogeneous loan pools; debt restructuring; asset restructuring (including sale of high risk assets and reduction of assets maturity); cutting major expense items (such as advertising, bonuses and remuneration); shutting down branches and sales offices; and resorting to CBM's shareholders for financial support for, *inter alia*, increasing CBM's Tier 1 capital and Tier 2 capital and conversion of subordinated debt into Tier 1 capital. CBM's controlling shareholder, Rossium Concern (owned by Roman Avdeev), has undertaken in a support letter dated 18 April 2013 to, among other things, provide financial support to CBM in the event that the implementation of the actions provided for in Clause 8 (*Loss Absorption*) of the Subordinated Loan Agreement prove insufficient to rectify the grounds which caused the occurrence of a Loss Absorption Event (as defined in the Subordinated Loan Agreement). CBM believes that it has satisfied the shareholder assistance commitment requirement in Regulation 395-P by virtue of the Rehabilitation Plan and the support letter from Rossium Concern. See "*Banking Regulation in Russia – Capital Requirements – Subordinated Debt – New Requirements Under Regulation 395-P*".

MANAGEMENT

Overview

The governance of CBM consists of various levels and sub-levels, each responsible for different aspects of CBM's overall activities. The following sets out the management structure of CBM and its corporate governance reporting lines.



Notes:

- (1) Owned by Roman Avdeev via Wellcreek Corporation (87.5556%), Roman Avdeev directly (12.4364%), Galina Avdeeva (mother of Roman Avdeev) (0.0039%) and Ivan Avdeev (father of Roman Avdeev) (0.0041%).
- (2) Shares are legally owned by RBOF Holding Company I Ltd., a wholly-owned subsidiary of IFC Russian Bank Capitalization Fund, LP, which forms a group of companies with IFC. IFC Russian Bank Capitalization Fund is managed by IFC Asset Management Company LLC, a wholly-owned subsidiary of IFC, for the benefit of IFC, Vnesheconombank and the Russian Government, each of which contributed to the capital of the fund.

The highest level of governance is conducted through the General Shareholders' Meeting, the ultimate decision-making body. The General Shareholders' Meeting elects the Supervisory Board, which is responsible for the general governance of CBM, including the determination of strategy, coordination and general supervision thereof. The Supervisory Board elects the Management Board, which is the collegial executive body of CBM, and appoints the Chairman of the Management Board, which is the sole executive body of CBM. The Chairman of the Management Board and the Management Board as a whole are responsible for the day-to-day operations of CBM.

CBM continuously looks for ways to improve its internal governance and business processes and to adjust their functioning in response to challenging market conditions, while not compromising the business objectives of CBM.

General Shareholders' Meeting

The General Shareholders' Meeting is CBM's supreme governance body. The Supervisory Board convenes a shareholders' meeting at least once a year. Only the General Shareholders' Meeting can make decisions in respect of:

- alteration of CBM's charter except in instances specifically provided for by law;
- reorganisation and liquidation of CBM, appointment of a liquidation committee and approval of interim and final liquidation balance sheets;
- determination of the composition of the Supervisory Board, election of its members and early termination of their powers;
- determination of the amount, nominal value and type of authorised shares as well as the rights attached to these shares;
- increases in the instances provided by CBM's charter and reductions of CBM's charter capital;
- election of the Audit Panel and appointment of CBM's external auditor;

- approval of dividends;
- approval of annual statutory accounts and reports;
- approval of CBM's participation in financial groups and associations; and
- certain other matters provided for by law.

Supervisory Board

The Supervisory Board is responsible for general governance matters, with the exception of those matters that are designated by law and by CBM's charter as being the exclusive responsibility of the General Shareholders' Meeting. The Supervisory Board makes its decisions by simple majority so long as a quorum of at least half of the elected members of the Supervisory Board is present, unless otherwise required by law or CBM's charter. The Chairman of the Supervisory Board has a casting vote. The Supervisory Board meets on a regular basis, typically several times a month. CBM's shareholders elect members of the Supervisory Board until the next annual shareholders' meeting, and such members may be re-elected an unlimited number of times. There is no fixed term of office for Supervisory Board members. The Supervisory Board currently has 12 members. The last election of the Supervisory Board took place on 28 November 2012, at which William Owens and Vadim Sorokin were newly elected as members.

Pursuant to the terms of the shareholders agreement entered into among Rossium Concern, Wellcreek Corporation, Roman Avdeev, EBRD, IFC and RBOF Holding Company I Ltd dated 20 July 2012 and amended and restated on 6 December 2012 (the “**Shareholders Agreement**”), EBRD is entitled to nominate one member to the Supervisory Board and either IFC or the IFC Russian Bank Capitalization Fund is entitled to nominate one member to the Supervisory Board. As of the date of this Prospectus, neither IFC nor the IFC Russian Bank Capitalization Fund has exercised this right. In addition, pursuant to the terms of its subordinated loan agreement with CBM, BSTDB is entitled to nominate one member to the Supervisory Board. See “*Shareholders*”.

The name, position and certain other information for each member of the Supervisory Board are set forth below.

<i>Name</i>	<i>Year of Appointment to Supervisory Board</i>	<i>Position</i>
William Owens	2012	Chairman, Independent Non-executive Director
Sandy Vaci	2008	Independent Non-executive Director
Richard Glasspool	2008	Independent Non-executive Director
Genadi Lewinski	2010	Independent Non-executive Director
Andrew Gazitua	2012	Independent Non-executive Director
Mustafa Boran	2011	Independent Non-executive Director, Nominee of BSTDB
Nikolay Kosarev	2010	Independent Non-executive Director
Roman Avdeev	2008	Executive Director, Controlling Shareholder
Alexander Nikolashin	2008	Non-executive Director
Vladimir Chubar	2010	Executive Director, Chairman of the Management Board
Vadim Sorokin	2012	Non-executive Director, Nominee of EBRD
Anton Avdeev	2010	Non-executive Director

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. Following this, between 2007 and 2012, Mr. Owens served as an independent director of Far Eastern Shipping Company (“**FESCO**”), a Russian shipping, logistics and port company which is listed on the Moscow Exchange. Mr. Owens also served as Chair of FESCO's Strategy Committee. Mr. Owens is presently Managing Director of Renew Strategies, a Colorado-based water and land development company, and serves on the boards of Key Energy Services (NYSE), Cloud Peak Energy (NYSE), Bill Barrett Corporation (NYSE) and Federal Signal Corporation (NYSE). Mr. Owens received a master's degree in public affairs from the LBJ School at the University of Texas (USA) and a Bachelor of Science degree from Stephen F. Austin State University (USA).

Sandy Vaci (born 1957) has been a member of the Supervisory Board since October 2008 and served as the Chairman from the time of his joining until April 2013. Mr. Vaci is a member of the European Financial Management Association (Paris) and the Lafferty Board (London). Mr. Vaci has 30 years of international banking experience spanning 50 countries across four continents. Mr. Vaci started his career at Procter & Gamble in North America and progressed through increasingly senior positions at Royal Trust of Canada, Canadian Imperial Bank of Commerce, Cadbury International, Citibank Global Consumer Bank, Raiffeisen International Bank-Holding AG and The Royal Bank of Scotland. Mr. Vaci has held management board positions at Citibank Global Consumer Bank and was a permanent delegate to the supervisory board of at Raiffeisen International Bank-Holding AG. His most recent position was with The Royal Bank of Scotland, as CEO of its operations in Austria and as Managing Director of its Central Eastern European operations. He was also a member of the Senior Leadership Team of The Royal Bank of Scotland Group,

Europe. Mr. Vaci's current positions include his role as a director of Bay Devonshire Limited, Partner for Board Practice at Leaders' Den (a UK-based global strategic consultancy), senior lecturer in MBA studies at the Maastricht School of Management and at the Business School of Central European University and advisor to various institutions and companies including The World Bank, Morgan Stanley, Unilever and TEVA. Mr. Vaci holds a Bachelor of Science degree from University of Victoria (Canada) and an Honours Degree from the Canadian Securities Institute.

Richard Glasspool (born 1956) has served as a member of the Supervisory Board since October 2008. Mr. Glasspool began his career with Arthur Andersen & Co. in London. He became a finance manager at Amersham International plc and was later financial controller at Extel plc. Mr. Glasspool worked at KPMG for 17 years as adviser in relation to Bulgaria, the Middle East, Poland and Russia. He was a partner at KPMG Bulgaria and at KPMG Russia and CIS. Mr. Glasspool was a non-executive director and a member of the board of directors of "RESO Garantia", a non-executive director, member of the board of directors and head of the audit committee of Sobinbank and non-executive director of SLP Engineering (UK). Mr. Glasspool is currently a director at Bowker Glasspool Consult Ltd. and a non-executive director at Offshore Group Newcastle Limited. Mr. Glasspool graduated from the University of Manchester (England) with a Bachelor of Arts (Honors) degree. In 1983 he became a Fellow of the Institute of Chartered Accountants in England and Wales.

Genadi Lewinski (born 1976) has served as a member of the Supervisory Board since April 2010. Mr. Lewinski is a member of the Advocates' Chamber of Hamm and German Bar Association and built up a successful law firm over the last four years. Mr. Lewinski is authorised as an interpreter and translator in the German, Russian and Ukrainian languages. Mr. Lewinski graduated from the University of Bielefeld (Germany) with a degree in legal studies.

Andrew Gazitua (born 1962) has served as a member of the Supervisory Board since April 2012. Mr. Gazitua started his investment banking career in 1989 with Merrill Lynch & Co in New York, transferring to London in 1992 to work in the financial institutions group. In 1999, Mr. Gazitua joined Donaldson, Lufkin & Jenrette International (subsequently acquired by Credit Suisse) as a Senior Vice President in investment banking. After leaving Credit Suisse, Mr. Gazitua joined Putnam Lovell as a Managing Director in 2003 and subsequently rejoined Merrill Lynch & Co. in 2004 as the Chief Operating Officer for the European operations of investment banking and capital markets (collectively referred to as "**Origination**"). In 2007, he assumed responsibilities for Origination for Central and Eastern Europe, Middle East and Africa ("**CEEMEA**") and became the Chief Operating Officer for Global Origination. From 2009 to 2011, Mr. Gazitua was Head of CEEMEA Corporate and Investment Banking at Bank of America Merrill Lynch. At present he holds positions on the Supervisory Board of Civitas Partners Limited and on the Board of Directors of Web Financial Group S.A. Mr. Gazitua graduated from Haverford College (USA) with a Bachelor of Arts degree.

Mustafa Boran (born 1969) has served as a member of the Supervisory Board since February 2011. Mr. Boran started his career at the Undersecretariat of Treasury of the Republic of Turkey in 1993 as an Expert. After occupying progressively responsible positions, he became Chief of the Division at the General Directorate for Foreign Direct Investments in 2000. In 2004 he moved to the Directorate General for State Economic Enterprises (SEEs). From 2006 to June 2010 he was Deputy Director General and Deputy National Authorising Officer (NAO) with the Directorate General for Foreign Economic Relations negotiating, managing, implementing and evaluating EU-funded programs in Turkey and selecting projects for financing. Mr. Boran also served as a member of the BSTDB Board of Directors for Turkey in 2006-2009. Mr. Boran currently occupies the position of Vice President for Banking in BSTDB. Mr. Boran was nominated to the Supervisory Board by BSTDB. Mr. Boran graduated from Marmara University (Turkey) and received a Bachelor of Science degree in Economics from the University of Illinois (USA).

Nikolay Kosarev (born 1950) has served as a member of the Supervisory Board since October 2010. Mr. Kosarev has been a Member of the Federation Council of the Russian Parliament since 2001, being the representative of the Tambov Regional Duma. Mr. Kosarev has been Deputy Chairman of the Federation Council Committee of Natural Resources and Environmental Protection of Russia since 2004. Mr. Kosarev graduated from Moscow State Institute of Irrigation Engineering. He received a degree of candidate of economic science from Moscow State Institute of Irrigation Engineering.

Roman Avdeev (born 1967) has served as a member of the Supervisory Board since October 2008. Mr. Avdeev was the 100% beneficial owner of CBM from June 1994 to August 2012 and is now the majority owner of CBM, holding 85% of CBM's shares. He was Chairman of CBM's Supervisory Board from August 1999 until January 2008, Chairman of the Management Board from January 2008 until November 2008 and President of CBM from November 2008 until September 2010. Prior to this, he held positions as General Director of Rossium Concern and as a member of its Board of Directors. Mr. Avdeev also has other non-bank assets, apart from his shares in CBM, which are mainly represented by commercial real estate. Mr. Avdeev graduated from Lipetsk State Technical University (Russia) with a qualification as a design engineer and a candidate of engineering science degree.

Alexander Nikolashin (born 1966) has served as a member of the Supervisory Board since October 2008 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 – President. He was the Chairman of the Management Board from 2008 to 2012 and subsequently held the position of President of CBM. In March 2013, the position of President of CBM was abolished. Prior to holding these posts, Mr. Nikolashin served as Head of CBM's Legal Department, Security Service and Cash

Collection Department. Mr. Nikolashin graduated from Saratov Higher Military Command School named after E. Dzerzhinsky and graduated as a specialist from Moscow State Social University.

Vladimir Chubar (born 1980) has served as a member of the Supervisory Board since October 2010. Since February 2012, he also holds a position of the Chairman of the Management Board of CBM. Mr. Chubar has been with CBM since 2004, and has been a member of the Management Board since 2008. From January 2010 to February 2012, Mr. Chubar served as First Deputy Chairman of the Management Board and was responsible for CBM's Financial Division, Treasury, International Business and Financial Institutions Division and IT Department. Before he was appointed to the posts mentioned above, Mr. Chubar joined CBM as a Manager in the Accounting Unit, progressing to become the Head of the Accounting Unit, Head of Financial Department, Head of Financial Division and Deputy Chairman of the Management Board. Mr. Chubar graduated as an economist from the State Finance Academy (Russia).

Vadim Sorokin (born 1969) has served as a member of the Supervisory Board since November 2012. Mr. Sorokin is a Certified Public Accountant of the American Institute of Certified Public Accountants (AICPA) and member of the Institute for Professional Auditors of Russia. Mr. Sorokin worked as CFO & VP at Aljba Alliance bank from 1995 to 1997. In 1997 he became a partner and the Head of the Financial Services Practice for the CIS at Deloitte. In 2008 he joined MDM Bank as a Deputy Chairman of the Management Board, where he supervised the bank's finance function and investor relations and led the bank's strategy development. Since 2010 he has been the CFO and a member of the Management Board and Board of Directors of Technosila. Mr. Sorokin was nominated to the Supervisory Board by EBRD, which owns 7.5% of CBM's share capital. Mr. Sorokin graduated as an economist from the State Finance Academy (Russia).

Anton Avdeev (born 1988) has served as a member of the Supervisory Board since October 2010 and was an Executive Director until March 2013. Mr. Anton Avdeev acted as Vice-President of the Corporate Client Directorate of CBM until March 2013. Mr. Anton Avdeev is the eldest son of CBM's majority shareholder, Roman Avdeev.

The business address of each member of the Supervisory Board is CBM's registered office. No actual or potential conflicts of interest exist between the duties that any member of the Supervisory Board owes to CBM and such member's private interests or other duties.

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 eight members. The name, position and certain other information for each member of the Management Board are set out below. Unless otherwise indicated, members of the Management Board do not perform any external functions. There are no fixed terms of office for Management Board members.

<i>Name</i>	<i>Year of Appointment to Management Board</i>	<i>Position</i>
Vladimir Chubar	2008	Chairman
Dmitry Eremin	2008	First Deputy Chairman
Marina Nastashkina	2012	Deputy Chairperson
Evgeny Sandler	2012	Deputy Chairman
Darya Galkina	2010	Deputy Chairperson
Svetlana Sass	2008	Chief Accountant
Yulia Podobrazhnykh	2012	Director of Risk Management Division
Yury Ubeev	2012	Deputy Chairman

Vladimir Chubar (born 1980) has served as Chairman of the Management Board since February 2012. See “–Supervisory Board”.

Dmitry Eremin (born 1978) has served as a member of the Management Board since April 2008. Mr. Eremin has been with CBM since 2002 and, as at the date of this Prospectus, he is First Deputy Chairman of the Management Board with responsibility for the corporate and retail businesses of CBM. Prior to this, he held various positions at CBM, including Head of Client Service Division, Head of Branch, Head of CBM's Sales Division and Client Service Manager at a branch. Previously Mr. Eremin worked at Commercial Bank “Raschetny Dom”.

Marina Nastashkina (born 1970) has served as a member of the Management Board since February 2012. Ms. Nastashkina joined CBM in 1998 as a client network development associate. Her experience at CBM includes holding

the positions of Unit Head, Deputy Branch Director and Branch Director. In 2009 she was appointed Vice President of the Corporate Client Directorate, and in April 2011 she became First Vice President of the Corporate Client Directorate.

Evgeny Sandler (born 1980) has served as a member of the Management Board since February 2012. Mr. Sandler joined CBM in 2008 as a Branch Director and in 2009 was appointed Vice President of the Corporate Client Directorate. Since November 2010 he has held the position of First Vice President of the Corporate Client Directorate.

Darya Galkina (born 1981) has served as a member of the Management Board since September 2010. During her career in CBM Ms. Galkina has held the positions of Principal Legal Advisor, Deputy Head of Lending Legal Support Unit, Head of Lending Legal Support Unit, Head of Business Legal Support Unit and Head of Lending Support Department. Since August 2010, Ms. Galkina has served as the Director of Legal Division. Before joining CBM, Ms. Galkina held the positions of Legal Advisor at LLC Audit firm “Troyka-Audit” and of Principal Legal Advisor at Commercial Bank “Integral”.

Svetlana Sass (born 1965) has served as a member of the Management Board since November 2008. She also holds a position of the Chief Accountant of CBM. Mrs. Sass was previously Advisor to the Chairman of the Management Board. Before joining CBM, Mrs. Sass worked at the Commercial Bank “Holding Credit” Ltd. as Chief Accountant and Financial Director.

Yulia Podobrazhnykh (born 1975) has served as a member of the Management Board since March 2012. Before joining CBM in 2003 Ms. Podobrazhnykh worked for industrial companies based in Moscow, gaining experience in corporate economics and loans. She subsequently worked in a lending unit of Sberbank of Russia.

Yury Ubeev (born 1974) has served as a member of the Management Board since October 2012. Mr. Ubeev's prior experience includes the membership of management boards of various Russian credit organisations. Mr. Ubeev joined CBM in August 2011 as Vice President of CBM and in October 2012 he was appointed a Deputy Chairman of the Management Board. Mr. Ubeev supervises CBM's international and interbank businesses and operations in the securities market. He has oversight over CBM's open-market debt programmes and projects intended to enhance CBM's performance in financial markets and to expand cooperation with Russian and foreign financial institutions.

The business address of each member of the Management Board is CBM's registered office.

No actual or potential conflicts of interest exist between the duties that any member of the Management Board owes to CBM and such member's private interests or other duties.

Independent Advisor to Chairman of the Management Board

In April 2012, CBM established the position of Independent Advisor to the Chairman of the Management Board, who is responsible for providing advice to the Chairman of the Management Board with regard to international capital markets activities by CBM and other general strategic advice to CBM. Nicholas Haag has been appointed to this role. Mr. Haag also serves as a member of the Capital Markets Committee of the Supervisory Board, although he is not a member of the Supervisory Board. Mr. Haag was educated at Eton College and also graduated from Oxford University with a 1st class degree in Modern Studies/Geography. Mr. Haag has extensive experience in private and public capital raisings and mergers and acquisitions in Europe and the emerging markets. He began his career in 1980 at Barclays De Zoete Wedd (now Barclays Capital) progressing to become Head of the Equity Syndicate. Subsequently, after several years at Nomura International he joined Paribas (now BNP Paribas) as Managing Director in equity capital markets, where he subsequently headed European investment banking origination and later built a market-leading technology sector banking group. From 1999 to 2007, Mr. Haag held senior positions in technology banking at ING Barings and ABN AMRO (London) where he was a senior Managing Director. From 2008 to 2012 he was a Managing Director and head of UK Equity Capital Markets at Royal Bank of Scotland/Hoare Govett, in charge of, among other things, all IPO activities by domestic UK and foreign companies raising capital in London. Mr. Haag is also a member of advisory and/or investment committees at various UK educational institutions.

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 of which he is the 100% owner. MCB Capital has no legal relationship with CBM. The main task of MCB Capital is to carry out management functions in respect of businesses owned by Mr. Avdeev. MCB Capital does not have a formal role in the corporate governance structure of CBM, although it participates in determining the development strategy of CBM on behalf of Mr. Avdeev in his capacity as a shareholder of CBM.

Corporate Governance

CBM complies with the Russian Federation's corporate governance regime and aims to implement the best international corporate governance practices. Particular emphasis has been placed on these aims following the addition of CBM's new shareholders EBRD and IFC. Corporate governance at CBM has been carried out in accordance with the requirements of the Joint-Stock Companies Law, other rules governing the operation of joint-stock companies in the Russian Federation, CBM's charter and other internal documents of CBM. CBM's corporate governance practices

satisfy or surpass the corporate governance requirements currently prescribed in the Russian Federation, and to a certain extent comply with concepts of corporate governance that are prevalent in Western Europe and the United States.

Furthermore, CBM's domestic bonds and exchange bonds have been listed on the Moscow Exchange (formerly MICEX) since 2005, and as a result, CBM is required to comply with a number of corporate governance requirements applicable to issuers of securities that are traded on the Russian stock exchange.

As part of its corporate governance regime, CBM follows its own Corporate Governance Code. The current version of the Corporate Governance Code was approved by CBM's Supervisory Board in April 2010 and is currently under review to reflect the most recent changes introduced as a result of the addition of the new shareholders.

CBM's Corporate Governance Code sets out CBM's main corporate conduct principles, promoting better performance of the management bodies of CBM. It was based on a balanced approach to the interests of CBM's shareholders, management bodies and other stakeholders, with a view to enhance reliability, accountability, business culture, control over CBM's performance and to ensure compliance with ethical standards with the intention of improving client satisfaction appropriate to level expected on the provision of high quality bank services. The aims of the code are to improve and systemise approaches to providing client satisfaction in relation to the provision of high quality banking services and providing security in accordance with CBM's plan to evolve as a modern financial institution capable of raising investments to achieve such goals. To keep client service in line with high financial, business and technological standards, CBM voluntarily undertakes to follow the principles and rules of corporate governance as set out in the Corporate Governance Code. These principles and rules correspond to international best practices of corporate conduct and represent a high level of governance and performance control, business culture and compliance with high ethical standards. As corporate governance practice evolves in Russia and abroad, CBM will seek to further improve its corporate governance rules and principles and achieve a higher level of compliance with the principles set out in the Corporate Governance Code.

Among other things, CBM has implemented the following corporate governance features:

Independent Directors

According to the Regulation on the Supervisory Board of CBM, independent directors of CBM are those Supervisory Board members who have no direct or indirect relationship with CBM other than membership on the Supervisory Board, and who:

- are not, and have not been in the past five years, employed by CBM or its affiliates, where "affiliates" means, with respect to any person, any individuals or entities directly or indirectly controlling, controlled by or under common control with, that person and "control" means the power of an individual or entity, whether independently or jointly with other individuals or entities, directly or indirectly (through third parties), to influence activities of entities and/or individuals (including to direct the management or business policies of an entity through the direct or indirect ownership of more than 25% of its capital and/or by contract made between that individual or entity and the other individual(s) and/or entity(ies));
- are not affiliated with any non-profit organisation that receives significant funding from CBM or its affiliates;
- do not receive and have not received in the past five years, any additional payments from CBM or its affiliates other than their remuneration, and reimbursement of expenses related to their service, as Supervisory Board members (such remuneration and reimbursement may not constitute a significant portion (share) of any such independent director's total income for the calendar year in which such remuneration and reimbursement were paid);
- do not participate in any employee pension programme or share option programme of CBM or any of its affiliates;
- are not employed as the sole executive body or a member of the collective executive body of another entity where any of the members of CBM's collective executive body serve on that entity's board of directors;
- are not, nor have been at any time during the past five years, employed by or affiliated with an auditor of CBM or any of its affiliates;
- do not hold, and are not members of a management body of any entity, or general partners of any general partnership, or members of a business partnership, or partners (members) of an entity incorporated under foreign law in a legal form similar to that of general partnership or business partnership, and cannot give binding instructions to or otherwise direct the activities of an entity that holds, any significant (more than 2%) portion of the outstanding shares in CBM or shares/interests in the capital of any of its affiliates;
- are not members of the immediate family, guardians or trustee of any individual who would not meet any of the tests set out above, or assistants to any such individual who is of age, legally capable and placed under guardianship, or executors of estate of any such individual who has been declared missing, or administrators or trustees of estate of any such individual who is or has been declared deceased; and
- have not served on the Supervisory Board for more than seven years.

The foregoing independence criteria exceed the requirements of the Joint-Stock Companies Law and FSFM guidance and are based on the requirements of CBM's shareholders EBRD and IFC. CBM's Supervisory Board includes seven independent directors. These directors are Sandy Vaci, Richard Glasspool, Genadi Lewinski, Nikolay Kosarev, Mustafa Boran, Andrew Gazitua and William Owens.

Supervisory Board Committees

According to the charter and other internal regulations of CBM, the Supervisory Board is responsible for creating specific committees including the strategic and finance committee, the audit committee (which, among other things, supervises CBM's banking risk management), the corporate governance, nominations and compensation committee, the capital markets committee and other committees. Such committees are formed to prevent conflicts of interest with respect to the Supervisory Board and ensure their substitutability. Descriptions of such currently existing committees of the Supervisory Board are provided below. Each committee contains at least one independent director.

Audit and Risk Committee

The Audit and Risk Committee of the Supervisory Board of CBM analyses the efficiency of CBM's internal control and risk management procedures and provides advice on their improvement to the Supervisory Board when making decisions with respect thereto. The Audit and Risk Committee members are elected from the Supervisory Board members who are not also members of CBM's executive bodies. Currently its members are Richard Glasspool, Vadim Sorokin and Anton Avdeev. The committee is headed by an independent director. The main purpose of the Audit and Risk Committee is to assist the Supervisory Board in controlling CBM's operations and ensuring effectiveness of CBM's internal control system and risk management systems. It aims to achieve this purpose by advising of the Supervisory Board on the following matters:

- selecting an independent auditor to undertake the annual independent external audit of CBM's financial statements;
- appraising the quality of services provided by the independent auditor and its compliance with independence requirements;
- efficiency of internal control and risk management procedures;
- prioritising CBM's activities within the acceptable level of risk; and
- compliance with applicable laws and regulatory requirements.

The Audit and Risk Committee's functions also include maintaining the Supervisory Board's control over activities of CBM's executive bodies and ensuring co-operation with CBM's executive bodies on matters within the committee's competence, and implementing and promoting a culture of risk management within CBM.

Capital Markets Committee

The Capital Markets Committee of the Supervisory Board was established in April 2012. The committee consists of three members. The committee is headed by an independent director. Currently the committee consists of Andrew Gazitua and Vladimir Chubar, each of whom is a member of the Supervisory Board, and Nicholas Haag, who serves as Independent Advisor to the Chairman of the Management Board and is not a member of the Supervisory Board. The Capital Markets Committee was formed to advise the Supervisory Board on CBM's international capital market funding strategy, optimisation of internal processes with respect to capital market activities and building an internal interaction model in connection with international capital market funding, and on any material investor relation issues.

Strategic and Finance Committee

The Strategic and Finance Committee of the Supervisory Board was established in August 2012. The committee consists of three Supervisory Board members, who are not also members of CBM's executive bodies. The committee is headed by an independent director. Currently the committee consists of William Owens, Andrew Gazitua and Alexander Nikolashin. The committee was formed to ensure the adoption of resolutions by the Supervisory Board in relation to setting CBM's strategic goals, selecting its priority lines of business, making recommendations on CBM's dividend policy and appraising CBM's long-term performance. The Strategic and Finance Committee also advises the Supervisory Board on adjusting CBM's existing development strategy with a view to enhance CBM's performance in consideration of the domestic and foreign market trends, performance results of CBM and its competitors and other factors. Additionally the committee assists the Supervisory Board in addressing any matters reserved to it.

Compensation, Corporate Governance and Nominations Committee

The Compensation, Corporate Governance and Nominations Committee of the Supervisory Board was first established in August 2012. The committee consists of two Supervisory Board members, who are not also members of CBM's executive bodies. The committee is headed by an independent director. Currently the committee consists of William Owens and Roman Avdeev. The Compensation, Corporate Governance and Nominations Committee was formed to direct the HR policy for recruiting highly qualified specialists to the Supervisory Board, Management Board and for the

office of the Chairman of the Management Board. The committee is also responsible for formulating remuneration and compensation principles and the related criteria, developing a transparent motivation system and advising on the creation and implementation of effective corporate governance models and solutions.

Code of Corporate Ethics

On 30 November 2012 CBM also adopted a Code of Corporate Ethics, which sets out CBM's corporate values, the principles and regulations on corporate conduct, high moral and ethical standards and CBM's mission and information policy. The aims of the code include ensuring due adherence to the corporate business ethics standards and maintaining CBM's high reputation, which is attributable not only to compliance with legislation, but to compliance with the highest ethical standards and CBM's commitment to the principles of professional business conduct. The Code of Corporate Ethics applies to all employees of CBM. Employees are required to act in the interests of CBM and avoid situations where their personal interest conflict with CBM's interest. CBM views the adoption of the code as an important development in continuing to improve the corporate governance of CBM. The code also aims to assist with the integration of new employees into CBM's corporate culture.

Compensation

In the years ended 31 December 2012, 2011 and 2010, aggregate remuneration paid by CBM to the members of its Supervisory Board and Management Board was RUB 219.0, RUB 49.6 million and RUB 41.7 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 four of the members of its Supervisory Board. The members of its Management Board enter into employment contracts with CBM, which set forth their compensation in their capacity as employees of CBM.

Litigation Statement Concerning Management

For the previous five years, none of the members of the Supervisory Board or the Management Board:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Other Interests

No actual or potential conflicts of interest exist between the duties that any member of the Supervisory Board or the Management Board owes to CBM and such member's private interests or other duties.

SHAREHOLDERS

General

As at 31 December 2012, CBM's charter capital amounted to RUB 12,667,832,952 and comprised of 12,677,832,952 ordinary shares each with a nominal value of RUB 1.00. As at the date of this Prospectus, CBM has 23,598,325,056 authorised but unissued ordinary shares with an aggregate nominal value of RUB 23,598,325,056.

The table below sets forth information regarding CBM's shareholders as at 31 December 2012 and as at the date of this Prospectus.

<i>Shareholders</i>	<i>Ordinary shares owned as at date of this Prospectus</i>	
	<i>Number</i>	<i>Percentage (%)</i>
"Rossium Concern", LLC ⁽¹⁾	10,776,158,008	85.0
European Bank for Reconstruction and Development.....	950,837,472	7.5
IFC Russian Bank Capitalization Fund, LP ⁽²⁾	583,837,472	4.6
International Finance Corporation ⁽²⁾	367,000,000	2.9
Total	12,677,832,952	100.0

Notes:

- (1) "Rossium Concern", LLC is owned by Roman Avdeev via Wellcreek Corporation (87.5556%), Roman Avdeev directly (12.4364%), Galina Avdeeva (0.0039%) and Ivan Avdeev (0.0041%).
- (2) Shares are legally owned by RBOF Holding Company I Ltd., a wholly-owned subsidiary of IFC Russian Bank Capitalization Fund, LP, which forms a group of companies with IFC. IFC Russian Bank Capitalization Fund, LP is managed by IFC Asset Management Company LLC, a wholly-owned subsidiary of IFC, for the benefit of IFC, Vnesheconombank and the Russian Government, each of which contributed to the capital of the fund.

Roman Avdeev

"Rossium Concern", LLC, which is controlled by Roman Avdeev, is the owner of 85% of CBM's shares. Mr. Avdeev is the 99.992% owner of "Rossium Concern", LLC, with the remaining 0.008% held by his mother and father. Prior to the acquisitions of shares by EBRD and IFC in July 2012 as discussed below, Mr. Avdeev was the 100% beneficial owner of CBM.

See "Risk Factors – Risks Relating to CBM's Business and Industry – The interests of CBM's controlling shareholder may conflict with those of Noteholders" and "Management – Supervisory Board – Roman Avdeev".

European Bank for Reconstruction and Development

EBRD is an international financial institution, with its headquarters at One Exchange Square, London EC2A 2JN, United Kingdom. EBRD is owned by 63 countries and two intergovernmental institutions.

In August 2012, EBRD became a shareholder of CBM following an increase in CBM's charter capital, with EBRD acquiring a 7.5% stake in CBM. Pursuant to the Shareholders Agreement (as defined below), EBRD is entitled to nominate one member to the Supervisory Board. Vadim Sorokin was nominated by EBRD to the Supervisory Board and elected at the extraordinary General Shareholders' Meeting held on 28 November 2012.

EBRD has stated that its equity investment in CBM aims to achieve the following objectives: support a dynamic private bank in Russia to capitalise on its successful recent growth and implement its strategy to become one of the leading universal private banks; strengthen CBM's capital platform for further business growth; contribute to CBM's further institutional strengthening and corporate governance; and assist CBM to carry out an anticipated initial public offering.

International Finance Corporation

IFC is an international financial institution, with its headquarters at 2121 Pennsylvania Avenue North West, MSN F 11K-1100, Washington, DC 20433, USA. IFC is member of the World Bank Group. The mission of IFC is to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives. IFC finances private sector investments in the developing world, through the provision of loans, equity, structured investments and risk management products. IFC also mobilises capital in the international financial markets, helps clients improve social and environmental sustainability, and provides technical assistance and advice to governments and businesses.

In August 2012, IFC became a shareholder of CBM following an increase in CBM's charter capital, with IFC acquiring a 7.5% stake in CBM. On 6 December 2012, IFC transferred 583.8 million shares (4.6% of CBM's charter capital) to IFC Russian Bank Capitalization Fund, LP by transferring the shares to RBOF Holding Company I Ltd., a wholly-owned subsidiary of IFC Russian Bank Capitalization Fund, LP. The transaction resulted in IFC directly holding 2.8994% of CBM shares and IFC Russian Bank Capitalization Fund, LP indirectly holding 4.6052% of CBM's shares. See “– *IFC Russian Bank Capitalization Fund*”.

Pursuant to the Shareholders Agreement, IFC and RBOF Holding Company I Ltd. (a wholly-owned subsidiary of the IFC Russian Bank Capitalization Fund) jointly are entitled to nominate one member to the Supervisory Board.

IFC has stated that the main purpose of its equity investment in CBM is to improve access to finance for clients of CBM, mainly represented by mid-sized companies, and to strengthen the capital of CBM in view of its regional expansion and its preparation for an initial public offering in the mid-term.

IFC Russian Bank Capitalization Fund

IFC Russian Bank Capitalization Fund, LP is an investment fund focused on investments in Russian banks. The IFC Russian Bank Capitalization Fund, LP indirectly holds 4.6052% of CBM's shares through its wholly-owned subsidiary RBOF Holding Company I Ltd. The IFC Russian Bank Capitalization Fund, LP, which forms a group of companies with IFC, was established in June 2012 and is managed by IFC Asset Management Company LLC, a wholly-owned subsidiary of IFC, for the benefit of IFC, Vnesheconombank and the Russian Government, each of which contributed to the capital of the fund. The acquisition of its present equity stake in CBM was the first transaction undertaken by the IFC Russian Bank Capitalization Fund, LP.

Rights of CBM's Shareholders

Pursuant to CBM's charter and Russian legislation, CBM's shareholders have the following rights: to participate in the general shareholders' meeting of CBM and vote on all matters on its agenda; to receive dividends; to elect members to the Supervisory Board; to receive an amount of CBM's assets upon its liquidation proportionate to its level of shareholding remaining after satisfaction of claims of CBM's creditors; to have unrestricted access to certain documents of CBM listed in Russian legislation; and other rights envisaged by Russian legislation and CBM's charter. Depending on their level of shareholding, groups of shareholders may have additional rights. However, none of CBM's shareholders however have voting rights under CBM's charter or Russian legislation that differ from any other holder of ordinary shares. CBM is not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of CBM.

Shareholders Agreement

Rossium Concern, Wellcreek Corporation, Roman Avdeev, EBRD, IFC and RBOF Holding Company I Ltd (a wholly-owned subsidiary of the IFC Russian Bank Capitalization Fund) have entered into a shareholders agreement (the “**Shareholders Agreement**”), dated 20 July 2012 and amended and restated on 6 December 2012, in order to set forth the understanding of the parties with regard to their ownership in, and the governance of, CBM. CBM is not a party to the Shareholders Agreement.

The Shareholders Agreement contains, among other things, provisions relating to appointment of the members of the Supervisory Board, the conduct of the Supervisory Board and shareholders meetings and “reserved matters” which include those decisions of the Supervisory Board or the shareholders requiring an affirmative vote of each of EBRD, IFC and RBOF Holding Company I Ltd. or each director appointed by them. See “*Management – Supervisory Board*”.

Pursuant to the Shareholders Agreement, Mr. Avdeev has agreed not to participate in other banks or lending institutions in Russia without the consent of EBRD, IFC and RBOF Holding Company I Ltd. (the “**Investors**”).

Pursuant to the Shareholders Agreement, the parties agreed to procure that CBM would adopt a new charter which would conform with the provisions of the Shareholders Agreement to the extent permitted by applicable law. On 28 November 2012 CBM adopted a new charter which was registered with the CBR on 20 December 2012. 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 JSC law. The amended charter is expected to be registered with the CBR in mid-May 2013.

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 31 December 2012, 2011 and 2010 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 2012 and incurred interest expense to such shareholders in the year ended 31 December 2012. Such loans and interest expense have not been included in the tables below because such transactions are not considered related party transactions under IFRS. See "Management's Discussion and Analysis of Financial Condition and Result of Operations – Total Liabilities – Deposits by Credit Institutions" and "Shareholders". Since 31 December 2012, CBM has continued to enter into related party transactions within the normal course of business.

	As at 31 December		
	(RUB thousands, except percentages)		
	2012	2011	2010
Total capital.....	44,995,891	29,480,006	20,386,397
Loans to customers			
Roman Avdeev	350,110	70,208	308,765
Under control of Roman Avdeev	1,006	87,138	333,697
Management	88,892	43,977	39,529
	440,008	201,323	681,991
Total loans to related parties			
Deposits by customers			
Roman Avdeev	320,310	31,993	51,069
Under control of Roman Avdeev	2,342,880	2,909,463	6,310,867
Parent company ⁽¹⁾	265,752	250,896	5,489
Management	89,066	35,481	17,913
Other	–	–	–
	3,018,008	3,227,833	6,385,338
Total deposits by related parties.....			
Related party exposure/Total capital			
(as per Basel norms)	1.0%	0.7%	3.3%

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%).

	Year ended 31 December		
	2012	2011	2010
	(RUB thousands, except where otherwise specified)		
Interest income on loans to customers			
Roman Avdeev	4,563	34,236	12,244
Under control of Roman Avdeev	5,085	38,956	17,377
Management	8,049	4,786	2,980
Other	–	–	–
Total interest income from related parties on loans to customers	17,697	77,978	32,601
Interest expense on deposits by customers			
Roman Avdeev	17,738	459	18,692
Under control of Roman Avdeev	95,058	166,694	49,890
Management	2,697	1,716	1,523
Parent company ⁽¹⁾	22,252	31,743	922
Other	–	–	–
Total interest expense to related parties on deposits by customers	137,745	200,612	71,027

Note:

(1) “Rossium Concern” LLC, which owns 85% of CBM, and which is in turn owned by Roman Avdeev via Wellcreek Corporation (87.5556%), Roman Avdeev directly (12.4364%), Galina Avdeeva (0.0039%) and Ivan Avdeev (0.0041%).

Of Mr. Avdeev's assets, CBM is the asset with the highest value, with commercial real estate representing the majority of Mr. Avdeev's other assets. When affirming CBM's long-term issuer default rating in January 2013, Fitch expressed the view that certain of CBM's loans in an aggregate amount of RUB 9.7 billion as at 30 September 2012, including loans to certain agricultural companies, could be considered related party transactions because in Fitch's view Mr. Avdeev may have a relationship with the relevant borrowers. Whilst Mr. Avdeev previously held assets in the agricultural sector, Mr. Avdeev no longer has assets in such sector and does not have control over, or any relationship with, the relevant agricultural borrowers, and as a result CBM does not consider these loans to be related party transactions.

As at 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%.

As at 31 December 2010, loans to related parties represented 0.6% of CBM's total gross loans to customers and deposits from related parties represented 6.7% of CBM's total deposits by customers. For the year ended 31 December 2010, total interest income from loans to related parties was RUB 32.6 million and total interest expense for deposits by related parties was RUB 71.0 million. As at 31 December 2010, the average interest rate for deposits by related parties was 6.3% and the average effective interest rate on loans to related parties was 10.7%.

See “Risk Factors – Risks Relating to CBM's Business and Industry – A part of CBM's business is with related parties”.

Policy Agreement

CBM has entered into a Policy Agreement with its minority shareholders EBRD, IFC and the IFC Russian Bank Capitalization Fund, LP dated 20 July 2012 and amended and restated on 6 December 2012, in order to define certain reporting and compliance obligations of CBM related to its corporate governance and business operations. See “Shareholders – Policy Agreement”.

THE BANKING SECTOR IN RUSSIA

Overview of the Russian Federation and Key Macroeconomic Indicators

According to the IMF, in 2012 Russia was the 9th largest economy in the world and the largest economy in Central and Eastern Europe as well as the CIS with a GDP of US\$2,022 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 (7.0%). At the same time, while, according to the IMF, Russia's GDP per capita for 2012 of US\$14,247 was more than double that of China (US\$6,076), 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>
Nominal GDP (billions of roubles).....	41,277	38,809	45,173	54,586	62,357
Real GDP index (%) (2003 prices=100%)	140.9	129.8	135.4	141.2	146.2
Real GDP growth/(decline) (%, year-on-year).....	5.2	(7.8)	4.3	4.3	3.4
Nominal GDP per capita (roubles)	290,771	273,376	316,091	380,342	435,400
Real GDP per capita index (%) (2003 prices=100%)	143.4	132.3	137.0	142.8	147.8
Real GDP per capita growth/(decline) (% period-on-period)	5.4	(7.8)	3.5	4.3	3.4
GDP deflator (% , period-on-period).....	18.0	2.0	11.6	15.4	8.0
Inflation, (% , year-on-year)	13.3	8.8	8.8	6.1	6.6
Total population, millions (end of year)	141.9	142.9	142.9	143.0	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 2013.

Russia's economic performance improved between 2000 and 2011 (aside from a decline in 2009), despite the economic crisis between 2008 and 2010. According to Rosstat and the Ministry of Finance, GDP increased almost eight-fold from RUB 7,306 billion in 2000 to RUB 54,586 billion in 2011; the CPI dropped from 20.2% in 2000 to 6.1% in 2006; and government debt as a share of GDP decreased from 62% to 9% during the same period. The growth in GDP was driven to a large extent by rising exports of goods (which increased from US\$105 billion in 2000 to US\$522 billion in 2011), an increase in labour productivity due to rise in capital investments from US\$ 36.3 billion in 2000 to US\$347.6 billion in 2011, as well as domestic personal consumption, which increased more than eight-fold during the same period, from RUB 3,813 billion in 2000 to RUB 32,052 billion in 2011, and, in turn, laid a strong foundation for growth in the banking sector (all data according to Rosstat). Similar trends continued in the year ended 31 December 2012: according to Rosstat, the GDP went up by 3.4% year-on-year, the inflation decreased to 6.6% year-on-year, while the population increased to 143.3 million. These growth and stability trends that started in 2000 led to an improvement of Russia's sovereign credit ratings, which attained investment grade levels in 2003. Fitch, Moody's and Standard & Poor's have increased Russia's ratings from a low of "CCC"/"B3"/"CCC" in 1999 to "BBB"/"Baa1"/"BBB" in 2010 respectively, and the ratings have remained the same since 2010 with a "stable" outlook.

The European debt crisis so far has had a limited impact on the Russian economy, primarily because it has not led to significant declines in the prices of Russia's key exports, mainly natural resource commodities, including oil and gas, as well as due to Russia's relatively healthy fiscal finances including a low debt-to-GDP ratio, small budget deficit and a high level of international reserves. In the aftermath of the global financial crisis, Russia's GDP fell by 7.8% in 2009 compared to 2008 according to Rosstat. The Russian economy was particularly affected by significant decreases in the prices of crude oil, gas and other commodity exports in the second half of 2008 and the first half of 2009, which, in turn, had a significant impact on internal consumption. Since then commodity prices have increased and Russia's GDP has recovered, growing by 4.3% in real terms in 2010, 4.3% in 2011 and a further 3.4% in 2012. Should the ongoing crisis lead to a worsening of the global macroeconomic situation and/or impact commodity prices and global trade flows, Russia's overall economic and financial position could also be negatively affected.

Compared with the other BRIC nations, Russia is well positioned in terms of its endowment with rich natural resources. According to the BP Statistical Review of World Energy dated June 2012, quantities of oil and gas reserves in 2011 in Russia were substantially higher than those of India, China and Brazil, with Russian oil reserves amounting to 12.1 billion tons, compared to 0.8, 2.0 and 2.2 billion tons for India, China and Brazil respectively, and Russian gas reserves amounting to 1575.0 trillion cubic feet, compared to 438.0, 107.7 and 16.0 trillion cubic feet for India, China and Brazil

respectively. Strong natural resource exports and the government revenue they help generate have strengthened Russia's economic position relative to other large global economies in terms of international trade, international currency reserves and fiscal position. In 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 4.0% of GDP according to the IMF. Strong exports have helped Russia to accumulate substantial international monetary reserves, which amounted to US\$526 billion as at February 2013 and were the third largest among G8 countries, according to the World Bank.

Income from taxation of oil and gas exports and production has also enabled Russia's government to build up substantial sovereign wealth funds. In 2004, to smooth out the impact of volatility in global natural resource prices on exports and government revenue, as well as to control inflation by absorbing excess liquidity, the Russian government set up the Stabilisation Fund that accumulated oil and gas taxation revenues generated above specific oil price cut-off levels. In 2008, Russia split the Stabilisation Fund into two sovereign wealth funds: the Reserve Fund, with approximately US\$84.86 billion in assets under management as at 1 March 2013, and the National Welfare Fund, with approximately US\$87.61 billion assets under management as at 1 March 2013 (according to the Ministry of Finance). Russia's fiscal finances in 2011 were healthier than those of many other major world economies. For example, in 2011 Russia had a budget surplus of 1.6% and an external government debt to GDP ratio of 9.6%, which was the lowest such ratio of all BRIC and G8 countries according to the IMF. Further, according to Rosstat, in 2012 real GDP increased by 3.4% compared to 2011.

In addition to its vast natural resources, Russia has a well-educated population, with a 2012 HDI Education index of 0.788, as reported by the United Nations Development Programme (the highest among BRIC countries), which is a positive both in terms of availability of a high quality workforce and domestic demand for more complex products, such as financial services. Another positive for Russia's economy and domestic demand has been the recent decrease of the unemployment rate (in accordance with the ILO definition of unemployment, as a percentage share of the economically active population) from 9.1% in the first quarter of 2009 to 5.5% in the year ended 31 December 2012, according to Rosstat.

Despite the financial crisis in 2008 and 2009 and the substantial decline in GDP, banking sector lending in Russia experienced only a minor decrease of just over 2% in 2009 according to the CBR. As Russia's economy recovered and interest rates started declining, deposits increased by 16.9%, while the loan compound rate decreased by 2.5%, in each case from 31 December 2008 to 31 December 2009. From 31 December 2009 to 31 December 2010, deposits increased by 23.0%, and from 31 December 2010 to 31 December 2011, deposits increased by 23.5%. From 1 January 2010 to 1 January 2011, total loans increased by 12.6% and from 1 January 2011 to 1 January 2012 total loans increased by 28.2%. From 1 January 2012 to 1 January 2013, total loans further increased by 18.3%. As at 1 January 2013, banking assets accounted for 79.1% of Russia's GDP compared to 60.5% in 2008 according to the CBR and Rosstat data.

History and Development of the Russian Banking Sector

Before the reforms carried out in 1987 and 1988, the Soviet banking system consisted of (i) the State Bank of the USSR, or Gosbank, which functioned as the central bank and as a commercial bank simultaneously, (ii) Stroibank of the USSR, which primarily serviced payments for capital expenditures on construction and infrastructure projects, and (iii) Vneshtorgbank of the USSR, which serviced foreign trade by Soviet entities. Gosbank operated a network of savings cash offices located throughout the country, having a monopoly on retail banking services, mainly deposit taking and processing of utility payments.

In 1988, as part of the liberalisation reforms of the Russian economy, five specialised state-owned banks were established in addition to Gosbank to service specific industries, including farming (Agroprombank), housing and social development (Zhilsotsbank), foreign economic activity (Vnesheconombank of the USSR) and manufacturing and construction (Promstroybank). As part of this reform, state-run savings cash offices throughout the USSR were reorganised into Sberbank of the USSR, which continued to service the retail banking needs of the Soviet population.

In 1988 and 1989, further reform of the banking sector saw the emergence of newly formed private commercial banks. In 1991, three of the specialised state-owned banks became joint-stock companies. Some regional branches of these specialised state banks became independent from their head offices through management buy-outs. Furthermore, after the collapse of the Soviet Union in December 1991, the CBR assumed all of Gosbank's central bank functions in Russia, and Gosbank was liquidated one month later.

During the rapid growth of the banking system from 1991 to 1998, the number of commercial banks in Russia increased from approximately 350 in 1990 to more than 1,600 in 1998, some of the largest of which grew together with the large financial-industrial groups formed during the same period.

In 1998, the Russian financial markets went through a crisis caused in part by the financial crisis in Asia that began in 1997, plus the subsequent decline in demand and prices of crude oil and nonferrous metals. As a result of the crisis, the Russian government had to default on its sovereign debt and the CBR announced a devaluation of the rouble, the imposition of a repayment moratorium on certain loans to foreigners, as well as the compulsory restructuring of approximately US\$40 billion in short-term treasury instruments. During this period, many banks were reorganised, went bankrupt or were eventually placed under the administration of the Agency for the Restructuring of Credit

Organisations (“**ARCO**”), a state corporation established in 1999 to restructure defaulting banks and protect their creditors.

In October 2003, the last credit organisation exited ARCO's administration, and subsequently ARCO was liquidated, with its assets being transferred to the newly established State Corporation Agency for Deposits Insurance (the “**Deposits Insurance Agency**”). Federal Law No. 177-FZ “On the Insurance of Retail Deposits in the Banks of the Russian Federation” of December 23, 2003 (the “**Retail Deposit Insurance Law**”) introduced a government guarantee for retail deposits at participating banks of up to 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.

After this period of recovery and expansion, the Russian banking sector was affected by the global financial crisis resulting in a reduced number of credit organisations due to the revocation of licences by the CBR and in some cases bankruptcy of those that did not have sufficient liquidity. According to the CBR, as at 1 March 2013, there were 956 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 “*Russian Banking Regulation*” The government continued to implement intensive anti-crisis measures in 2009 and 2010. The government increased the guaranteed retail deposit amount up to 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, but the CBR does not yet require full-scope Basel II-based reporting. 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 (i.e. the ratio of capital to total assets and off-balance sheet items without taking into account risk exposure) requirement from 1 January 2018. Additionally, new liquidity and funding requirements will be gradually implemented between 2012 and 2018. See “*Banking Regulation in Russia – Capital Requirements – Basel Implementation in Russia.*”

Following the adoption of the Banking Sector Development Strategy, the CBR pursued its intention to increase the banks' capital cushion for certain types of risky operations. As such, it increased risk weighting for a number of asset categories which became effective from 1 July 2012, and will impact the regulatory capital adequacy requirements for Russian banks.

On 28 October 2011, the CBR approved the “Guidelines for the Uniform State Monetary Policy in 2012 and for 2013 and 2014” (the “**Monetary Policy for 2012-2014**”). This policy sets forth a relatively conservative approach to state budgeting, with the focus of the CBR's supervision powers on risk management in the banking sector, particularly taking into account various risk profiles and prevention of risk concentration. The Monetary Policy for 2012-2014 also provides for development of the system of supervision by the CBR over systemically important credit organisations, as well as streamlining of legislation on banking mergers and acquisitions.

Role of the Financial Services Sector in the Russian Economy

As the share of the Russian financial services sector in GDP grew over the last decade, from 2% in 2001 to 4.5% in 2010 before declining to 4.1% in 2011 according to Rosstat, its role in the Russian economy became increasingly important. As at 1 January 2013, banking assets accounted for 79.4% of Russia's GDP as compared to 60.5% as at 1 January 2008 according to the CBR.

Although banks play an increasingly important role in the Russian economy, the industry still remains underdeveloped in certain respects. The banking sector is still under penetrated. Corporate banking in the Russian Federation is currently at levels (relative to GDP) that are much lower than Western European economies and broadly in line with other CEE economies (at 32.3% in 2009, 31.1% in 2010 and 32.6% in 2011).

Similarly, the retail banking market in the Russian Federation remains in relatively early stages of development, with market penetration staying well below CEE and developed countries, measured by levels as a proportion of GDP – (at 9.7% in 2008, 9.2% in 2009, 9.0% in 2010, 10.2% in 2011 and 12.4% in 2012). While the ratio of retail loans to GDP between the Russian Federation and the CEE countries is expected to converge in the long term, this ratio is currently lower in the Russian Federation than in such countries due in part to the slow recovery of the Russian economy. Retail lending represented 22.5%, 23.9% and 22.8% of the total lending in the Russian Federation as at 31 December 2010, 31 December 2011 and 31 December 2012.

Between 2001 and 2007, retail loans increased substantially at a compound growth rate of 77.6% and retail lending as a percentage of GDP increased from 1.0% in 2001 to 8.9% in 2007. However, in 2008, the retail loan annual growth rate declined to 35.2%. In 2009, the retail loan portfolio declined by 11.0% while in 2010 it recovered to 14.3% with growth momentum strengthening in 2011 to 35.9% and in 2012 to 39.4% year on year.

At the same time, Russia's average annual banking sector profit between 2007 and 2011 (where profitability is calculated by multiplying average return on average assets, as sourced from the IMF, by average banking sector assets from 2010-2011, as sourced from Business Monitor International) was comparable to Italy and Germany and about twice as high as that for Turkey and Japan, according to Business Monitor International and the IMF.

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

	<i>As at 1 April 2013</i>	<i>As at 31 December</i>		
		<i>2011</i>	<i>2010</i>	<i>2009</i>
Total assets/liabilities (not including capital) (in trillions of RUB).....	49.8	41.6	33.8	29.4
Total assets/liabilities (percentage of GDP).....	79.1 ⁽¹⁾	76.3	74.8	75.8
Own funds (capital) (in trillions of RUB).....	6.1 ⁽¹⁾	5.2	4.7	4.6
Loans to customers over total assets (%).....	69.9	68.9	65.6	67.5
<i>including loans to credit organisations (%)</i>	9.2	13.8	8.6	9.3
Deposits from individuals over total liabilities (%).....	29.6	28.5	29.0	25.4
Number of operating credit organisations.....	954	978	1,012	1,058
Assets of the five largest credit organisations over total assets (%).....	50.9	50.0	47.7	47.9
Credit organisations located in Moscow and the Moscow region (%).....	53.5	52.4	51.9	50.6
Number of profitable credit organisations (including zero profit).....	831	924	931	938

Source: CBR

Note:

(1) Data provided as at 1 January 2013.

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

	2007	2008	2009	2010	2011	2012	CAGR 2007-2012
	<i>RUB billions, except percentages</i>						
Corporate lending	9,309	12,383	12,418	14,356	18,414	19,969	16.5%
% of GDP.....	28%	30%	32%	31%	33%	32%	
Retail lending.....	2,992	4,128	3,493	4,168	5,580	7,762	21.0%
% of GDP.....	9%	10%	9%	9%	10%	12%	
Total lending.....	12,302	16,511	15,911	18,523	23,994	26,104	16.2%
% of GDP.....	37%	40%	41%	40%	43%	42%	
Corporate deposits	6,650	8,668	9,314	11,114	13,950	15,650	18.7%
% of GDP.....	20%	21%	24%	24%	25%	25%	
Retail deposits.....	5,320	5,779	7,373	10,188	11,718	14,273	21.8%
% of GDP.....	16%	14%	19%	22%	21%	23%	
Total deposits.....	11,969	14,447	16,687	21,302	25,668	29,922	20.1%
% of GDP.....	36%	35%	43%	46%	46%	48%	

Source: CBR

Overall, the performance of Russian banks remains positive and has shown improvement as the sector has recovered from the global financial crisis. According to the latest CBR statistics, total RAS pre-tax profits for the sector were RUB 1,018 billion in 2011, implying an annualised pre-tax RoAE of 20.5%. This demonstrates 48% growth in RAS pre-tax profits in 2010 of RUB 688 billion, implying a pre-tax RoAE for the full year of 14.8%. In the nine months ended 1 October 2012, the banking system recorded net income of RUB 750.1 billion, leading to an annualised pre-tax RoAE of 24.1%. Higher profitability has been partly driven by improving asset quality and lower provisioning levels, as the share of overdue loans has declined from 5.5% as at 31 December 2010 to 3.9% as at 31 December 2011 and 3.7% as at 1 January 2013. The overall capital adequacy ratio for the sector was 13.7% as at 1 January 2013, demonstrating decrease from 14.7% as at 31 December 2011 but a more significant drop compared to a ratio of 18.1% as at 31 December 2010.

Geographically, Russia's banking sector and financial services infrastructure remain concentrated around a few large economic centres primarily in the Western part of the country, especially Moscow. Approximately 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 March 2013, 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 28.4% market share by total assets and VTB (including Bank of Moscow and TransCreditBank) with approximately 16.2% market share by total assets, are the largest.

Large Private Russian Banks

Those large privately-owned banks among the top 30 Russian banks by total assets include Alfa-Bank, NOMOS Bank, Promsvyazbank, Uralsib, Russian Standard Bank and MDM Bank. They typically function as universal commercial banks servicing corporate and retail customers. Several privately-owned banks such as Bank Saint-Petersburg, Bank Vozrozhdenie and NOMOS Bank have publicly traded shares.

Foreign Banks

Foreign banks are prohibited by Russian law from directly conducting banking operations in Russia, but can do so via a Russian-incorporated subsidiary and are subject to applicable requirements of Russian law. Although certain foreign-owned banks focus primarily on servicing multinational corporations operating in Russia or cash settlement operations for non-residents, many foreign-owned banks, such as UniCredit Bank, Raiffeisenbank and Rosbank (majority owned by Société Générale) have increased their presence in Russia in the last ten years and offer a full range of services to both retail and corporate clients.

According to the CBR, as at 1 January 2013, 44 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 73.

Other Smaller Banks

Other Russian banks are primarily locally owned and normally focus on certain regions or product segments. Compared to the top 20 Russian banks by total assets, these smaller banks are in some cases characterised by lower levels of corporate governance and risk management, as well as lower transparency of operations. Taking into account that the number of credit organisations in Russia has been steadily decreasing over the past several years, as well as tightening regulatory requirements, there is a chance that these smaller private banks could be the subject of future merger and acquisition activity in the banking sector.

Overview of Key Trends in the Russian Banking Sector

Market Consolidation

Over the past several years, the banking sector in Russia has gone through certain consolidation. According to the CBR, the total number of credit institutions with active banking licenses decreased from 1,311 in 2000 to 962 as at 1 March 2013, driven primarily by domestic consolidation through acquisitions or some banks ceasing operations and losing their banking licenses due to the global financial crisis. The top ten banks in Russia have been active in domestic consolidation through strategic acquisitions. As a result, concentration has increased among the top ten banks: their share accounted for 56.8% of total assets in 2007 as compared to 59.4% of total assets as at 1 March 2013, according to the CBR.

Recent notable transactions in the Russian banking sector include:

- Société Générale's consolidation of its holdings in Rosbank, Delta Credit, Rusfinance and Bank Societe Generale Vostok ("BSGV"). In June 2011 the Société Générale Group announced the completion of the merger of BSGV and Rosbank. This was the final step in Société Générale's process of consolidating its Russian assets, which consisted of three stages: (i) a capital increase of Rosbank in the second half of 2010; (ii) the consolidation of 100% owned subsidiaries Delta Credit and Rusfinbank; and (iii) a merger of BSGV and Rosbank. According to BSGV, upon the merger, the combined entity was among the top five banks in terms of loans with a network of approximately 700 branches in 340 Russian cities.
- NOMOS Bank's acquisition of Khanty-Mansiysk Bank ("KhMB"). In December 2010, NOMOS Bank completed the acquisition of a 51.3% stake in KhMB, a regional Siberian financial institution, for RUB 12.1 billion. The combined entity had approximately 280 outlets and assets of approximately RUB 448.9 billion. KhMB also added approximately 820,000 retail clients to the consolidated banks' client base.
- The merger of URSA Bank into MDM Bank, establishing a strong private bank by combining the two bank's complementary strengths in retail and corporate banking, as well as Eastern and Western Russia geographical coverage, respectively.
- VTB's acquisition of TransCreditBank and Bank of Moscow. By the end of September 2012, after several stages of acquisitions, VTB acquired 99.6% of TransCreditBank, after a final purchase of 21.8% from Russian Railways. In 2011, VTB also acquired a 46.5% stake in Bank of Moscow from the Moscow city government and further increased its stake to 94.8% as at December 2011. Both acquisitions increased VTB's market share by total assets to nearly 17.9% as at 1 January 2012 according to the CBR.
- Sberbank's acquisition of Troika Dialog, one of the oldest private investment banks in Russia, completed in January 2012, which has contributed to strengthening Sberbank's presence in the investment banking sector.
- The acquisition of 26.53% of NOMOS Bank by Financial Corporation Otkritie, Aleksander Mamut and Oleg Malis in an equity swap with PPF in August 2012.

Russian Banking Sector Presence in Capital Markets

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

Significant equity capital markets transactions conducted since 2007 include:

- In March 2007, Sberbank sold RUB 230.2 billion of shares in a secondary offering on MICEX and RATS.
- In May 2007, Russia's second largest bank by assets, VTB, raised approximately US billion through a placement of a 22.5% stake in an IPO. In February 2011, the Russian government received a further US\$3.3 billion from the sale of a 10% stake in VTB.
- In April 2011, NOMOS Bank completed its IPO, raising approximately US\$718 million at US\$35 a share.

In addition to equity transactions, Russian banks have also been successful in tapping international debt markets. Total volume of issued debt (taking into account public Eurobond issuances only) increased from US\$148.9 million in 2000 to US\$14.1 billion in 2010, before dropping to US\$6.1 billion in 2011 according to Dealogic. In 2010 alone, VTB, Bank of Moscow, Russian Agricultural Bank and Alfa-Bank issued approximately US\$3.6 billion in the international bond markets according to the Financial Times. In 2011, the main transactions included a US\$1 billion issue by

Sberbank in June, a US\$1 billion issue by Alfa-Bank in April and a US\$0.8 billion issue by Russian Agricultural Bank in May.

Improving market conditions in 2012 resulted in greater market demand for Russian debt. In March 2012, there was a US\$750 million issue by VEB, followed in April by a US\$1.5 billion issue by VTB and a US\$500 million issue by NOMOS Bank, while Gazprombank issued US\$1.0 billion in Eurobonds over April and May 2012. Between June and August 2012, the relatively low dollar interest rate environment enabled Russian banks to raise debt financing in the international capital markets. In June 2012, Russian Agricultural Bank issued US\$500 million before tapping the issue for a further US\$350 million shortly thereafter. This was quickly followed by issuances of US\$1 billion by each of VEB and Sberbank.

In July, there was a total issue volume of US\$4.9 billion, which comprised a variety of securities issued in a range of currencies. The issuers ranged from private, non-investment grade banks such as Standard Bank, with a three-year US\$350 million issue and CHF issues by Russian Agricultural Bank and Gazprombank to a US\$750 million dollar tap issue by Sberbank of its series 9 bonds. In addition, VTB issued a US\$1 billion perpetual bond, representing the first ever tier 1 Eurobond from Russia and the first benchmark unrated tier 1 hybrid capital deal for any bank. In August, Sberbank returned to the market by tapping its existing series 8 bonds for an additional US\$300 million, reflecting the positive macro-environment for Russian banks to raise financing through Eurobonds.

Access to capital markets provides Russian banks with opportunities to implement an optimal funding strategy, supporting further banking sector growth. Due to the ongoing European crisis, which in turn impacted both credit and equity markets, Russian banks and corporations, similarly to their global peers, were constrained in their ability to attract financing at required levels. In October 2011, repo volumes with the CBR recorded their highest levels for the last two years, exceeding RUB 500 billion, while Mosprime rates increased by 100 to 200 basis points. As a result, Russian banks generally began increasing the rates on retail deposits to maintain their liquidity positions. In the nine months ended 1 October 2012, the repo market continued to remain active with the average market size increasing from RUB 200-300 billion during each month to RUB 400-500 billion at the end of each month, during periods of active repayments banks were required to make.

BANKING REGULATION IN RUSSIA

General

Banking activity in Russia is governed primarily by the Federal Law of 10 July 2002, No. 86-FZ “On the Central Bank of the Russian Federation (Bank of Russia)”, as amended (the “**CBR Law**”), the Federal Law of 2 December 1990, No. 395-I “On Banks and Banking Activity”, as amended (the “**Banking Law**”), the Central Bank of Russia (the “**CBR**”) regulations and, to a limited extent, the Federal Law No. 173-FZ “On Currency Regulation and Currency Control” dated 10 December 2003, as amended (the “**Currency Law**”), as well as certain other laws and regulations mentioned in this section. While the CBR is the primary regulator of the banking sector, other governmental entities also exercise regulatory and supervisory functions over banks in Russia. The FSFM issues licences that allow banking institutions to act as broker-dealers, or provide custodian services and other services in the Russian securities market. The tax authorities supervise tax assessments of banks.

The Central Bank of Russia

Under current legislation, the main functions of the CBR include: the organisation of cash and wire settlements; maintenance of budget accounts; administration of gold and currency reserves; the servicing of domestic state debt; implementation of credit and monetary policy; international activity; and banking regulation and supervision. As the primary regulator in the banking sector, the CBR has extensive regulatory and supervisory authority. The CBR grants state registration of credit organisations; issues, suspends and revokes banking licences of credit organisations; controls mergers and acquisitions in the banking system; establishes, and monitors compliance with, mandatory ratios and reserves as well as open position requirements; regulates the capital of credit organisations; establishes financial, accounting and statistical reporting standards for credit organisations; issues mandatory prescriptions to, and imposes administrative sanctions on, credit organisations; and appoints the temporary administration of credit organisations which are facing insolvency. Furthermore, pursuant to the Federal Law No. 161-FZ of 27 June 2011 “On the National Payment System”, only credit organisations are permitted to perform electronic transfers of monetary funds. The CBR monitors and supervises the national payment system via which such electronic transfers are made. The CBR also establishes eligibility requirements for the positions of executive and chief accountant of credit organisations and candidates for such positions are subject to its prior approval before they are elected or appointed to the respective position.

Representative offices of foreign credit organisations are prohibited from conducting banking operations within the Russian Federation. Their activities are limited to facilitating the banking operations, and representing the interests of, their foreign parent entities. A foreign credit organisation may set up a representative office in the Russian Federation, subject to the approval of the CBR and compliance with a number of regulatory requirements.

The Federal Service for Financial Markets

The FSFM is the securities market regulator and issues licences that allow Russian credit organisations to act as the following professional functions in the Russian securities markets: broker; dealer; securities manager; custodian; clearing organisation; registrar; and arranger of trade. The licensing procedures are established in the FSFM Regulation No. 10-49/PZ-N of 20 July 2010, as amended. In addition, the FSFM has the right to conduct audits of credit organisations from time to time to check their compliance with the requirements of applicable securities laws and regulations. The FSFM is responsible for setting up certain additional reporting requirements for licensed credit organisations and has a right to monitor their operations. Since January 2013 the Russian Government has been implementing measures to integrate the FSFM into the CBR. This process is planned to be completed within two years.

The Association of Russian Banks

The Association of Russian Banks had 712 members (of which 508 are credit institutions) as at 20 March 2013 and was established under the Banking Law as a non-commercial, self-regulatory organisation. It offers various forms of technical support to its members and lobbies the Russian Government on behalf of banks.

Licensing Requirements

Banking licenses are issued by the CBR for carrying out the following banking operations: (i) to carry out banking operations in Roubles only, other than the acceptance of retail deposits; (ii) to carry out banking operations in both Roubles and foreign currencies, other than the acceptance of retail deposits; (iii) to take deposits in the form of precious metals; (iv) to accept retail deposits in Roubles only; (v) to accept retail deposits in both Roubles and foreign currencies; (vi) to carry out banking operations in Roubles only, other than the acceptance of retail deposits and cash collection and cash servicing of customers; (vii) to carry out banking operations in both Roubles and foreign currencies other than the acceptance of retail deposits, and cash collection and cash servicing of customers; and/or (viii) a general licence.

Licence applicants must submit to the CBR a feasibility report, detailed information on senior management and their compliance with the relevant qualification requirements, documents certifying the source of funds contributed to the credit organisation's charter capital and certain other documents pursuant to the Banking Law.

A credit organisation must be incorporated in the Russian Federation in order to be licensed by the CBR. Under the Banking Law, credit organisations may be incorporated either as joint stock or limited liability companies, or companies with additional liability. The latter form, however, is not common in Russian banking practice, as the company's owners share joint liability in respect of the company's obligations.

The CBR may refuse to register a credit organisation and to issue a banking licence if, among other things:

- the application documents do not comply with Russian law requirements;
- the financial standing of the founders of the credit organisation is unsatisfactory;
- candidates for the position of chief executive officer, chief accountant and deputy chief accountant fail to meet qualification requirements; or
- a candidate for a position as a member of the credit organisation's board of directors has a business reputation which does not meet the established qualification requirements.

The Banking Law also provides a list of circumstances in which a banking license may be revoked by the CBR. These include: (1) the information upon which the license was issued or that the bank is required to disclose, is untrue and misleading; (2) the bank delays submission of its monthly report to the CBR for more than 15 days; (3) the bank conducts banking operations that are not permitted under its license; or (4) the bank's activities do not comply with Russian banking or anti money laundering legislation or CBR regulations.

The CBR must revoke a banking license from a bank if (i) its capital adequacy ratio falls below 2%, (ii) its regulatory capital is less than the minimal charter capital as set by the CBR, (iii) it fails to adjust its charter capital to its regulatory capital according to CBR requirements, (iv) the bank fails to satisfy the claims of its creditors or make mandatory payments (e.g., taxes and duties) amounting to an aggregate of RUB 100,000 or more, within 14 days of their maturity, and (v) the amount of the bank's regulatory capital is less than a certain statutory threshold during a certain defined period of time.

In December 2012, CBM requested that amendments be made to the terms of its banking licence, in order for such terms to correspond with amendments introduced to certain banking laws and regulations in connection with Federal law No.161-FZ "On the National Payment System" dated 27 July 2011. The CBR issued CBM's general banking license No. 1978 with the requested amendments on 21 January 2013.

Regulation of Acquisitions

CBR Regulation of Acquisitions

According to the Banking Law, the CBR must be notified of an acquisition of more than 1% of the share capital of, or participation interests in, a credit organisation by any individual or legal entity, or a group of individuals and/or legal entities (irrespective of whether they are residents or non-residents of the Russian Federation). The CBR must also give prior consent to an acquisition (including an acquisition on the secondary market) of more than 20% of the share capital of, or participation interests in, a credit organisation. In certain cases (such as an acquisition of more than 20% of the share capital in a public offering), post-acquisition consent of the CBR can be obtained. Furthermore in accordance with the CBR Regulation No. 130-I of 21 February 2007, as amended, prior consent of the CBR is required for the acquisition or transfer into trust of more than 20% of the share capital of a credit organisation in the form of a joint-stock company and any subsequent increase in the ownership or trust holding above the relevant thresholds of 25%, 50% and 75% as well as an acquisition or transfer into trust of 100% of the share capital of a credit organisation in the form of a joint-stock company (with respect to an acquisition or transfer into trust of participation interests in a credit institution in the form of a limited liability company, the respective thresholds are 20%, 33 1/3%, 50%, 66 2/3% and 100%). In each case an applicant must be in a satisfactory financial condition and own sufficient funds (if the applicant is an individual); or have sufficient net assets and have been in existence for at least three years (if the applicant is a legal entity). CBR's approval is valid for one year from the date of issuance, and the applicant may acquire any amount of shares/participation interests in a credit organisation within the threshold and total acquisition price stipulated in the approval.

The Federal Antimonopoly Service

The Federal Antimonopoly Service is the anti-trust regulator. It controls mergers of credit organisations, acquisitions of shares and assets of credit organisations, and acquisitions of rights that would allow an acquirer to determine the terms of commercial activity or exercise the powers of the executive body of such credit organisations.

In accordance with the Federal Law No. 135-FZ "On Protection of Competition" of 26 July 2006, as amended (the "Antimonopoly Law") and the Government Regulation No. 335 of 30 May 2007, as amended, prior consent of the FAS is required for the following actions: (i) an acquisition of more than 25% of the voting shares of a credit

organisation in the form of a joint-stock company and any subsequent increases of ownership above the thresholds of 50% and 75% of its voting shares (with respect to an acquisition of participation interests in a credit institution in the form of a limited liability company, the respective thresholds are $\frac{1}{3}$, $\frac{1}{2}$ 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% 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 24 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 24 billion.

The Antimonopoly Law provides for a 30-day review period for the pre-closing approval of transactions. The review period may be extended by an additional two months. Certain transactions require mandatory post-transactional notification to the FAS. Under the Antimonopoly Law, if an acquirer has acted in violation of the merger control rules and acquired, for example, shares without obtaining the prior approval of the FAS, the transaction may be invalidated by a court resolution issued pursuant to the FAS claim, provided that such transaction has led or may lead to the restriction of competition, for example, by means of strengthening a dominant position of the acquirer in the relevant market. More generally, Russian legislation provides for civil, administrative and criminal liability for the violation of anti-monopoly legislation.

Strategic Investments Law

The Federal Law No. 57-FZ “On the Procedure for Making Foreign Investments in Business Entities of Strategic Importance for the National Defence and Security of the Russian Federation”, dated 29 April 2008, as amended (the “**Strategic Investments Law**”) imposes certain restrictions on direct and indirect foreign equity investments in business entities registered in Russia and carrying out activities of strategic importance to national defence and security (“**Strategic Companies**”).

Any credit organisation would be deemed a Strategic Company if, in accordance with the respective licence, it is engaged in the development and production of encryption technology and IT systems that are protected by encryption data systems. In addition, a credit organisation in which the Russian Federation is a shareholder is also deemed a Strategic Company if, pursuant to respective licences, it is engaged in: (i) activities involving the distribution encryption technology; (ii) activities involving maintenance of encryption technology; or (iii) rendering services in the field of information encryption.

Pursuant to the Strategic Investments Law, foreign investors and/or their groups must notify the FAS following an acquisition of 5% or more of the share capital of a Strategic Company.

In addition, the Strategic Investments Law requires foreign investors to receive prior consent from the special state government committee (the “**State Committee**”) before acquiring control over a Strategic Company, whether through acquiring a certain quantity of voting shares or certain management rights. The Federal Law No. 160-FZ “On Foreign Investments in the Russian Federation” dated 9 July 1999, as amended, and the Strategic Investments Law also provide that any acquisition (whether direct or indirect) by a foreign state or international organisation, or entities controlled by any of them, save for certain exemptions, of (i) more than 25% of voting shares of a Russian company (including a Strategic Company), or (ii) any powers to block decisions of the management bodies of a Russian company (including a Strategic Company), require prior approval of the State Committee in accordance with the procedures set forth in the Strategic Investments Law.

Regulation of Expansion Abroad

The Banking Law authorises Russian credit organisations to incorporate subsidiaries and to open branches outside the Russian Federation with the prior approval of the CBR if the credit organisation has, among other requirements, a general license. The opening of a representative office of a Russian credit organisation outside the Russian Federation requires notification to be made to the CBR.

Regulation of Retail Banking

According to the Deposit Insurance Law, participation of a bank in the retail deposit insurance system is subject to certain requirements, which include sufficient financial stability, provision of true and accurate financial statements and/or reports to the CBR and full compliance with the CBR mandatory ratios.

Under the Deposit Insurance Law, protection for each client is limited and banks are required to make quarterly payments into a deposit insurance fund. Reimbursement is paid in full in relation to all deposits, however, the amount of any reimbursement shall not exceed RUB 700,000. Compensation from the deposit insurance fund is payable to a depositor, if a bank's licence has been revoked or if the CBR has imposed a moratorium on payments.

The Federal Law No. 96-FZ of 29 July 2004 “On Reimbursements by the Bank of Russia of Individual Deposits Held in Bankrupt Banks Not Participating in the Mandatory Individual Deposit Insurance System for Russian Banks”, as

amended (the “**Uninsured Deposits Law**”), establishes a protection system for retail clients of banks that did not participate in the retail deposit insurance system. The Uninsured Deposits Law contemplates, *inter alia*, that the CBR will make payments to the individual depositors of bankrupt Russian banks if such banks have not been admitted to the system of insurance of retail deposits prior to their bankruptcy. Under the Uninsured Deposits Law, reimbursement is paid in full in relation to all deposits, however, the amount of any reimbursement shall not exceed RUB 700,000.

In August 2012, the Russian government proposed amendments to the CBR Law that were passed by the State Duma in its first hearing in December 2012. If those draft amendments are adopted into law, the CBR will have the power to limit interest rates on deposits offered by, and to appoint authorised representatives to (i) a credit organisation ranked within the top 100 credit organisations, as determined on the basis of assets and/or total funds deposited by retail and/or corporate clients, and (ii) a credit organisation, if its corporate and/or retail deposits equal or exceed 5% of the aggregate amount of retail and/or corporate deposits within a sub-federal unit of Russia.

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

On 3 September 2012 draft amendments to the Banking Law, prohibiting loan transactions with excessively onerous terms, was introduced in the State Duma of the Russian Federation. However, as at the date of this Prospectus, the first reading of the draft has not been scheduled. According to these amendments, the full value of the loan provided to an individual borrower cannot exceed a value of double the average full value for loans of a respective type (being a corresponding average value calculated by the CBR for a preceding quarter). If such circumstances arise, upon a claim by the borrower, the court can reduce the amount of interest and other charges applicable under the corresponding loan agreement. The CBR should establish a list of the respective types of loans and methodology of a quarterly calculation of their average full values.

Regulation of Anti-Money Laundering and Terrorist Financing

In August 2001, the Federal Law No. 115-FZ “On Combating the Legalisation (Laundering) of Income Obtained by Criminal Means and Terrorist Financing” (the “**Money Laundering Law**”) was adopted to comply with the requirements of the Financial Action Task Force on Money Laundering (“**FATF**”). The Money Laundering Law came into effect on 1 February 2002 and was subsequently amended multiple times. Credit organisations are required to comply with the provisions of the Money Laundering Law relating to, among other things, the development of appropriate internal standards and procedures, identification of the client, its representative and ultimate beneficiary, control over client operations and reporting suspicious operations performed by clients.

One of the main obligations of banks under the Money Laundering Law is the control function that involves the identification of banks' clients, their representatives and ultimate beneficiaries, gathering and recording of information with respect to client operations subject to control and the reporting of such operations to the Federal Service for Financial Monitoring, the anti-money laundering authority in Russia. The Money Laundering Law requires that banks control any operation with funds or other property, if the amount of such operation is equal to or exceeds 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 Money Laundering Law, in particular, foreign exchange operations that do not exceed RUB 15,000.

On 21 November 2011, amendments to the Money Laundering Law came into force, requiring credit organisations to develop and adopt new internal control regulations based on the requirements set out by the CBR Regulation No. 375-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

Regulation of Credit Histories

In December 2004, the Federal Law No. 218-FZ “On Credit Histories” was adopted. This law, as amended, provides for the establishment of “credit bureaus” that will maintain a database of retail borrowers' credit histories. The law requires all credit organisations, starting from 1 September 2005, to provide at least one credit bureau with the credit histories of all borrowers that have consented to the distribution of their credit histories. The borrower's credit history consists of both public and confidential information and must include, among other matters, information on the borrower's outstanding debt and interest on it, the terms of repayment and any legal proceedings involving the borrower in respect of loans and financings. The borrower's credit history may be distributed to a third party with the borrower's prior consent, which remains valid for one month after it has been granted. The general catalogue of credit histories is maintained by the CBR and includes cover pages of all credit histories and information about the credit bureau that maintains each credit history. The credit bureaus are supervised by the FSFM. As at 25 February 2013 the FSFM has registered 26 credit bureaus.

Regulation of Currency Control

Notwithstanding significant liberalisation of the Russian currency control regime in the last decade, the Currency Law continues to impose some limitations on currency operations. In particular, foreign currency operations between Russian residents are generally prohibited (except for certain specified operations, including foreign currency transactions between Russian authorised banks listed in the CBR Directive No. 1425-U of 28 April 2004). Moreover, certain limitations not applicable to credit organisations apply to the credit organisations' clients, such as the requirement to notify the Russian tax authorities of an opening of a bank account abroad. Finally, credit organisations are required to perform the functions of currency control agents: i.e., supervise compliance by residents and non-residents, as such terms are defined in the Currency Law, with the restrictions imposed by currency laws and regulations, including the requirements imposed on residents to maintain transaction passports for certain cross-border transactions and repatriate, subject to certain exceptions, export-related earnings to Russia.

The Insider Dealing Law

The Federal Law No. 224-FZ “On Combating the Unlawful Use of Insider Information and Market Manipulation and Introducing Amendments to Certain Legislative Acts of the Russian Federation” dated 27 July 2010, as amended, (the “**Insider Dealing Law**”) came into force on 31 July 2011, save for the regulation regarding criminal liability for unlawful use of insider information and revocation of a banking license due to multiple instances of non-compliance with the Insider Dealing Law within a period of one year. The Insider Dealing Law lists categories of persons that can be considered insiders, including, among others, issuers, management companies, professional market participants (including brokers and dealers) and other persons who perform transactions, on behalf of their clients, involving financial instruments, foreign currency and/or goods, and who have received insider information from such clients. Furthermore, insiders must comply with certain new disclosure requirements, including maintaining an insiders list and sending notices of transactions by insiders to the FSFM and the relevant legal entities. Under the Insider Dealing Law, any person who illegally uses insider information and publishes misleading information may be held liable for misuse of information and/or market manipulation. In implementing the Insider Dealing Law and pursuant to the CBR Regulation No. 2723-U of 31 October 2011, the CBR began to disclose certain facts relating to Russian banks on its website, including, (i) the status and results of its inspections, (ii) licence revocations, (iii) cases in which an administrative liability has been imposed on a credit organisation and/or its CEO, (iv) an invalidation of the CBR's approval for taking retail deposits and opening and maintaining bank accounts for individuals, and (v) the stages of issuance of securities by banks. As the Insider Dealing Law was recently implemented, its specific interpretation and application is not yet certain.

Financial Consumer Protection

Financial consumer protection is generally based on the Law of the Russian Federation No. 2300-1 of 7 February 1992, “On Protection of Consumers Rights”, as amended (the “**Consumer Protection Law**”). According to the Resolution of the Supreme Court of Russia No. 7 of 29 September 1994, the Consumer Protection Law is applicable to relations arising from financial services agreements, if entered into by retail customers for non-commercial purposes (including

lending, settlement operations, opening and maintenance of bank accounts of retail consumers, and custody of securities).

In September 2011, the Supreme Arbitration Court issued further guidelines relating to the protection of financial consumers' rights. The Supreme Arbitration Court upheld the existing banks' practices of selling bad loans to specialised debt collection companies that typically function without a banking license, by stating that an assignment by a bank of non-performing retail loans to a non-banking organisation, complies with the legislation, and does not require a borrower's consent. However, on 28 June 2012, the Supreme Court supported the opposing position in its Resolution No. 17 "On Consideration by Judges of Civil Cases on Consumer Protection Disputes". Contrary to the position of the Supreme Arbitration Court, the Supreme Court declared that the assignment by banks of receivables under retail loan agreements to non-banking organisations was inconsistent with the Consumer Protection Law, except where a borrower has consented to the assignment in advance.

In addition, a financial ombudsman, established as a non-governmental independent body at the Association of Regional Banks of Russia to consider and help resolve banks' disputes with consumers, has been active in Russia since October 2010. If the value of a dispute does not exceed a set threshold, a retail bank customer may turn to the financial ombudsman at the pre-trial stage in order to settle with the bank to avoid the need to go to court. Although decisions of the financial ombudsman are not binding, there have recently been various legislative initiatives in relation to the introduction of binding dispute settlement procedures involving the financial ombudsman.

In 2012, the Russian Ministry of Finance proposed a draft law on "Consumer Loans", which is intended to bring more transparency into, and a higher level of regulation of, the interaction between Russian banks and retail borrowers. Among other things, the draft law, if enacted, would limit the amount of fees and penalties which an individual borrower may be charged on a loan, introduces cooling-off periods in connection with loans and requires detailed disclosure by banks of lending terms to retail borrowers. However, as at the date of this Prospectus, the draft has not been submitted to the State Duma.

The National Payment System Law

The Federal Law No. 161-FZ "On the National Payment System" was adopted on 27 June 2011, which, for the most part, came into force on 29 September 2011. This law provides the legal and organisational principles of the national payment system, and also establishes the procedure for rendering payment services, including transferring monetary funds and the use of electronic means of payment. Furthermore it establishes the requirements for the organisation and operation of payment systems, and the procedure for monitoring and supervising the national payment system. This law provides that only credit institutions may carry out electronic transfers of monetary funds. Credit institutions may enter into agreements with other organisations, under which the latter may render to the credit institutions operational and clearing services for the electronic transfer of monetary funds.

Accession of Russia to the WTO

On 16 December 2011, Russia signed the Protocol on its accession to the World Trade Organisation ("WTO"). The ratification procedures were completed on 21 July 2012, and on 22 August 2012 the accession to the WTO became effective. However, in relation to its banking sector, Russia made a reservation that it would review market access requirements for the establishment of branches of foreign banks and securities firms in the context of future negotiations on the accession of Russia to the OECD or within the framework of the next round of the WTO's multilateral trade negotiations. Currently, the CBR allows foreign banks either (i) to incorporate a subsidiary bank in Russia regulated by the CBR, or (ii) to maintain a representative office in Russia. A subsidiary of a foreign bank can only perform the operations stated in the scope of its Russian banking license, which must comply with Russian laws and CBR regulations (including regulations on mandatory ratios). Activities of a representative office are limited to facilitating banking operations and representing interests of the foreign parent. At present, a foreign bank may establish a subsidiary or a representative office in Russia, subject to the CBR's approval and provided that, among other things, the parent bank has a good reputation and has a good financial standing in its home country. In 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% of the total equity capital of all credit organisations registered in Russia. If the threshold is exceeded, the CBR will have a right (i) not to authorise new foreign investments in the banking sector, and/or (ii) to impose a temporary ban on disposals of banks' equity capital to foreign investors, including, through an increase of equity capital at the account of a foreign investor.

Regulation of Mortgage-Backed Securities

As part of the development of consumer lending legislation in Russia, the Federal Law No. 152-FZ “On Mortgage-Backed Securities” (the “**Mortgage-Backed Securities Law**”) and amendments to the Civil Code, the Tax Code and the Federal Law No. 102-FZ “On Mortgage” were enacted between 2003 and 2004. Under these laws, Russian legislators attempted to make mortgage lending attractive to banks and affordable to individuals, by simplifying the applicable procedures and making them more transparent and less costly. This legislation was also intended to introduce improved regulation of mortgage-backed securities in order to make them more attractive for investors. Several issues of mortgage-backed securities were placed in accordance with the Mortgage-Backed Securities Law between 2006 and 2008.

In addition, under a separate Federal Law No. 264-FZ dated 22 December 2008, important changes were made to the procedures for recording mortgage certificates, in order to facilitate transactions with such certificates and assist the issuance of mortgage-backed securities.

An owner of mortgage certificates may submit them to a 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.

Measures to Support the Banking and Finance System

Since October 2008, a set of federal laws and regulations was adopted to support the liquidity of the Russian banking sector, restore investor confidence and support mid-term economic growth of the Russian economy by facilitating credit across the Russian banking sector. The Federal Law No. 173-FZ “On the Additional Measures to Support the Financial System of the Russian Federation”, dated 13 October 2008, as amended (the “**Financial System Support Law**”), introduced the framework principles to support the financial system of the Russian Federation and provided for specific measures and actions to be taken by the CBR and Vnesheconombank.

Under the Financial System Support Law, the Government and the CBR provided up to 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% of the credit organisation's assets, (iii) relate to the performance of any obligations, if the book value of such obligations exceeds 1% of the credit organisation's liabilities, (iv) relate to any transfer of funds to foreign banks, if the amount transferred exceeds 1% of such credit organisation's assets, or (v) are made with an interested party, affiliate, or an entity with respect to which such credit organisation is an interested party, if the amount of such transaction or operation exceeds 0.5% of the book value of the credit organisation's assets (liabilities).

According to the CBR Directive No. 2181-U of 9 February 2009, as amended, an authorised representative of the CBR can also request (i) information on assets securing the CBR loan, (ii) security agreements securing the CBR loan (if any), (iii) extracts provided by the depository 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 mandatory 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, 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. According to the Banking System Stability Law, such financial instability is deemed to exist when, among other things:

- (1) a bank is insolvent, which is legally defined as the inability to satisfy monetary claims of creditors and/or fulfil obligations to make mandatory payments (such as taxes and budget payments). A credit organisation is considered unable to satisfy such claims if the relevant obligations are not fulfilled within 14 days after the date when they became due or when its property (assets) is insufficient to satisfy them; or
- (2) a bank is unable to comply with the provisions of the CBR's legal acts and/or regulations (in terms of mandatory ratios, capital adequacy, own funds, amount of charter capital, reserves, other financial numbers, etc.); or
- (3) the CBR decides that there are grounds to consider the financial stability of the bank to be insufficient.

The financial instability of a bank is usually connected with the presence of grounds for banking license 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.

As of 1 April 2013, financial rehabilitation measures were in place in respect of five Russian banks. In respect of four such banks outside investors were involved, and in respect of one such bank the rehabilitation measures were carried out by the Deposit Insurance Agency itself because the Deposit Insurance Agency was the relevant bank's shareholder. Rehabilitation plans had been completed with respect to 11 banks as of that date (and assets and obligations of another three banks were transferred to financially stable banks as part of such rehabilitation plans).

The total volume of financing of rehabilitation measures that had been implemented by the Deposit Insurance Agency in respect of Russian banks as of 1 April 2013 was RUB 470.24 billion, out of which RUB 332.27 billion utilised CBR funds and RUB 137.97 billion utilised funds contributed by the Russian Federation to the Deposit Insurance Agency. The total number of liquidation procedures that had been implemented in respect of Russian banks as of 1 April 2013 was 115, with 66 credit organisations registered in Moscow and the Moscow Region and 49 in other regions. These credit organisations collectively had 72,307 creditors with a total volume of claims equal to RUB 299,808 billion as of 19 April 2013.

The total number of liquidations that have been performed by the Deposit Insurance Agency since the date of its establishment in 2004 is 297. The total number of completed liquidations is 182.

Regulation of Insolvency

Pursuant to the Federal Law No. 40-FZ of 1999 February 25 "On Insolvency (Bankruptcy) of Credit Organisations", as amended (the "**Bank Insolvency Law**"), bankruptcy proceedings may not be initiated against a credit organisation before its licence is revoked.

Petition to the CBR for Licence Revocation

Under the Bank Insolvency Law, if a credit organisation cannot satisfy its creditors' claims and/or make mandatory payments to the budget, within 14 days of those obligations becoming due, and/or the value of its assets is insufficient to satisfy creditors' claims and/or make mandatory payments to the budget, the following persons may petition the CBR

to revoke the credit organisation's banking licence, subject to certain procedural and evidentiary rules (the respective filing being a “**Licence Revocation Petition**”):

- the credit organisation itself;
- its creditors; and
- authorised governmental authorities.

If the CBR fails to respond to the Licence Revocation Petition within two months after its filing, or denies the revocation of the credit organisation's banking license, the respective petitioners can petition a court to declare the credit organisation insolvent (the respective filing being an “**Insolvency Petition**”). If an Insolvency Petition is filed with a court, while the banking licence of the allegedly insolvent credit organisation has not yet been revoked, the court must adjourn its consideration of the Insolvency Petition and request the CBR to either opine on whether there are grounds for revocation of the credit organisation's banking licence or, as the case may be, to provide the CBR order pursuant to which the credit organisation's licence has been revoked. If the CBR issues a negative opinion or fails to respond within one month, the Insolvency Petition must be dismissed. In the latter case, the CBR becomes liable for any losses the respective petitioner incurs as a result of the non-revocation of the banking licence or, as the case may be, as a result of a failure by the CBR to take insolvency preventive measures in respect of such credit organisation.

On revocation of banking licenses, see “– *Licensing Requirements*”.

Consequences of the CBR Decision to Revoke a Banking License

If, in response to a Licence Revocation Petition, the CBR revokes the credit organisation's banking licence, any of the following entities can file an Insolvency Petition, subject to certain procedural and evidentiary rules:

- the credit organisation itself;
- its creditors;
- authorised governmental authorities; and
- the CBR.

Upon revocation of the credit organisation's banking licence, the CBR must appoint an interim administration for the credit organisation (if the CBR has not appointed such interim administration earlier, e.g., under certain circumstances set forth in the Bank Insolvency Law indicating the deteriorating financial condition of the credit organisation). The powers of the interim administration last until the appointment of a receiver. See “– *Appointment and Powers of a Receiver*”. Within two months after an Insolvency Petition is filed, the court should decide on the insolvency of the credit organisation and, if applicable, the opening of a receivership. A nationwide newspaper “Kommersant” and a local periodical must publish information on the court's decision that declared the credit organisation insolvent. Such publications must state, among other things, the time frame for the filing of, and satisfaction of, the creditors' claims.

Appointment and Powers of a Receiver

Once a court declares a credit organisation insolvent:

- if the credit organisation did not hold a retail banking licence, the court appoints a CBR-accredited receiver; or
- if the credit organisation held a retail banking licence, the Deposits Insurance Agency acts as a receiver.

Upon his appointment, the receiver assumes all the management and liquidation powers of the credit organisation's operations. The receiver's appointment is initially for one year, but may be extended for a further six-month period. The receiver's authority includes:

- analysis of the credit organisation's financial standing;
- valuation of its assets;
- identification of its creditors and providing them with a notice of the credit organisation's insolvency;
- identification of debtors and demanding performance of their obligations to the estate of the insolvent credit organisation; and
- other powers, as set forth under the Bank Insolvency Law.

The receiver reports to a committee of creditors and to the CBR, subject to the court supervision.

Invalidation of Transactions and Refusal to Perform Obligations

Under the Bank Insolvency Law, upon the receiver's petition, the court may invalidate, among others, the following transactions of an insolvent credit organisation (subject to certain exceptions, including, transactions made in the ordinary course of business with a value not exceeding 1% of the total book assets of the credit organisation and certain stock exchange transactions):

- transactions made within one year prior to the appointment of the interim administration, if the consideration received under such transaction is deemed “unequal”, i.e., if the price and/or other terms of such transaction were significantly less favourable to the credit organisation than those of a similar transaction made under comparable circumstances;
- transactions made within three years prior to the appointment of the interim administration, if the credit organisation made the transaction with the intent of prejudicing the property interests of creditors, provided that the transaction caused damage and the counterparty was aware of such intent of the credit organisation; or
- transactions which lead, or may lead, to the preferential satisfaction of one creditor's claims over other creditor's claims and was (i) made within one month prior to the appointment of the interim administration, or after the appointment of the interim administration, or (ii) made within six months prior to the appointment of the interim administration, where the counterparty was aware (or should have been aware) that the credit organisation could be insolvent when the transaction was made, or if such transaction aimed at creating preferences for a particular creditor, or impaired, or could impair, the existing priority of claims.

In addition, under the Bank Insolvency Law, the receiver may generally refuse to perform any transaction that results in losses to the credit organisation, where a similar transaction entered into under comparable circumstances would not ordinarily result in such losses.

Priority of Claims

Under the Bank Insolvency Law and the Bankruptcy Law, the claims of creditors of a credit organisation that participates in the Deposit Insurance System, generally rank in the following order of priority:

- current claims which have emerged during the insolvency proceedings, including insolvency administration and related salary costs, salaries, utilities bills, legal expenses, ongoing taxes and other payments;
- first priority claims, including:
 - o claims in tort for damages to an individual, as a result of physical or moral harm;
 - o 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);
 - o claims of the Deposits Insurance Agency in respect of deposits and current accounts assigned to it pursuant to the Deposit Insurance Law;
 - o claims of the CBR relating to payments made by the CBR to retail depositors of insolvent credit organisations not participating in the Deposit Insurance System;
- second priority claims include claims under employment contracts and other social benefits, and authorship copyright claims;
- third priority claims include claims secured by a pledge of the credit organisation's assets (any residual claims of secured creditors that remain unsatisfied after the sale of such collateral rank *pari passu* with claims of unsecured creditors (e.g. forth priority claims), as well as certain claims of retail depositors that do not constitute first priority claims);
- fourth priority claims are claims of all other creditors (including tax authorities), except for claims of subordinated creditors; and
- fifth priority claims are claims of subordinated creditors.

Claims of each category of creditors must be satisfied in full before proceeding to claims of the successive category. However, current claims must be satisfied from the estate without regard to the above priorities, during any point of the bankruptcy proceedings.

Completion of Insolvency Proceedings

Upon the collection of debts and satisfaction of claims, to the extent possible, the receiver submits a report to the court. The court will then decide whether to continue or close the insolvency proceedings.

Capital Requirements

The Banking Law sets a minimum charter capital and regulatory capital requirement for banking institutions, which is currently RUB 300 million (with certain exceptions). If a bank's regulatory capital falls below its charter capital, it is required to adjust its regulatory capital (or, if this is impossible, its charter capital, within applicable limits) in accordance with procedures set by the CBR. A minimum regulatory capital requirement of RUB 900 million applies for obtaining a license 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 Basel Accords. It is, however, less sophisticated than the Basel Accords in certain respects. Over recent years, the CBR, in cooperation with Russian banks, has started preparing the implementation of international approaches to the capital adequacy of credit organisations under Basel II. Currently, the standardised approach for credit risks of Basel II as set forth in Pillar 1 “Minimum Capital Requirements” is being applied in Russia. The CBR has also started preparing for the implementation of the internal ratings-based approach of Basel II Pillar 1.

As part of the introduction of the Basel II Pillar 2 “Supervisory Review Process”, the CBR issued the Letter No. 96-T of 29 June 2011 “On Methodical Recommendations for Credit Organisation on Arranging Internal Procedures for Capital Adequacy Assessment” (the “**Methodical Recommendations**”). Under the Methodical Recommendations, credit organisations are recommended to expand and use the respective internal procedures for capital adequacy assessment, which comprise the process of assessment by a credit organisation of the adequacy of its own capital, i.e. its internal capital to cover accepted and potential risks, in addition to having such procedures 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 Government together with the CBR and adopted on 5 April 2011 (“**Banking Sector Development Strategy**”), the implementation of Basel II Pillar 2 and the internal ratings-based approach of Basel II Pillar 1 in Russia will commence approximately in 2014 and 2015, respectively.

The Banking Sector Development Strategy also contemplates the introduction in Russia of “International Regulatory Framework for Banks” (“**Basel III**”) to be applied as follows: (i) capital requirements between 2013 and 2015; (ii) capital conservation buffer between 2016 and 2018; (iii) leverage ratio starting from 1 January 2018; (iv) liquidity coverage ratio starting from 1 January 2015; and (v) net stable funding ratio starting from 1 January 2018. Basel III will, among other things, increase minimum common equity and minimum Tier 1 capital as a percentage of risk-weighted assets and introduce additional capital conservation and countercyclical buffers. These risk-based capital requirements will be complemented by a leverage ratio of Tier 1 capital to total exposures (including on-balance sheet and off-balance sheet items).

As part of the implementation of Basel III in Russia, Regulation 395-P entered into force on 1 March 2013 (with limited exceptions for certain limited parts of the regulation). For purposes of reporting with the CBR, Russian banks will need to calculate their regulatory capital under the new rules as from the reporting quarter beginning on 1 April 2013. All subordinated instruments (loans, deposits or subordinated domestic bonds) (“**Subordinated Instruments**”) issued or received before 1 March 2013 that are currently included into Tier 1 capital, and those that are included into Tier 2 capital but which do not meet the requirements of Regulation 395-P, are subject to gradual amortisation at 10% per annum beginning 1 April 2013 (except for the subordinated loans granted pursuant to the Financial System Support Law and the Banking System Stability Law which will begin to amortise on 1 January 2018) and thereafter on 1 January of each subsequent year. In effect, at the relevant date each year 10% of the sum of the relevant instrument that is counted towards the regulatory capital will cease to qualify as such capital. The amortisation requirement applies to Subordinated Instruments currently included into either Tier 1 or Tier 2 capital under the current CBR Regulation No 215-P dated 10 February 2003 “On the method of determination of own funds (capital) of credit organisations” (“**Regulation No.215-P**”). See “–*Subordinated Debt – Pre-Regulation 395-P Requirements*”. Subordinated Instruments issued or received after 1 March 2013 which do not meet the requirements of Regulation 395-P do not count towards a bank's regulatory capital. Therefore, in order to qualify as regulatory capital, a Subordinated Instrument of a Russian bank will have to comply with the Tier 1 or Tier 2 capital eligibility requirements set out in Regulation 395-P.

Regulation 395-P does not stipulate when the CBR will start to apply sanctions for non-compliance. However, CBR officials have unofficially indicated in the past that sanctions will be applied as of 1 October 2013. Therefore, from 1 March 2013 until the anticipated date of 1 October 2013, there appears to be a testing period during which the CBR will monitor the extent to which Russian banks are prepared for compliance with the new rules. During this period the current Regulation 215-P will remain in force and Subordinated Instruments issued or granted during this period are subject to both Regulation 215-P and Regulation 395-P.

Subordinated Debt – Pre-Regulation 395-P Requirements

CBR regulations currently distinguish between core capital and supplemental capital (together, “**own funds**” or “**regulatory capital**”) and require that the supplemental capital (Tier 2 capital) be no more than 100% of the core capital (Tier 1 capital) and that subordinated debt (“**Subordinated Debt**”) (which can be included into the core or supplemental capital) not exceed 15%, 50% or 100% of the core capital (depending on the terms of such subordinated debt).

Supplemental (Tier 2) Capital

Subordinated Debt (in the form of loans, deposits or subordinated domestic bonds) is included in the supplemental capital if the following criteria are satisfied:

- its term is no less than five years;

- it includes a provision prohibiting, without the consent of the CBR, (a) the early redemption of the debt, or any part of, or interest in, the debt, and (b) the early termination and/or amendment of the agreement (Regulation No. 215 – P, allows for certain variations to redemption terms; however, in such case an actual redemption is subject to the CBR's consent);
- the terms of the debt, as at the date such loan agreement is entered into (or amended) or such subordinated domestic bonds are placed, do not materially differ from the prevailing market terms of similar debt;
- the agreement specifically provides for the lowest creditor priority ranking of the creditor in the event of the borrower's bankruptcy;
- the debt is unsecured; and
- individuals are not party to the agreement.

The qualification of subordinated debt as supplemental capital is subject to consent of the CBR. The borrower may initiate the approval procedure of the CBR before the funds are disbursed or the subordinated loan is signed, by submitting a loan agreement or its draft for the CBR's consideration. As a result of its review, the CBR territorial branch may respond with comments or may issue a preliminary conclusion confirming that the agreement complies with CBR regulations. The final conclusion shall confirm the CBR's consent to the inclusion of the Subordinated Debt into supplemental capital.

The Subordinated Debt is included into the supplemental capital from the date following the date of the CBR's consent, but in any event not before the bank actually receives the funds.

Regulation No. 215-P provides that, generally, subordinated debt may not exceed 50% of a credit organisation's core capital. However, if the term of the subordinated debt is ten or more years, such subordinated debt, together with any other Subordinated Debt outstanding, less the subordinated debt treated as core (Tier 1) capital, may comprise up to 100% of the credit organisation's core capital, provided that its underlying agreement allows the CBR to suspend the payment of the principal and/or interest, if such payment would trigger the implementation of bankruptcy prevention measures in respect of such credit organisation.

According to Regulation No. 215-P, during the last five years of the term of a subordinated loan, it is counted towards the supplemental capital on an amortised basis, while prior to that the full principal amount of the subordinated loan counts.

Special amortisation rules apply to the Subordinated Debt providing for the borrower's right to prepay the loan (such right in any case may not be exercised earlier than five years from the date when the subordinated debt was included in the supplemental capital). If, in accordance with interest step-up provisions, interest increase does not exceed 150 bps (1/100%), subordinated debt must be amortised from the date of its scheduled maturity. In other cases, the subordinated debt must be amortised from the date of when the right to prepay the loan may potentially be exercised.

Core (Tier 1) Capital

Subordinated debt can be included in the core capital of a credit organisation, if, in addition to the above listed criteria of subordinated debt included into supplemental (Tier 2) capital debt, it satisfies the following terms (the “**Subordinated Debt with Additional Terms**”):

- its term is no less than 30 years;
- it provides for the cancellation and non-accrual of the interest upon the occurrence of the grounds for the implementation of the bankruptcy prevention measures in respect of the credit organisation as provided by the Insolvency Law;
- it provides that the losses involved in the implementation of bankruptcy prevention measures in respect of the credit organisation shall be offset by other sources of core capital and the losses not so offset shall be offset by a full or partial write-down of the principal amount of the loan;
- the credit organisation may prepay the loan not earlier than 10 years after the date the Subordinated Debt with Additional Terms was included in the core capital, provided that, if not prepaid, the increased interest rate shall be capped at 100 bps or 50% of the initial interest rate; and
- the CBR has a right to suspend payments of principal and/or interest under the loan agreement, if making such payments would lead to the occurrence of the grounds for the implementation of bankruptcy prevention measures in respect of the credit organisation.

Regulation No. 215-P also allows for Subordinated Debt with Additional Terms to provide for the reinstatement of the principal amount of the loan from the profits of the credit organisation prior to their distribution, once the grounds for implementation of bankruptcy prevention measures in respect of the credit organisation cease to exist. However, no specific mechanism for such reinstatement is provided for by the CBR regulations or other Russian laws. Any early prepayment of the subordinated loan, on the initiative of the credit organisation is subject to the prior consent of the CBR. The CBR will not grant its consent should the grounds for bankruptcy prevention measures exist at the time the

application is being considered by the CBR, or may arise as a result of the prepayment of the Subordinated Debt with Additional Terms.

Subordinated Debt with Additional Terms is included into the core (Tier 1) capital from the date following the date of the CBR's consent, but in any event not before the bank actually receives the funds.

Subordinated Debt with Additional Terms must not comprise more than 15% of the credit organisation's core (Tier 1) capital.

Subordinated Debt - New Requirements Under Regulation 395-P

Regulation 395-P distinguishes between core capital (*osnovnoi kapital*) and supplemental capital (*dopolnitennyi kapital*) (together, “**own funds**” or “**regulatory capital**”). Core capital is further divided into base capital (*bazovyi kapital*) and additional capital (*dobavochnyi kapital*).

Pursuant to Regulation 395-P, the own funds (capital) of Russian banks is determined as the amount of its Tier 1 capital (consisting of the base capital and the additional capital) and Tier 2 Capital less certain items listed in Regulation 395-P. Regulation 395-P introduces to Russian banking legislation the concept of equitisation of subordinated debt (while retaining the concept of write-down and cancellation of subordinated debt instruments) and a requirement for banks and other credit organisations to have in place a shareholder assistance commitment, which features have been derived from the Basel III regulations. See “*Risk Management – Financial Rehabilitation Plan*”.

Regulation 395-P provides for a number of new capital ratios for Russian banks, including the Base Capital Adequacy Ratio referred to in item 5 of paragraph 2.3.1 of Regulation 395-P. The Base Capital Adequacy Ratio is the Russian implementation of the “Common Equity Tier 1 Ratio” in Basel III, although it is calculated differently. The Base Capital Adequacy Ratio is calculated as the ratio of (A) the net amount of a bank's base capital (i.e., the main part of a bank's Tier 1 capital less the deductions listed in paragraph 2.2 of Regulation 395-P) to (B) the sum of the bank's (i) credit risk on risk-weighted assets (decreased by the amount of reserves), (ii) credit risk on credit related commitments, (iii) credit risk on forward transactions and derivatives, (iv) operational risk and (v) market risk, as such terms are determined under applicable CBR regulations. The Base Capital Adequacy Ratio is calculated using numbers prepared based on Russian Accounting Standards (RAS). See “*Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Adequacy – Base Capital Adequacy Ratio under Regulation 395-P*”.

Supplemental (Tier 2) Capital

- a. Subordinated Debt (in the form of loans, deposits or subordinated domestic bonds) is included into the supplemental capital if the following criteria are satisfied:
 - i. the credit organisation does not undertake an obligation to repay the debt prematurely;
 - ii. the terms of the debt, as at the date such loan 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;
 - iii. the agreement cannot be amended without the consent of the CBR; and
 - iv. the agreement specifically provides for the lowest creditor priority ranking of the creditor in the event of the borrower's bankruptcy.
- b. In order to qualify as supplemental capital the agreement must also include the following additional terms:
 - i. its term is no less than five years;
 - ii. Subordinated Debt may not be prepaid at the initiative of the credit organisation earlier than five years after its inclusion in the supplemental capital; and
 - iii. 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.
- c. Subordinated Debt may not be included into the supplemental capital:
 - i. 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;
 - ii. if it is in the non-monetary form;
 - iii. 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

- iv. in the case of a placement of pension reserves of non-state pension funds.
- d. Further, Regulation 395-P provides that Subordinated Debt may be included into the supplemental capital if the agreement states that upon occurrence of a Loss Absorption Event (as defined below for the purposes of this section “*Banking Regulation in Russia*” only):
 - i. the obligations of the borrower are deemed to be discharged from the day of conversion of the Subordinated Debt into common stock of the credit organisation and provided that the subordinated domestic bonds (if applicable) are then cancelled;
 - ii. Subordinated Debt shall be converted into common stock of the credit organisation;
 - iii. unpaid interest shall not be paid out and shall not accrue (except in the case of an issue of subordinated domestic bonds); or
 - iv. losses of the credit organisation shall be covered by the principal amount of the Subordinated Debt (except in the case of an issue of subordinated domestic bonds).

For the purposes of this section “*Banking Regulation in Russia*” only, “**Loss Absorption Event**” means either of the following: (a) the Base Capital Adequacy Ratio of the credit organisation becomes lower than 2%; or (b) the Deposit Insurance Agency in consultation with the CBR has notified CBM that bankruptcy prevention measures are being implemented in accordance with the Federal Law “On Additional Measures to Consolidate the Stability of the Banking System in the period to 31 December 2014.

The provisions of the agreement set out in iii. and iv. of point d. above must become effective no later than (i) 30 days after the Base Capital Adequacy Ratio of the credit organisation becomes lower than 2% or (ii) when bankruptcy prevention measures are implemented in respect of the credit organisation and must remain effective until these events are rectified.

Regulation 395-P provides that both principal and interest under a Subordinated Debt can be written down (as per point d. iv. above) in case in the case of a Loss Absorption Event as an alternative to the equitisation of subordinated debt described in point d. i. and ii. above.

Conversion of the Subordinated Debt into common stock of the credit organisation upon occurrence of a Loss Absorption Event may occur only if it is expressly provided for in the Subordinated Debt agreement. If the agreement does provide such a provision, the conversion of the Subordinated Debt and resulting issuance of common stock shall be performed based on a decision of the authorised management bodies of the credit organisation.

Regulation 395-P is unclear as to whether principal and interest of the Subordinated Debt shall be written down permanently upon occurrence of the Loss Absorption Event or whether their payment shall be suspended until the Loss Absorption Event is rectified.

The Subordinated Debt agreement must provide that, if the measures set out in point d. above prove insufficient to rectify the Loss Absorption Event, the shareholders of the credit organisation shall undertake measures to rectify such Loss Absorption Event. However, Regulation 395-P is unclear as to the nature and scope of such measures and the consequence of such measures not being undertaken by the shareholders. This requirement is unprecedented and in the absence of regulatory guidance its practical implementation as a whole remains uncertain. See “*Risk Management – Financial Rehabilitation Plan*”.

During the last five years of the term of Subordinated Debt, it is counted towards the supplemental capital on an amortised basis, while prior to that the full principal amount of the Subordinated Debt is counted.

Special amortisation rules apply to Subordinated Debt providing for the borrower's right to prepay the loan (such right in any case may not be exercised earlier than five years from the date when the subordinated debt was included in the supplemental capital).

Additional Core (Tier 1) Capital

- a. Subordinated Debt can be included into the additional core capital of a credit organisation if:
 - i. it satisfies the criteria listed in (a) above for supplemental capital;
 - ii. it is perpetual;
 - iii. the Subordinated Debt agreement is governed by laws of a jurisdiction (other than Russia) that allows for perpetual debt.
- b. Subordinated Debt may not be included into the additional core capital:

- i. if it is secured by assets: (i) provided directly or indirectly by the credit organisation or (ii) sourced or originated from the assets of the credit organisation or (iii) provided by third parties if the credit organisation assumed the risks of losses which may arise in connection with the provision of such security;
 - ii. if it is in non-monetary form;
 - iii. 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
 - iv. in the case of a placement of pension reserves of non-state pension funds.
- c. Subordinated Debt may be included into the additional core capital if the agreement states that if the Base Capital Adequacy Ratio of the credit organisation becomes lower than 6.4% (the “**Additional Core Capital Trigger Event**”):
- i. the obligations of the borrower are deemed to be discharged from the day of conversion of the Subordinated Debt into common stock of the credit organisation and provided that the subordinated domestic bonds are then cancelled;
 - ii. Subordinated Debt shall be converted into common stock of the credit organisation;
 - iii. unpaid interest shall not be paid out and shall not accrue; or
 - iv. losses of the credit organisation shall be covered by the principal amount of the Subordinated Debt.

The provisions of the agreement set out in iii. and iv. of point c. above must become effective no later than 30 days after occurrence of Additional Core Capital Trigger Event and must remain effective until it is rectified.

Regulation 395-P is unclear as to whether principal and interest of the Subordinated Debt must be written down permanently upon occurrence of the Additional Core Capital Trigger Event or whether their payment must be suspended until the Additional Core Capital Trigger Event is rectified.

The Subordinated Debt agreement must provide that, if the measures set out in point c. above prove insufficient to rectify the Additional Core Capital Trigger Event, the shareholders of the credit organisation shall undertake measures to rectify the Additional Core Capital Trigger Event.

CBR Prior Consent

The qualification of Subordinated Debt as supplemental capital and additional core capital is subject to consent of the CBR. The borrower may initiate the approval procedure of the CBR before the funds are disbursed or the subordinated loan is signed, by submitting a loan agreement or its draft for the CBR's consideration. As a result of its review, the relevant CBR territorial branch may respond with comments or may issue a preliminary conclusion confirming that the agreement complies with the CBR regulations. The final conclusion shall confirm the CBR's consent to the inclusion of the Subordinated Debt into the supplemental capital or additional core capital.

Subordinated Debt is included into the supplemental capital and additional core capital from the date following the date of the CBR's consent, but in any event not before the bank actually receives the funds.

Amortisation

All Subordinated Debt received or issued before 1 March 2013 that is currently included into Tier 1 capital, and Subordinated Debt that is included into Tier 2 Capital but which does not meet the requirements of Regulation 395-P is subject to gradual amortisation at 10% per annum beginning 1 April 2013 (except for the subordinated loans granted pursuant to the Financial System Support Law and the Banking System Stability Law which will begin to amortise on 1 January 2018) and thereafter on 1 January of each subsequent year.

The amortisation requirement applies to Subordinated Debt currently included in either Tier 1 or Tier 2 capital under Regulation 215-P.

Subordinated Instruments received or issued after 1 March 2013 which do not meet the requirements of Regulation 395-P do not count towards the bank's regulatory capital.

Mandatory Economic Ratios

The CBR's mandatory economic ratios applicable to banks are established under CBR Regulation No. 139-I "On the Mandatory Economic Ratios of Banks" dated 3 December 2012, which took effect as of 1 January 2013. The system of mandatory economic ratios, which must be observed by banks on a daily basis and regularly reported to the CBR, is set forth below. All ratios described below are calculated on the basis of RAS.

<i>Mandatory Economic Ratios</i>	<i>Description</i>	<i>CBR Mandatory Economic Ratio Requirements</i>
Capital adequacy ratio (N1)	<p>This ratio is intended to limit the risk of a bank's insolvency and sets requirements for the minimum size of the bank's own funds (regulatory capital) necessary to cover credit, operational and market risks. It is formulated as a ratio of a bank's own funds (regulatory capital) to its risk-weighted assets.</p> <p>The risk-weighted assets are calculated under a formula that aggregates different categories of the bank's assets multiplied by certain coefficients of risk, reserves created for possible losses of those assets, credit risk on credit-related commitments, credit risk on forward transactions and derivatives, operational risk and market risks. In each case there are separating systemic and idiosyncratic factors.</p>	Minimum 10%
Instant liquidity ratio (N2)	This ratio is intended to limit a bank's liquidity risk within one operational day. It is formulated as the minimum ratio of a bank's highly liquid assets to its liabilities payable on demand, adjusted for a minimum aggregated fund balance of on-demand accounts of legal entities and individuals (except for credit organisations).	Minimum 15%
Current liquidity ratio (N3)	This ratio is intended to limit a bank's liquidity risk within 30 calendar days. It is formulated as the minimum ratio of a bank's liquid assets to its liabilities payable on demand and liabilities with maturity of up to 30 calendar days, adjusted for a minimum aggregated fund balance of on-demand accounts of legal entities and individuals (except for credit organisations) and liabilities maturing up to 30 calendar days.	Minimum 50%
Long-term liquidity ratio (N4)	This ratio is intended to limit a bank's liquidity risk arising from the investing of funds into long-term assets. It is formulated as the maximum ratio of the bank's credit claims maturing in more than one calendar year to the sum of its own funds (regulatory capital) and liabilities maturing in more than one calendar year, adjusted for a minimum aggregated fund balance on accounts maturing in up to one calendar year and on-demand accounts of legal entities and individuals (except for credit organisations).	Maximum 120%
Maximum exposure to a single borrower or a group of related borrowers (N6)	<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 group or banking holding; are close relatives; or can directly or indirectly significantly influence the decisions of the corporate borrower). It is set as the maximum ratio of the aggregate 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. In March 2013, the CBR submitted to the State Duma its comments to the draft amendments to the CBR Law, which introduced the concept of "reasoned judgment" that can be implemented by the CBR to establish an affiliation between a bank and a borrower based on indirect relationships.</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 participants (shareholders) (N9.1)	This ratio is intended to limit a bank's credit exposure to its participants (shareholders). It is set as the maximum ratio of the amount of loans, bank guarantees and sureties extended by the bank to its participants (shareholders), to the bank's own funds (regulatory capital).	Maximum 50%
Aggregate amount of exposure to the bank's insiders (N10.1)	This ratio is intended to limit the aggregate credit exposure of a bank to its insiders (defined as individuals capable of influencing credit decisions). It is set as the maximum ratio of the aggregate amount of the bank's credit claims to its insiders, to the bank's own funds (regulatory capital).	Maximum 3%
Ratio for the use of the bank's own funds (regulatory capital) to acquire shares (participation interests) in other legal entities (N12)	This ratio is intended to limit the aggregate risk of a bank's investments in shares (participation interests) of other legal entities. It is set as the maximum ratio of the bank's investments in shares (participation interests) of other legal entities, to the bank's own funds (regulatory capital).	Maximum 25%

CBR Regulation No. 112-I of 31 March 2004, as amended, outlines additional mandatory economic ratios for credit organisations that issue mortgage-backed bonds.

Regulation of Mandatory Reserves

In order to regulate the overall liquidity in the Russian banking sector, loan losses and market risks, the CBR requires banks to form mandatory reserve deposits and keep them at designated non-interest bearing accounts with the CBR. Particular reserve requirements are set by the Board of Directors of the CBR from time to time. According to CBR Directive No. 2601-U of 25 March 2011, banks are generally required to post mandatory reserves equal to 5.5% of funds due to non-resident legal entities in Roubles and foreign currency, and 4.0% of funds due otherwise. Banks with good reserves and credit history are offered a mechanism that allows calculation of mandatory reserves in accordance with certain averages.

Banks are obliged to calculate mandatory reserves in accordance with CBR Regulation No. 342-P of 7 August 2009, as amended, report those to the CBR or its regional units on a monthly basis and promptly place additional reserves with the CBR, if required. The CBR and its regional units have a right to conduct unscheduled audits of credit organisations to check their compliance with the reserves requirements, to collect the non-reserved amounts from the banks' correspondent accounts with the CBR, as well as to impose fines for failure to comply with the reserve requirements.

Amounts deposited with the CBR in compliance with compulsory reserve requirements may not be subject to an attachment, arrest or other legal proceedings launched by the bank's creditors. In the event of revocation of a bank's banking licence, such amounts are included in the pool of assets generally available for distribution amongst the bank's creditors in the order established by Russian legislation.

Regulation of Provisioning and Loss Allowances

Russian credit organisations are required to calculate and establish their provisions for impairment losses for loans (and certain other loan-type indebtedness) in accordance with CBR Regulation No. 254-P of 26 March 2004, as amended (the "**Regulation 254-P**"). Regulation 254-P requires credit organisations to rank their loans (except for groups of loans that possess similar credit risk characteristics which are assessed on a collective basis) under one of the following five categories: (i) quality I category (standard loans) – the absence of credit risk; (ii) quality II category (non-standard loans) – moderate credit risk; (iii) quality III category (doubtful loans) – considerable credit risk; (iv) quality IV category (problem loans) – high credit risk; and (v) quality V category (bad loans) – no probability that the loan will be repaid or if the credit organisation does not possess documents confirming its entrance into the loan arrangements with a borrower. The allocation of the loan into a particular category is based on the "professional judgement", which is a special procedure set out in Regulation 254-P. The following operations of a credit organisation are, among others, subject to the impairment losses provisioning: all loans; deposits made by a credit organisation, including interbank credits (deposits and loans); other deposited funds, including rights to reclaim debt securities, shares, promissory notes and precious metals provided under loan agreements; discounted promissory notes; sums paid by a credit organisation to beneficiaries under bank guarantees which were not collected from the principal; monetary claims of a credit organisation under factoring transactions; claims of a credit organisation under rights assigned to it under various transactions. Only loans classified as category I loans (standard loans) do not need to be provisioned. Category II through V loans involve the following provisions, respectively: (i) 1% to 20%; (ii) 21% to 50%; (iii) 51% to 100%; and

(iv) 100%. Effective from 1 July 2007, provisions in relation to retail loans are subject to special rules, which, *inter alia*, establish lower provision rates for portfolios of retail loans.

Provisions for loan losses are calculated on a periodical basis in Roubles under RAS, and are only used to cover losses relating to the principal amount of the relevant debt and exclude the relevant interest and discount.

In addition to the foregoing, banks are also required to create provisions for potential losses other than loan losses, which may include losses 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 or if the credit organisation does not possess documents confirming its existence into a transaction with the counterparty. Banks are then required to provide provisions for each type of an asset or operation in the amounts corresponding to the amounts of possible losses, but within the following limits established by the CBR for each risk group specified above, respectively: (i) 0%; (ii) 1% to 20%; (iii) 21% to 50%; (iv) 51% to 100%; and (v) 100%. Banks must report the amounts of created non-loan provisions to the CBR on a monthly basis. The CBR and its regional units are responsible for monitoring compliance with these requirements. Pursuant to CBR Directive No. 1584-U of 22 June 2005, mandatory provisions for potential losses must also be created for various operations with residents of certain off-shore jurisdictions in the amounts between 0% and 50%, depending on the jurisdiction involved.

Regulation of Currency Exposure

CBR Regulation No. 124-I of 15 July 2005, as amended, establishes rules regarding the exposure of banks to foreign currency and precious metals (collectively, “currency exposure”). The currency exposure is calculated with respect to net amounts of RAS balance sheet positions, spot market positions, forward positions, option positions and positions under guarantees, suretyships and letters of credit. An open currency position is calculated as the sum of all such net amounts. The currency exposure is calculated for each currency and each precious metal, and then recalculated into Roubles using the official exchange rates and the CBR's prices for precious metals. At the end of each operational day, the total amount of all open currency positions (long and short) must not exceed 20% of the bank's regulatory capital. At the same time, at the end of each operational day, any long or short open currency position, as well as the balance in Roubles (subject to certain adjustments), must not exceed 10% of the bank's regulatory capital. Furthermore, banks are periodically required to report to the CBR regarding their open currency positions.

Accounting and Reporting

Starting from 1 January 2013, credit organisations are required to perform accounting of all their operations in accordance with CBR Regulation No. 385-P of 16 July 2012, which aims to approximate RAS accounting to IFRS. Under CBR Directive No. 2332-U of 12 November 2009, as amended, routine reporting is performed by credit organisations on a daily, five-day, ten-day, monthly, quarterly, semi-annual and annual basis; certain reporting is performed on a non-periodic basis. Specific monthly reporting requirements apply to credit organisations in liquidation pursuant to CBR Directive No. 1594-U of 14 July 2005. Under the Banking Law, banking groups (i.e., groups of credit organisations, in which one credit organisation, directly or indirectly, exercises substantial influence on other credit organisations within the group) and banking holdings (i.e., groups of legal entities, in which one entity, which is not a credit organisation, exercises substantial influence on a credit organisation within the group) must regularly submit consolidated financial statements and calculations of mandatory ratios on a consolidated basis to the CBR. Under CBR Directive No. 2172-U of 20 January 2009, all credit organisations must publish their RAS financial statements in the mass media on an annual and quarterly basis. These financial statements include a balance sheet, an income statement, calculations of mandatory ratios, a report on the level of regulatory capital as well as other information.

Pursuant to CBR Directive No. 2964-U of 16 January 2013, and Federal Law No. 208-FZ, dated 27 July 2010 “On Consolidated Financial Statements” (the “**Federal Law No. 208-FZ**”) credit organisations are required to prepare annual consolidated financial statements under IFRS, have them audited and reported to the CBR. Federal Law No. 208-FZ also provides that interim consolidated financial statements shall also be reported to the CBR.

The CBR issued recommendations as to how to prepare IFRS financial statements in its Letter No. 16-T of 5 February 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.

According to CBR Regulation No. 345-P of 27 October 2009, as amended, all banks participating in the Retail Deposit Insurance System are required to publicly disclose information on individuals and legal entities that can materially influence decisions of the bank's governing bodies. Such information must be published on the website of the CBR or on the bank's website. As at July 2012, banks are obliged to publish information on shareholders owning more than 1% of the bank's voting shares, as well as the total percentage of shareholders owning 1% or less of the voting shares of the bank and the total percentage of voting shares that are publicly traded.

THE ISSUER

Description of the Issuer

The Issuer is a special purpose vehicle established for the purpose of issuing loan participation notes and was incorporated in Ireland as a public limited company with limited liability, registered number 425241 under the name CBOM Finance p.l.c., under the Companies Acts 1963 to 2005 as amended (the “**Companies Acts**”) on August 22, 2006. The registered office of the Issuer is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland and telephone number +353 1 680 6000.

The authorised share capital of the Issuer is EUR 40,000 divided into 40,000 ordinary shares of par value EUR 1 each (the “**Shares**”). The Issuer has issued 40,000 Shares, all of which are fully paid and are held on trust by Deutsche International Finance (Ireland) Limited (the “**Share Trustee**”) under the terms of a declaration of trust (the “**Declaration of Trust**”) dated 11 September 2006, under which the Share Trustee holds the Shares on trust for charity. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Shares. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

Deutsche International Corporate Services (Ireland) Limited (the “**Corporate Services Provider**”), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on 12 October 2006 between the Issuer and the Corporate Services Provider (the “**Corporate Services Agreement**”), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 90 days written notice to the other party.

The Corporate Services Provider's principal office is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland.

Business of Issuer

The principal objects of the Issuer are set forth in Clause 3 of its Memorandum of Association (as currently in effect) and permit the Issuer, among other things, to lend money and give credit, secured or unsecured, to issue debentures, enter into derivatives and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use an amount equal to the proceeds of each such issuance to advance loans to CBM.

Since its incorporation and prior to the issuance of the Notes, the Issuer has not engaged in any material activities other than the issue of US\$100,000,000 9.5% Loan Participation Notes due 2009 for the sole purpose of funding a loan to CBM (which notes have been redeemed); the issue of US\$200,000,000 8.25% Loan Participation Notes due 2014 for the sole purpose of funding a loan to CBM and the issue of US\$500,000,000 7.70% Loan Participation Notes due 2018 for the sole purpose of funding a loan to CBM. The Issuer has no employees.

Directors and Company Secretary

The Issuer's Articles of Association provide that the Board of Directors of the Issuer consist of at least two Directors.

The Directors of the Issuer and their business addresses are as follows:

Adrian Bailie	5 Harbourmaster Place, IFSC, Dublin 1, Ireland
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Rhys Owens	5 Harbourmaster Place, IFSC, Dublin 1, Ireland
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The Company Secretary is Deutsche International Corporate Services (Ireland) Limited.

The directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares.

The directorship of the directors is provided as part of the Corporate Service Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement.

The directors of the Issuer may engage in other activities and have other interests, which may conflict with the interests of the Issuer.

Financial Statements

The financial year of the Issuer ends on 31 December in each year. Financial statements for the year ended 31 December 2010 were prepared in accordance with the Generally Accepted Accounting Practice in Ireland. Financial statements for each of the years ended 31 December 2011 and 2012 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 30 April 2013

Between:

- (1) **CREDIT BANK OF MOSCOW (open joint-stock company)**, a commercial bank organised as an open joint-stock company established under the laws of the Russian Federation whose registered office is at 2 (Building 1) Lukov Pereulok, Moscow 10745, Russian Federation, as borrower (the **"Borrower"**); and
- (2) **CBOM Finance p.l.c.**, a public limited company incorporated under the laws of Ireland whose registered office is at 5 Harbourmaster Place, IFSC, Dublin 1, Ireland and registered under number 425241, as lender (the **"Lender"** which expression, where the context so admits, includes any successor Lender pursuant to the terms of this Agreement and the Trust Deed).

Whereas:

- (A) The Lender has, at the request of the Borrower, agreed to make to the Borrower a subordinated loan in the amount of U.S.\$500,000,000 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 under the Applicable Regulations and/or Regulation 215-P (each such term 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 11711105 of the Lender with the Principal Paying Agent;

"Additional Tier 1 Capital" means supplemental capital of Tier 1 Capital (*dobavochny capital osnovnogo kapitala*) as referred to in the Applicable Regulations;

"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 13 May 2013, with the agents named therein (the **"Agents"**, which expression shall include any successor Agent(s) appointed from time to time in connection with the Notes), the Borrower and the Trustee;

"Agreed Form" means that the form of the document in question has been agreed between the proposed parties thereto, subject to any amendments that the parties may agree prior to the Closing Date;

"Agreement" means this Agreement as originally executed or as it may be amended or supplemented from time to time;

“Applicable Regulations” means 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 or any amendment thereto or replacement thereof;

“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 setting out the name and signature of such Person and confirming such Person’s authority to act;

“Bankruptcy Event” means the entry into force of a final decision of a competent Russian court finding the Borrower bankrupt;

“Base Capital Adequacy Ratio” means the ratio referred to in item 5 of paragraph 2.3.1 of the Applicable Regulations or any replacement or amended ratio thereof;

“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;

“Calculation Agent” means such Person as may be at any time appointed in accordance with the Agency Agreement as the relevant party responsible for calculating the Make-Whole Amount, if applicable;

“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;

“Closing Date” means, subject to clause 11.2 (Postponed Closing) of the Subscription Agreement, 13 May 2013;

“Comparable Treasury Issue” means the U.S. Treasury security selected by the Calculation Agent as having a maturity comparable to the term remaining from the relevant Prepayment Date to the Repayment Date that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of debt securities of financial institutions of comparable term;

“Comparable Treasury Price” means, with respect to a Prepayment Date (1) the average of five Reference Treasury Dealer Quotations for such Prepayment Date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Calculation Agent obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations;

“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 the Federal law No. 177-FZ “On the Insurance of Household Deposits in Banks of the Russian Federation” dated 23 December 2003 (as amended);

“Effective Date” has the meaning assigned to such term in Clause 8.5 (*Reporting Requirements*) hereof;

“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;

“Final Conclusion Confirmation Date” means the date on which the CBR confirms in writing its final unconditional approval of the Subordinated Loan as Tier 2 Capital of the Borrower;

“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 in (a) to (d) above;
- (f) all indebtedness of other Persons secured by a Lien granted by such Person on any asset (the value of which, for these purposes, shall be determined by reference to the balance sheet value of such asset in respect of the latest half year period of the Person providing the Lien) of such Person, whether or not such indebtedness is assumed by such Person;
- (g) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto); and
- (h) to the extent not otherwise included in this definition, net obligations under any currency or interest rate hedging agreements.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above, the maximum liability upon the occurrence of the contingency giving rise to the obligation;

“Interest Payment Date” means 13 May and 13 November of each year, commencing on 13 November 2013 and ending on 13 November 2018;

“Interest Period” means each period beginning on (and including) the Closing Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date (or in the case of the first Interest Period, the first Interest Payment Date);

“Irish Stock Exchange” means the Irish Stock Exchange Limited;

“Lien” means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease having a similar effect, any sale with recourse against the seller or any Affiliate of the seller, or any agreement to give any security interest) securing any obligation of any Person;

“Loss Absorption Event” shall be deemed to occur if: (i) the Borrower’s Base Capital Adequacy Ratio as at the latest Reporting Date is below 2.0 per cent, or (ii) the Deposit Insurance Agency in consultation with the CBR has notified the Borrower that bankruptcy prevention measures are being implemented in accordance with the Federal Law “On Additional Measures to Consolidate the Stability of the Banking System in the period to 31 December 2014” (the **“Banking System Stability Law”**);

“Loss Absorption Event Notice” has the meaning assigned to such term in Clause 8.1 (*Notice*) hereof;

“Loss Absorption Write-down” has the meaning assigned to such term in Clause 8.2 (*Loss Absorption Event*) hereof;

“Loss Absorption Write-down Amount” has the meaning assigned to such term in Clause 8.2 (*Loss Absorption Event*) hereof;

“Loss Absorption Write-down Date” has the meaning assigned to such term in Clause 8.2 (*Loss Absorption Event*) hereof;

“Make-Whole Amount” means the outstanding principal amount of the Subordinated Loan together with the Make Whole Premium, if any;

“Make Whole Premium” means the excess, if any (as reported in writing to the Borrower and the Lender by a reputable financial institution operating in the U.S. Treasury market in New York selected by the Borrower and approved in writing by the Lender (the **“Financial Adviser”**)) of (a) the present value of the remaining scheduled payments of principal and interest on the Subordinated Loan (assuming, for the purpose of such calculation, that the scheduled maturity date is the Repayment Date), discounted at 50 basis points above the relevant Make Whole Treasury Rate; over (b) the outstanding principal amount of the Subordinated Loan (such excess to be rounded, if necessary, to the third decimal place (0.0005 being rounded upwards));

“Make Whole Treasury Rate” means with respect to any Prepayment Date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Prepayment Date. The Make Whole Treasury Rate will be calculated on the third Business Day preceding the relevant Prepayment Date;

“Material Adverse Effect” means a material adverse effect on the:

- (a) business, results of operations, property, condition (financial or otherwise) or immediate prospects of the Borrower or the Group taken as a whole;
- (b) Borrower’s ability to perform or comply with its obligations under this Agreement, the Agency Agreement and the Subscription Agreement; or
- (c) validity or enforceability of this Agreement, the Agency Agreement and the Subscription Agreement or the rights or remedies of the Lender thereunder;

“Material Subsidiary” means any Subsidiary of the Borrower:

- (a) which has gross income representing 10 per cent. or more of the consolidated gross income of the Group for the most recent Fiscal Period; or
- (b) which has total assets representing 10 per cent. or more of the consolidated total assets of the Group; or
- (c) to which are transferred substantially all of the assets and undertakings of a Subsidiary of the Borrower which immediately prior to such transfer was a Material Subsidiary (with effect from the date of such transaction),

in each case calculated on a consolidated basis in accordance with IFRS, as consistently applied;

“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 U.S.\$500,000,000 8.70 per cent. loan participation notes due 13 November 2018 proposed to be issued by the Lender (in its capacity as issuer of such Notes) and constituted by the Trust Deed;

“Officers’ Certificate” means a certificate signed on behalf of the Borrower by two authorised officers of the Borrower, at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower;

“Ongoing Fee Side Letter” means a side letter dated the date hereof between, inter alios, the Trustee, the Lender and the Borrower;

“outstanding” means, with respect to the Subordinated Loan, such portion of the Subordinated Loan or, where applicable, additional amounts in respect thereof, that has not previously been paid, repaid or written down and cancelled;

“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 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.4 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*) or 7.5 (*Special Prepayment in the Event of Taxes or Increased Costs*), if applicable;

“Principal Paying Agent” means Citibank, N.A., London Branch;

“Prospectus” means the final prospectus dated 30 April 2013 prepared in connection with the offering and issue of the Notes (which expression includes, where the context permits, any amendment or supplement to the Prospectus published by or with the consent of the Lender);

“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” has the meaning assigned to such term in Clause 6.1 (*Rate of Interest*);

“Reference Treasury Dealers” means primary U.S. government securities dealers;

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any Prepayment Date, the average, as determined by the Calculation Agent of the bid and ask prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Calculation Agent at 10:00 a.m., New York City time, on the third Business Day preceding such Prepayment Date;

“Regulation No.215-P” means CBR Regulation No 215-P dated 10 February 2003 “On the method of determination of own funds (capital) of credit organisations”, as may be amended, supplemented or replaced from time to time;

“Repayment Date” shall have the meaning assigned to such term in Clause 7.1 (*Repayment*);

“Reporting Date” means a date as of which the Borrower is required to calculate its Base Capital Adequacy Ratio for the purposes of any report required to be provided to the CBR under the Applicable Regulations or otherwise;

“Restricted Period” shall have the meaning assigned to such term in Clause 7.2 (*General Condition to Prepayment*);

“Same-Day Funds” means U.S. dollars funds settled through the cash settlement centre of the CBR or such other funds for payment in U.S. dollars as the Lender may at any time determine to be customary for the settlement of international transactions in Moscow of the type contemplated hereby;

“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 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 at any time, an amount equal to the aggregate principal amount of the subordinated loan advanced by the Lender pursuant to this Agreement and outstanding at such time;

“Subscription Agreement” means the subscription agreement dated 30 April 2013 between, inter alia, the Lender, the Borrower and the Joint Lead Managers, 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 a credit organisation as referred to in paragraph 2 of the Applicable Regulations;

“Tier 2 Capital” means additional capital (*dopolnitelnyy kapital*) of the Borrower as referred to in (i) paragraph 3 of Regulation No. 215-P; and/or (ii) paragraph 3 of the Applicable Regulations;

“Trust Deed” means the trust deed to be dated 13 May 2013 between the Lender and the Trustee to constitute the Notes for the equal and rateable benefit of the Noteholders (as may be amended or supplemented from time to time);

“**Trustee**” means 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 alios*, the Lender and the Borrower;

“**U.S. dollars**” and “**U.S.\$**” mean the lawful currency of the United States of America; and

“**Voting Stock**” means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

1.2. Other Definitions

Unless the context otherwise requires;

- (a) terms used in this Agreement which are not defined in this Agreement but which are defined in the Trust Deed, the Notes, the Agency Agreement or the Subscription Agreement shall have the meanings assigned to such terms therein;
- (b) all references to “**taxes**” include all present or future taxes, levies, imposts, charges, withholdings and duties of any nature and the terms “**tax**” and “**taxation**” shall be construed accordingly;
- (c) a “**month**” is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month save that, where any such period would otherwise end on a day which is not a Business Day, it shall end on the next succeeding Business Day, unless that day falls in the next calendar month, in which case it shall end on the immediately preceding Business Day, provided that, if a period starts on the last Business Day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that later month (and references to “**months**” shall be construed accordingly);
- (d) the “**equivalent**” on any given date in one currency (the “**first currency**”) of an amount denominated in another currency (the “**second currency**”) is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page; and
- (e) the term “**repay**” (or any derivative form thereof) shall, subject to any contrary indication, be construed to mean “**prepay**” (or, as the case may be, the corresponding derivative form thereof).

1.3. Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

- (a) all references to “**Clause**” or “**sub-Clause**” or “**paragraph**” are references to a Clause or sub-Clause or paragraph of this Agreement;
- (b) the terms “**hereof**”, “**herein**” and “**hereunder**” and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;
- (c) the “**Lender**” or the “**Borrower**” shall be construed so as to include it and any of its subsequent successors, assignees and chargees in accordance with their respective interests;
- (d) the table of contents and the headings are for convenience only and shall not affect the construction hereof;
- (e) “**or**” is not exclusive;
- (f) any reference in this Agreement to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted;
- (g) provisions apply to successive events and transactions; and
- (h) an accounting term not otherwise defined has the meaning assigned to it in accordance with IFRS.

1.4. Amended Documents

Except where the contrary is indicated, any reference in this Agreement to “this Agreement” or any other agreement or shall be construed as a reference to this Agreement or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated, supplemented or replaced.

2. 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 U.S.\$500,000,000.

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) a fee of U.S.\$2,906,500 to the Lender in connection with the provision of the Subordinated Loan (the “**Facility Fee**”) and (b) certain costs and expenses which may arise and which are referred to under the Upfront Fee Side Letter between the Lender, the Borrower and the parties thereto (the “**Other Costs**”).

3. Drawdown

3.1. Drawdown

On the terms and subject to the conditions of this Agreement, the Lender shall make the 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 (less any amount to be deducted (if any) in accordance with Clause 3.2 (*Payment of Facility Fee and Other Costs*)).

3.2. Payment of Facility Fee and Other Costs

In consideration of the Lender’s undertaking to make 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 12.00 noon (New York time) one Business Day prior to the Closing Date; and
- (b) the Other Costs set out in, and in the manner described in, the Upfront Fee Side Letter.

In the event that the Lender has not received from the Borrower by 12.00 noon (New York time) one Business Day prior to the Closing Date an amount in U.S. dollars in payment of the Facility Fee and Other Costs, then the Facility Fee and Other Costs shall be deducted from the amount of the Subordinated Loan.

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:

Bank: Citibank N.A.

SWIFT: CITIUS33

Account Name: Credit Bank of Moscow

Account Number: 36940272

3.4. Ongoing Fees and Expenses

In consideration of the Lender (i) agreeing to make the 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 Federal Law “On Insolvency (Bankruptcy) of Credit Organisations” No. 40-FZ dated 25 February 1999 (as amended, replaced or superseded from time to time) (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.

4.2. No Security

The Subordinated Loan is not secured by any security.

4.3. Set-Off

Subject to applicable law, the Lender shall not be entitled to offset any liabilities of the Borrower under this Agreement against any liabilities owing by the Lender to the Borrower.

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*) 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 (*Loss Absorption*) shall also not apply.

5. Prior Consent of the CBR

5.1. No Prepayment without Prior Consent of the CBR

The Borrower shall not prepay all or any part of the Subordinated Loan and/or any interest accrued thereon unless (i) the parties agree otherwise and (ii) the CBR has provided its prior written consent, except in the limited circumstances described in Clause 7 (*Repayment and Prepayment*).

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 unless (i) the parties agree otherwise and (ii) the CBR has provided its prior written consent.

6. Interest

6.1. Rate of Interest

The Borrower will pay interest in U.S. dollars to the Lender on the outstanding principal amount of the Subordinated Loan from time to time hereunder at the rate of 8.70 per cent. per annum (the “**Rate of Interest**”).

6.2. Payment

Subject to the provisions of Clause 8.2(c) (*Loss Absorption Event*), 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 12.00 noon (New York time) one Business Day prior to each Interest Payment Date.

6.3. Accrual of Interest

Subject to the provisions of Clause 8.2(c) (*Loss Absorption Event*), 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*), from the relevant Loss Absorption Write-down Date 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 cent (half a cent being rounded upwards). If interest is required to be calculated for any period other than a full Interest Period, it will be calculated on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

7. Repayment and Prepayment

7.1. Repayment

Except as otherwise provided herein, the Borrower shall repay the Subordinated Loan, including all sums of accrued but unpaid interest and any additional amounts thereon not later than 12.00 noon (New York time) one Business Day prior to 13 November 2018 (the “**Repayment Date**”).

7.2. General Condition to Prepayment

While the Subordinated Loan constitutes Tier 2 Capital for the purposes of the Applicable Regulations, the Borrower may not elect to prepay the Subordinated Loan, in whole or in part, during the period from (and including) the Final Conclusion Confirmation Date to (and including) the date falling 5 years after the Final Conclusion Confirmation Date (such period, the “**Restricted Period**”).

7.3. Special Prepayment by Reason of Amendment to CBR Regulations

Notwithstanding the provisions of Clause 7.1 (*Repayment*) and subject to the provisions of Clause 7.2 (*General Condition to Prepayment*), the Borrower may, at its option, and with the prior written consent of the CBR (if required), prepay the Subordinated Loan 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), the Applicable Regulations, Regulation 215-P and/or any other applicable requirements of the CBR, the Subordinated Loan ceases to fully qualify in whole but not in part as Tier 2 Capital under both the Applicable Regulations and Regulation 215-P. For the avoidance of doubt, the disapplication of Regulation 215-P shall not by itself give grounds for prepayment under this Clause 7.3. If the Borrower elects to prepay the Subordinated Loan pursuant to this Clause 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*), the Subordinated Loan shall be prepaid, in whole but not in part, at the Make Whole 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 Make Whole Amount plus accrued and unpaid interest, as aforesaid.

7.4. 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 the Final Conclusion on or before the Approval Date. If the Borrower elects to prepay the Subordinated Loan pursuant to this Clause 7.4 (*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 a price of 105% of 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 a price of 105% of the outstanding principal amount plus any accrued and unpaid interest.

7.5. Special Prepayment in the Event of Taxes or Increased Costs

Notwithstanding the provisions of Clause 7.1 (*Repayment*) and subject to the provisions of Clause 7.2 (*General Condition to Prepayment*), if,

- (a) 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; or
- (b) 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*), 9.4 (*Withholding on the Notes*) or 11.1 (*Compensation*) (unless the increase in payment is in respect of any amounts due or paid pursuant to Clause 3 (*Drawdown*));

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 its outstanding principal amount, together with accrued interest and other amounts (if any) thereon.

7.6. Reduction of the Subordinated Loan Upon Cancellation of Corresponding Notes

Subject to the provisions of Clause 7.2 (*General Condition to Prepayment*), the Borrower or any Subsidiary of the Borrower or any Person on behalf of the Borrower may, at any time after the expiry of the Restricted Period, 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 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.4 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*), 7.5 (*Special Prepayment in the Event of Taxes or Increased Costs*) 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 principal amount of the Subordinated Loan is reduced pursuant to the provisions of Clause 7.6 (*Reduction of 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 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.4 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*), 7.5 (*Special Prepayment in the Event of Taxes or Increased Costs*) 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. Loss Absorption

8.1. Notice

Following the occurrence of a Loss Absorption Event, the Borrower shall promptly and in any event within three Business Days give notice ("**Loss Absorption Event Notice**") to the Lender and the Trustee of the occurrence of such event. Such Loss Absorption Event Notice shall set out the Borrower's Base Capital Adequacy Ratio as at the most recent Reporting Date, an explanation of the grounds for the Loss Absorption Event and the anticipated Loss Absorption Write-down Date. In addition, and provided at such time such Loss Absorption Event is continuing, not less than three Business Days prior to the relevant Loss Absorption Write-down Date, the Borrower shall give notice to the Lender and the Trustee of the aggregate anticipated Loss Absorption Write-down Amount together with a breakdown of the amount of accrued and unpaid interest and/or the amount of principal that will be written down.

8.2. Loss Absorption Event

(a) If a Loss Absorption Event has occurred and is continuing on the day that is the 30th Moscow Business Day following the day on which the Loss Absorption Event first occurred (the "**Loss Absorption Write-down 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 Loss Absorption 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, (such termination of the Borrower's obligations to repay amounts of accrued and unpaid interest and/or principal amount of the Subordinated Loan, a "**Loss Absorption Write-down**" and the amount to be written down and cancelled, a "**Loss Absorption Write-down Amount**"). For the avoidance of doubt, references to accrued and

unpaid interest in this Clause 8.2 (*Loss Absorption Event*) shall include accrued and unpaid default interest payable under Clause 15.6 (*Default Interest Periods*).

- (b) In the event that a Loss Absorption Write-down results in only a partial write-down and cancellation of amounts payable in respect of the Subordinated Loan, subsequent Loss Absorption Write-downs may occur on one or more occasions
- (c) During the period from (and including) the Loss Absorption Event to but (excluding) the Loss Absorption Write down Date, interest shall not accrue on the Subordinated Loan and, in the event that any amounts of interest and principal would otherwise become due and payable in accordance with the terms of this Agreement during such period, the Borrower shall not be required to make such payments while such Loss Absorption Event remains uncured and any non-payment as a result of this Clause 8.2(c) shall not constitute an Acceleration Event under Clause 14.1 (*Payment Default*) and shall not accrue default interest in accordance with Clause 15.6 (*Default Interest Periods*).

8.3. Cancellation of the Subordinated Loan

On the applicable Loss Absorption Write-down Date:

- (a) applicable amounts under or in respect of the Subordinated Loan (including, without limitation, accrued and unpaid interest) will be written down and cancelled in an amount equal to the Loss Absorption Write-down and, in the case of a partial write-down and cancellation of the Subordinated Loan only, all references to accrued and unpaid interest and, if applicable, the outstanding principal amount of the Subordinated Loan in the Finance Documents shall be construed accordingly;
- (b) the Lender and the Trustee on behalf of the Noteholders shall automatically be deemed to have irrevocably waived their right to receive, and will no longer have any rights against the Borrower with respect to, repayment of such portion of the accrued and unpaid interest and, if applicable, aggregate principal in respect of the Subordinated Loan, in each case so written down and cancelled pursuant to (a) above; and
- (c) all rights of the Lender and the Trustee for payment of any amounts under or in respect of the Subordinated Loan so written down and cancelled (including, without limitation, accrued and unpaid interest) shall become null and void, irrespective of whether such amounts have become due and payable prior to the relevant Loss Absorption Event Notice or the Loss Absorption Write-Down Date.

8.4. Additional Amounts

In the event that a Loss Absorption Write-down Event has occurred and is continuing, any and all additional amounts due and payable hereunder from the date of the Loss Absorption Event shall be withheld by the Borrower and payment thereof deferred (without accrual of interest thereon during such period) until such time as the Loss Absorption Write-down Event has either:

- (a) been cured, following which such additional amounts may be paid to the Lender; or
- (b) the Subordinated Loan has been fully written down and cancelled, in which case any and all outstanding and additional amounts shall be written down and cancelled, the Lender and the Trustee on behalf of the Noteholders shall automatically be deemed to have irrevocably waived their right to receive, and will no longer have any rights against the Borrower with respect to, repayment of such additional amounts and all rights of the Lender and the Trustee for payment of any such additional amounts shall become null and void.

8.5. Reporting Requirements

Beginning on such date as the CBR begins to apply sanctions for noncompliance with the Base Capital Adequacy Ratio (the “**Effective Date**”), the Borrower shall publish its Base Capital Adequacy Ratio as of 1 January, 1 April, 1 July and 1 October in each year in its quarterly statutory financial statements prepared in accordance with Russian accounting standards (which financial statements shall be published on the Borrower’s website), or otherwise on the Borrower’s website on a quarterly basis provided however that following the occurrence of a Loss Absorption Event and while such event is continuing, if after the Effective Date the CBR requires the Borrower to deliver to the CBR a calculation of its Base Capital Adequacy Ratio as of any other date, the Borrower shall also publish on its website and notify the Lender and the Trustee of its Base Capital Adequacy Ratio within 3 Moscow Business Days after such calculation is delivered to the CBR.

8.6. Financial Rehabilitation Plan

In the event that the implementation of the actions provided for in Clause 8 (*Loss Absorption*) proves insufficient to rectify the grounds which caused the occurrence of a Loss Absorption Event, the Borrower shall resort to the measures aimed at rectification of such grounds as set out in the Financial Rehabilitation Plan approved by the Supervisory Board of the Borrower on 11 April 2013 and as the same may be amended, modified, supplemented and/or restated from time to time and to the support letter signed by the controlling shareholder of the Borrower addressed to the Borrower dated 18 April 2013.

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 12.00 noon (New York time) one Business Day prior to each Interest Payment Date or the Repayment Date or the relevant Prepayment Date (as the case may be) in Same-Day Funds.

The Borrower shall, in the case of any payments of principal and interest being made by the Borrower under this Agreement and any payments made in connection with Clause 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 Conditions 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 in U.S. dollars equal to the full amount which it would have received and retained had payment not been made subject to such Taxes, shall promptly account to the relevant Taxing Authority (within the time specified by legislation or assessment) for the relevant amount of such Taxes so withheld or deducted, together with a sum (if any), calculated up to the date of such payment, sufficient to ensure that the Lender is able to discharge in full its obligations under this Agreement due on such date, ignoring any limitation of the liability of the Lender to pay only sums actually received and retained (net of tax) but treating all sums potentially payable by the Lender as due, within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant Taxing Authority.

If the Lender is or will be subject to any liability or required to make any payment for or on account of Taxes in relation to a sum received or receivable (or any sum deemed for the purposes of Taxes to be received or receivable) under or in respect of the Notes, the Borrower shall on demand pay to the Lender an amount equal to the loss, liability or cost which the Lender, or as the case may be, Trustee has or will have (directly or indirectly) suffered for or on account of Tax.

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 12 (*Taxation*), the Borrower agrees to pay to the Lender, not later than 12.00 noon (New York time) one Business Day prior to the date on which payment is due to the Noteholders in Same-Day Funds to the Lender, an additional amount equal to such additional amounts which the Lender must pay pursuant to Condition 12 (*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 12 (*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 U.S. dollars bank account details, the Lender shall at the request of the Borrower (a) use reasonable efforts to procure that such U.S. dollars bank account of the Lender is duly opened and maintained, and (b) thereafter furnish the Borrower with the details of such U.S. dollars bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such U.S. dollars bank account and shall use its reasonable efforts to assist the Lender with all required information in order to obtain the certificate mentioned above.

The Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the Revenue Commissioners in Ireland (or by the competent Agency in such Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), but shall promptly notify the Borrower about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate.

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 Representation and Warranties*) are true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing;
- (b) no event shall have occurred and be continuing that constitutes 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 (*The Borrower's Representations and Warranties*) with the intent that such shall form the basis of this Agreement and shall remain in full force and effect, at the date hereof and shall be deemed to be repeated by the Borrower on the Closing Date and acknowledges that the Lender has entered into this Agreement in reliance on the following representations and warranties:

- (a) it and each of its Material Subsidiaries is duly organised and incorporated and validly existing under the laws of its respective jurisdiction of incorporation, is not in liquidation or receivership and has the corporate power and legal right to own its property, to conduct its business as currently conducted and, in the case of the Borrower only, to enter into and to perform its obligations under this Agreement and to borrow the 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 2012, 2011 and 2010 contained in the Prospectus 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) save as disclosed in the section "Enforcement of Foreign Judgments" on page vi and the risk factor "Foreign Judgments and arbitral awards may not be enforceable against CBM" on pages 33 to 34 of the Prospectus, in any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be

recognised and enforced in the Russian Federation after compliance with the applicable procedures and rules and all other legal requirements in the Russian Federation;

- (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 may be paid by the Borrower to the Lender in U.S. dollars and will not be subject to Taxes under laws and regulations of Russia, or any political subdivision or Taxing Authority thereof or therein, respectively, and will otherwise be free and clear of any other Tax, duty, withholding or deduction in Ireland, Russia, or any political subdivision or Taxing Authority thereof or therein (provided, however, that the Borrower makes no representation as to any income or similar tax of Ireland (or any Qualifying Jurisdiction) which may be assessed thereon) and without the necessity of obtaining any governmental authorisation in Russia or any political subdivision or Taxing Authority thereof or therein; and
- (u) save as disclosed in the section "Capitalisation and Indebtedness of CBM" on page 42 and the section "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 49 to 87 of the Prospectus, there have not been any changes in share capital or any material increase in non-current liabilities or any material decreases in current assets or total assets or any decrease in shareholders' equity of the Group as compared with amounts shown in the consolidated balance sheet of the Borrower as at 31 December 2012 and since 31 December 2012, there have not been any material decreases in the Group's interest income, net interest income, non-interest income or net income as compared with the period from 31 December 2012 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, takes as a whole, as the Lender may reasonably request, including providing certificates to the Trustee pursuant to the Trust Deed;
- (d) the Borrower shall ensure that each set of consolidated financial statements delivered by it pursuant to this Clause 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 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.4 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*) and 7.5 (*Special Prepayment in the Event of Taxes or Increased Costs*) 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. For the avoidance of doubt, this Clause 14.1 (*Payment Default*) shall not apply to a failure to pay caused by the occurrence of a Loss Absorption Event in accordance with Clause 8 (*Loss Absorption*) including any failure to pay as a result of Clause 8.2(c) (*Loss Absorption Event*).

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, 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 ispolneniya 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

Each reference in this Agreement to U.S. dollars is of the essence. To the fullest extent permitted by law, the obligation of the Borrower in respect of any amount due in U.S. dollars under this Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in U.S. dollars that the party entitled to receive such payment may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in U.S. dollars that may be so purchased for any reason falls short of the amount originally due (the “**Due Amount**”), the Borrower hereby agrees to indemnify and hold harmless the Lender against any such deficiency in U.S. dollars. Any obligation of the Borrower not discharged by payment in U.S. dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect. If the amount in U.S. dollars that may be purchased exceeds that Due Amount the Lender shall promptly pay the amount of the excess to the Borrower.

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.
5 Harbourmaster Place
IFSC
Dublin 1
Ireland
Fax: +353 1 680 6050
Attention: The Directors

Borrower: if to the Borrower, to it at:
CREDIT BANK OF MOSCOW (open joint-stock company)
2 (Building 1) Lukov Pereulok
Moscow 10745
Russian Federation
Fax: +7 495 980 5437
Attention: Mr Pavel Voronov, Vice-President, Director of International Business Division

or to such other address or fax number as any party may hereafter specify in writing to the other.

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 shall not be entitled to assign, dispose of, novate or transfer all or any part of its rights or obligations hereunder to any other party.

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 U.S.\$500,000,000 8.70 per cent. Loan Participation Notes due 13 November 2018 (the “**Notes**” which expression includes, unless the context requires otherwise, any further Notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series therewith) of CBOM Finance p.l.c. (the “**Issuer**” or the “**Lender**”, as the case may be) which expressions shall include (unless the context requires otherwise) any entity substituted for the Issuer pursuant to Condition 10(C) (*Substitution*) are constituted by, are subject to, and have the benefit of, a trust deed to be dated 13 May 2013 (the “**Trust Deed**”, which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) and made between the Issuer and 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 U.S.\$500,000,000 (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 30 April 2013 between the Issuer (in its capacity as lender thereunder) 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). 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. Noteholders shall have no recourse (direct or indirect) to any other asset of the Issuer.

The Issuer (as lender) under the Trust Deed has charged by way of first fixed charge in favour of the Trustee for itself and on behalf of the Noteholders certain of its rights and interests as lender under the 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 Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Bank) pursuant to a paying agency agreement (the “**Agency Agreement**”) to be dated 13 May 2013 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 Noteholders during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Issuer (being, at the date hereof, 5 Harbourmaster Place, IFSC, Dublin 1, Ireland) the principal office of the Trustee being, at the date hereof, One Canada Square, London E14 5AL and at the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent, the initial Specified Office of which is set out below.

Certain provisions of these terms and conditions (the “**Conditions**”) are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Subordinated Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions applicable to them.

1. STATUS AND LIMITED RECOURSE

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Subordinated Loan. The Notes constitute the secured, limited recourse obligation of the Issuer to apply an amount equal to the net proceeds from

the issue of the Notes solely for financing the 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 Reserved Rights (as defined in the Trust Deed). The right of the Issuer to receive such sums is being charged by way of security to the Trustee by virtue of the Security Interests as security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the 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 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.

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 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, 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) at any time after the Notes become due and payable, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights or any payments under the Trust Deed and these Conditions in respect of the Notes, or, following the enforcement of the Security Interests created in the Trust Deed, the Subordinated Loan Agreement but it shall not be bound to do so unless it has been indemnified and/or secured (including by way of prefunding) by the Noteholders to its satisfaction.

Notwithstanding any other provision hereof, the obligations of the Issuer under the Notes shall be solely to make payments of amounts in aggregate equal to each sum actually received and retained (net of tax) by or for the account of the Issuer from the Bank in respect of principal, interest or, as the case may be, other amounts relating to the 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). Noteholders shall look solely to such sums for payments to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets in respect thereof. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received or recovered, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

None of the Noteholders or other creditors (not any other person acting on behalf of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgement as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes.

2. FORM AND DENOMINATION

The Notes are issued in registered form in the denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (each a “**Specified Denomination**”).

Notes sold to qualified institutional buyers (within the meaning of Rule 144A under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”)) (“**QIBs**”) who are also qualified purchasers (within the meaning of Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended) (“**QPs**”) in the United States in reliance on Rule 144A (the “**Restricted Notes**”) will be represented by a restricted global registered note certificate (the “**Restricted Global Note**”). Notes sold to investors outside the United States in reliance on Regulation S under the Securities Act (the “**Unrestricted Notes**”) will be represented by an unrestricted global note certificate (the “**Unrestricted Global Note**”) and together with the Restricted Global Note, the “**Global Notes**”). The Unrestricted Global Note will be deposited with, and registered in the name of a nominee for, a common depository for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”). The Restricted Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee for DTC.

Ownership of beneficial interests in the Restricted Global Note will be limited to Persons (as defined below) that have accounts with DTC or Persons that may hold interests through such participants. Ownership of beneficial interests in the Unrestricted Global Note will be limited to Persons that have accounts with Euroclear or Clearstream, Luxembourg or Persons that may hold interests through such participants. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected through, records maintained in book-entry form by DTC and its participants or by Euroclear, Clearstream, Luxembourg and their participants, as applicable. Global Notes will be exchangeable for Notes in definitive form only in certain limited circumstances specified in the Global Notes.

3. REGISTER, TITLE AND TRANSFERS

(A) Register

The Issuer will cause a register (the “**Register**”) to be kept at the Specified Office of the Registrar in which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the “**holder**” or “**Noteholder**” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof). A Definitive Note Certificate will be issued to each Noteholder in respect of its registered holding. Each Definitive Note Certificate will be serially numbered with an identifying number which will be recorded in the Register.

In these Conditions, “**Definitive Note Certificate**” means Notes, substantially in the form set out in Part A (*Form of Definitive Note Certificate*) of Schedule 1 (*Forms of Definitive Notes*) to the Trust Deed and includes any replacement definitive note certificate issued pursuant to Condition 13 (*Replacement of Definitive Note Certificates*) and any other definitive note certificates representing Further Notes or any of them.

(B) Title

The holder of any Note as recorded in the Register, will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing on the Definitive Note Certificate by any Person (as defined below) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous loss or theft of such Definitive Note Certificate) and no Person shall be liable for so treating such holder. No person shall have any rights to enforce any term or condition of the Notes or Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

In these Conditions, “**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality,

Notwithstanding anything to the contrary in this Condition 3(B), the Notes will be numbered serially with an identifying number which will be recorded in the Register and a copy of which in an all times up-to-date version is held at the registered office of the Issuer.

(C) Transfers

Subject to paragraphs (F) and (G) below, a Note may be transferred, subject to the transfer being duly recorded in the Register and upon surrender of the relevant Definitive Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer *provided*, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred each amounts to a Specified Denomination or a multiple thereof. Where not all the Notes represented by the surrendered Definitive Note Certificate are the subject of the transfer, a new Definitive Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(D) Registration and Delivery of Definitive Note Certificates

Within five business days of the surrender of a Definitive Note Certificate in accordance with paragraph (C) above, the Registrar will register the transfer and deliver a new Definitive Note Certificate of a like principal amount to the Notes transferred to each relevant holder for collection at its Specified Office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, “**business day**” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or the Transfer Agent has its Specified Office.

(E) No Charge

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(F) Closed Periods

The Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(G) Regulations Concerning Transfers and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of

the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. RESTRICTIVE COVENANT

As provided in the Trust Deed, so long as any Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (each as defined in the Trust Deed), agree to any amendments to or any modification of, or waiver of, or authorise any breach or proposed breach of, the terms of the Subordinated Loan Agreement or the Trust Deed and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the 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, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*, incur any other indebtedness for borrowed moneys, other than the issue of Notes on a limited recourse basis for the sole purpose of making any loan to the Bank, engage in any other business (other than acquiring and holding the Security Interests in respect of the Notes, making the 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 13 May and 13 November of each year, commencing on 13 November 2013 and ending on 13 November 2018 (each an “**Interest Payment Date**”), or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement (with respect to the corresponding interest payment thereunder) which interest under the Subordinated Loan Agreement is equal to 8.70 per cent. per annum.

If interest is required to be calculated for any period other than a full Interest Period, it will be calculated on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

6. REDEMPTION; PURCHASE; AND LOSS ABSORPTION 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 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, on 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 7.5 (*Special Prepayment in the Event of Taxes or Increased Costs*) of the Subordinated Loan Agreement or that the Issuer has issued a notice of prepayment to the Bank pursuant to Clause 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*), or Clause 7.4 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*) in each case 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 (as defined in the Trust Deed)) 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 Clauses 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.4 (*Special Prepayment if the Subordinated Loan is Not Approved for Inclusion in Tier 2 Capital of the Borrower*) or 7.5 (*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 notice or certificate delivered by the Issuer in accordance with this Condition 6(B) as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice given by the Issuer to the Trustee on behalf of the Noteholders as is referred to in this Condition 6(B), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(B), subject to Condition 7 (*Payments*).

(C) Write-down of the Notes following a Loss Absorption Event

Following receipt by the Issuer and the Trustee of a Loss Absorption 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 grounds for such Loss Absorption Event and that on the relevant Loss Absorption Write-Down Date (as defined in the Subordinated Loan Agreement and as set out in the Loss Absorption Event 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 written down and cancelled shall be automatically written down and cancelled on a *pro rata* basis and all reference 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) Notes in an amount equal to the principal amount of the Subordinated Loan being written down and cancelled shall automatically be written down, 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 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 pursuant to paragraphs (a) and (b) above; and
- (d) all rights 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) and also subject to write down and cancellation as set out in the Loss Absorption Event Notice shall become null and void, irrespective of whether such amounts have become due and payable prior to the relevant Loss Absorption Event Notice or the Write-Down Date.

The Issuer shall give notice to the Noteholders of the aggregate Loss Absorption Write-down Amount promptly after receiving notice thereof from the Bank together with a breakdown of the amount of accrued and unpaid interest and/or the amount of principal that will be written down.

(D) Compulsory Sale

The Issuer may compel any beneficial owner of an interest in the Restricted Notes to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is not both a QIB and a QP.

(E) Purchase of Notes

The Issuer or the Bank or any of the Bank's subsidiaries may at any time, subject to the prior written consent of the CBR, 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 Noteholders*).

(F) Cancellation of Notes

All Notes which are surrendered to the Registrar for cancellation pursuant to Condition 6(E) (*Purchase of Notes*) will be cancelled and may not be reissued or resold.

(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(C) (*Write-down of the Notes following a Loss Absorption Event*) shall not apply.

The Issuer shall give notice to the Noteholder 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 U.S. dollar cheque drawn on, or upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificates at the Specified Office of the Registrar or of any Paying Agent.

(B) Interest

Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificates at the Specified Office of the Registrar or of any Paying Agent.

(C) Payments Subject to Fiscal Laws

All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in any jurisdiction, and (ii) any withholding or deduction required pursuant to an agreement described in FATCA or any law implementing an intergovernmental approach thereto, but in each case without prejudice to the provisions of Condition 8 (*Taxation*). In the event of any such withholding or deduction being required, the Issuer or the relevant Paying Agent (as the case may be) shall make such payment after such withholding tax or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. None of the Issuer, the relevant Paying Agent, or any other person will be obliged to make any additional payments to the Noteholders in respect of any amounts so withheld or deducted. No commissions or expenses shall be charged to the Noteholders in respect of such payments. In these Conditions, “**FATCA**” means sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, as of the date of the Trust Deed and any current or future regulations or agreements thereunder or official interpretations thereof.

(D) Payments on Business Days

If the due date for payments of any amount in respect of any Notes is not a business day, the holder of a Note will not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition, “**business day**” means a day on which (a) the London Interbank Market is open for dealings between banks generally, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Dublin, London, Moscow, New York and in the city where the Specified Office of the Principal Paying Agent is located.

(E) Record Date

Each payment of principal and/or interest due in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's Specified Office) on the fifteenth day before the due date for such payment (the “**Record Date**”). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 7(A) (*Principal*), if later, on the business day on which the relevant Definitive Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 7(A) (*Principal*) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder). Each payment in respect of the Notes pursuant to Conditions 7(A) (*Principal*) and 7(B) (*Interest*) will be mailed to the holder of the relevant Note at his address appearing in the Register.

(F) Accrued Interest

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, in respect of the first Interest Payment Date only, from the date of issuance of

the Notes, shall be payable only as and when actually received by or for the account of the Issuer pursuant to the 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 Charge, the Issuer will charge by way of first fixed charge all its rights, title and interest in and to all sums of money then or in the future deposited in such account in favour of the Trustee for the benefit of the Noteholders.

(H) Currency Other Than U.S. dollars

In respect of the Issuer's obligations under Conditions 5 (*Interest*), 6 (*Redemption*) and 8 (*Taxation*), and subject to the following sentence, if the Issuer receives any amount under the Subordinated Loan Agreement in a currency other than U.S. dollars, the Issuer's obligation under the relevant Condition shall be fully satisfied by paying such sum (after deducting any costs of exchange) as the Issuer receives upon conversion of such sum into U.S. dollars in accordance with customary banking practice in the spot market on the business day immediately following the day on which such sum is received by the Issuer. If the Issuer receives any payment from the Bank pursuant to Clause 12.4 (*Currency Indemnity*) of the 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*).

8. TAXATION

All payments of principal or interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Ireland, the Russian Federation or any political subdivision or any authority thereof or therein having power to tax, unless such deduction or withholding is required by law.

In such event, the Issuer shall, subject as provided below, pay such additional payments as will result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required. However, the Issuer shall only make such additional payments to the extent and at such time as it shall receive and retain (net of tax and any other deductions whatsoever) equivalent sums from the Bank under the Subordinated Loan Agreement. To the extent that the Issuer does not receive and retain any such equivalent sum, the Issuer shall account to the relevant Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received and retained (net of tax and any other deductions whatsoever) by, or for the account of, the Issuer pursuant to the provisions of the 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:

- (i) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (ii) is liable for such taxes, duties, assessments or governmental charges by reason of his having some connection with Ireland other than the mere holding of such Notes or the receipt of payments in respect thereof;
- (ii) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering such Definitive Note Certificate for payment on the last day of such period of 30 days;
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (iv) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by surrendering the relevant Definitive Note Certificate to another Paying Agent and Transfer Agent in a Member State of the European Union; or
- (v) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment in Ireland.

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 in New York by, or for the account of, the Issuer 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/or 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 Noteholders whose Notes constitute at least 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified (including by way of prefunding) to its satisfaction against all liabilities, proceedings, actions, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith, take the action permitted to be taken by the Issuer as lender under the Subordinated Loan Agreement (in the case of an Acceleration Event), or exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon the repayment of the 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 Noteholders on any certificate or report prepared by any of the above mentioned experts, including specifically the Auditors (as defined in the Trust Deed), or any auditor, pursuant to the Conditions or the Trust Deed, whether or not the expert or auditor's liability in respect thereof is limited by a monetary cap or otherwise.

10. MEETINGS OF NOTEHOLDERS; MODIFICATION; WAIVER; SUBSTITUTION OF THE LENDER

(A) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of the 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 Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be at least two persons present holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, at least two persons present being or representing Noteholders whatever the outstanding principal amount of the Notes held or represented; *provided, however*, that Reserved Matters (as defined in the Trust Deed) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which at least two persons present holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

Neither the Issuer nor any subsidiary of the Issuer nor any holding company of the Issuer nor any subsidiary of any such holding company who is or are also Noteholders shall be allowed to vote at a meeting or be included in a quorum.

An “**Extraordinary Resolution**” means a resolution passed at a Meeting duly convened and held in accordance with Schedule 4 to the Trust Deed by a majority of no less than three quarters of the votes cast.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed (a “**Written Resolution**”) will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(B) Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, these Conditions and the Trust Deed or, following the creation of the Security Interests, the 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 each case, in respect of the Reserved Matters) is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions, or the Trust Deed or, following the creation of the Security Interests, by the Bank of the terms of the 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 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 Lender under the Subordinated Loan Agreement, 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.

(D) Exercise of Powers

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, the Bank or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

11. PRESCRIPTION

Notes will become void unless presented for payment within ten years (in the case of principal) or five years (in the case of interest) from the Relevant Date in respect thereof.

12. TRUSTEE AND AGENTS

The Trust Deed provides for the Trustee to take action on behalf of the Noteholders in certain circumstances, for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified and/or secured (including by way of prefunding) to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and the Bank and any entity relating to the Issuer and the Bank without accounting for any profit and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its subsidiaries.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the 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 three months' notice in writing to the Issuer and the Bank without assigning any reason therefor and without being responsible for any costs occasioned by such retirement. The retirement of any Trustee shall not become effective unless there remains a trustee (being a Trust Corporation (as defined in the Trust Deed)) in office after such retirement. In the event of a Trustee giving such notice, the Issuer shall use its reasonable endeavours to procure a new trustee to be appointed. If the Issuer has not appointed a new trustee within 60 days of giving such notice, the Trustee may procure a new trustee to be so appointed. The Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees for the time being hereof. The removal of any trustee shall not become effective unless the Bank has given its prior written consent thereto and there remains a trustee hereof (being a Trust Corporation) in office after such removal. Notice of any change in the Trustee or any of the Agents shall promptly be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

13. REPLACEMENT OF DEFINITIVE NOTE CERTIFICATES

If a Definitive Note Certificate is mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Irish Stock Exchange (as defined in the Trust Deed), be replaced at the Specified Office of the Registrar or the Transfer Agent upon payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

14. NOTICES

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register and, for so long as the Notes are listed on the Irish Stock Exchange, filed with the Companies Announcements Office of the Irish Stock Exchange. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

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 Unrestricted Global Note, notices required to be published in accordance with this Condition 14 may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders, provided that such notice is also delivered to the Irish Stock Exchange and given in accordance with the rules of the Irish Stock Exchange. So long as any of the Notes are represented by the Restricted Global Note, notices required to be published in accordance with this Condition 14 may be given by delivery of the relevant notice to DTC for communication to the relevant accountholders, provided that such notice is also delivered to the Irish Stock Exchange and given in accordance with the rules of the Irish Stock Exchange.

15. PROVISION OF INFORMATION

The Issuer shall, during any period in which it is not subject to or in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, duly provide to any holder of a Note which is a “**restricted security**” within the meaning of Rule 144(a)(3) under the Securities Act or to any prospective purchaser of such securities designated by such Noteholder, upon the written request of such Noteholder or (as the case may be) prospective Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Registrar, the information specified in Rule 144A(d)(4) under the Securities Act.

16. FURTHER ISSUES

The Issuer may from time to time, with the consent of the Bank but without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on the further Notes) so as to form to be consolidated and form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed. In relation to any further issue which is to form a single series with the Notes (i) the Issuer will enter into a further loan agreement with the Bank or an amendment or supplement to the 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 materially prejudice the interests of the Noteholders and (ii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such further Notes also and/or new security will be granted over any further loan agreement or the 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. Such further Notes shall be issued under a deed supplemental to the Trust Deed. Any further issue which is to form a single series with the Notes for non-U.S. tax purpose that is not issued pursuant to a “qualified reopening” for U.S. federal income tax purposes shall be issued with a separate CUSIP and ISIN than the Notes.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18. GOVERNING LAW AND JURISDICTION

The Notes, the Trust Deed, the Agency Agreement and the 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.

Restricted Notes

Each purchaser of a beneficial ownership interest in a Restricted Note, by accepting delivery of this Prospectus and the Restricted Notes, will be deemed to have represented, agreed and acknowledged that:

1. If it is a U.S. person within the meaning of Regulation S it is (a) a QIB that is also a QP, (b) not a broker-dealer which owns and invests on a discretionary basis less than US\$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acquiring such Notes for its own account, or the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Notes or the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the seller of such Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.
2. It will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Restricted Notes in a principal amount that is not less than US\$200,000 and (b) provide notice of the transfer restrictions set forth herein to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in the Issuer's securities from one or more book entry depositories.
3. It understands that the Restricted Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a U.S. person that is a QIB and also a QP purchasing for its own account or for the account of one or more QIBs, each of which is also a QP and purchasing not less than US\$200,000 principal amount of Notes or (b) to a non-U.S. person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States.
4. It understands that the Issuer has the power to compel any beneficial owner of Restricted Notes that is a U.S. person and is not a QIB and a QP to sell its interest in the Restricted Notes, or may sell such interest on behalf of such owner at a price equal to the lesser of (x) the purchase price therefor paid by the beneficial owner, (y) 100% of the principal amount thereof or (z) the fair market value thereof.
5. It understands that the Issuer has the right to refuse to honour the transfer of an interest in the Restricted Notes to a U.S. person who is not a QIB and a QP.
6. It understands and acknowledges that its purchase and holding of such Restricted Notes or any interest therein constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Restricted Notes or any interest therein (a) it is not and is not using the assets of and will not be: (i) an "employee benefit plan" as described in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") that is subject to the provisions of Title I of ERISA, (ii) a "plan" described in Section 4975(e)(1) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") to which Section 4975 of the Code applies, or (iii) any entity whose underlying assets include "plan assets" by reason of an investment in the entity by a person described in (a)(i) or (a)(ii) above; (b) if it is an employee benefit plan subject to any U.S. federal, state, local or non-U.S. statute, regulation, administrative decision, policy or other legal authority that is substantially similar to Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**"), the purchase and holding of the Restricted Notes or any interest therein does not and will not violate any such Similar Law; and (c) it will not sell or otherwise transfer any such Restricted Note or any interest therein to any person unless the same foregoing representations and warranties apply to that person. Any purchase by or transfer to a person described in clause (a)(i), (a)(ii) or (a)(iii) above will be null and void *ab initio*.

7. It understands that the Restricted Global Notes and any Restricted Notes Certificates issued in exchange thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN OR WILL NOT BE REGISTERED UNDER, AND EACH WAS ORIGINALLY ISSUED OR MADE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), AND THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES, FOR THE BENEFIT OF THE ISSUER, THAT (A) THIS NOTE (AND ANY INTEREST HEREIN) MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A U.S. PERSON (WITHIN THE MEANING OF REGULATION S) THAT IS A QUALIFIED INSTITUTIONAL BUYER (A “**QIB**”, AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) THAT IS ALSO A QUALIFIED PURCHASER (A “**QP**”, AS DEFINED IN THE SECTION 2(a)(51) OF THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED) (THE “**INVESTMENT COMPANY ACT**”) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE (OR INTEREST HEREIN) FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE. THE ISSUER, HAS THE RIGHT UNDER THE TRUST DEED TO COMPEL ANY BENEFICIAL OWNER THAT IS A U.S. PERSON AND IS NOT A QIB AND ALSO A QP TO SELL ITS INTEREST IN THIS NOTE, OR MAY SELL SUCH INTEREST ON BEHALF OF SUCH BENEFICIAL OWNER. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND ALSO A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF REPRESENTS THAT (1) IT IS A U.S. PERSON THAT IS A QIB AND A QP; (2) IT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THE NOTES REPRESENTED HEREBY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QIB THAT IS ALSO A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THE NOTES REPRESENTED HEREBY; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS NOTES, WILL HOLD AND TRANSFER AT LEAST US\$200,000 IN PRINCIPAL AMOUNT OF NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITARIES AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES. THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THE NOTES REPRESENTED HEREBY IT IS A PERSON WHO IS NOT A QIB THAT IS ALSO A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THE NOTES REPRESENTED HEREBY TO A PERSON THAT IS (I) A U.S. PERSON THAT IS A QIB AND A QP THAT IS OTHERWISE QUALIFIED TO PURCHASE THE NOTES REPRESENTED HEREBY IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THE NOTES REPRESENTED HEREBY TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THE NOTES REPRESENTED HEREBY TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LEAST OF (X) THE PURCHASE PRICE THEREFORE PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT. OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOR A TRANSFER OF AN INTEREST IN THE NOTES REPRESENTED HEREBY TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF OR OF ANY INTEREST HEREIN WILL BE DEEMED TO REPRESENT AND WARRANT THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE (A) AN “EMPLOYEE BENEFIT PLAN” AS DESCRIBED IN

SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”) THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A “PLAN” AS DEFINED IN AND TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), APPLIES OR (C) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE, OR ARE DEEMED FOR PURPOSES OF ERISA OR THE CODE TO INCLUDE, “PLAN ASSETS” BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (1)(A) OR (1)(B) ABOVE OR OTHERWISE; (2) IF IT IS AN EMPLOYEE BENEFIT PLAN SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-U.S. STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR OTHER LEGAL AUTHORITY THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (“SIMILAR LAW”), THE PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT VIOLATE ANY SUCH SIMILAR LAW; AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS NOTE OR ANY INTEREST HEREIN TO ANY PERSON UNLESS THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS APPLY TO THAT PERSON. ANY PURCHASE BY OR TRANSFER TO A PERSON

DESCRIBED IN (1)(A), (1)(B), AND (1)(C) ABOVE WILL BE NULL AND VOID AB INITIO.

THIS NOTE AND ALL RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE REALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

8. It acknowledges that the Issuer, CBM, the Registrar, the Joint Lead Managers and their respective affiliates, and others, will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Restricted Notes is no longer accurate, it shall promptly notify the Issuer, CBM and the applicable Joint Lead Manager(s). If it is acquiring any Note as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.
9. It understands that Restricted Notes will be represented by interests in the Restricted Global Note. Before any interest in the Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Restricted Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Unrestricted Notes

Each purchaser of a beneficial interest in the Unrestricted Notes, by accepting delivery of this Prospectus and the Unrestricted Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is, or at the time Unrestricted Notes are purchased it will be, the beneficial owner of such Unrestricted Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, CBM or a person acting on behalf of the Issuer, CBM or such an affiliate.
2. It understands that the Unrestricted Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the applicable distribution compliance period for such Notes, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a U.S. person that is a QIB and a QP each of which is purchasing not less than US\$200,000 principal amount of Notes purchasing for its account or for the account of a QIB that is also a QP or (b) in an offshore transaction to a person that is not a U.S. person in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
3. It understands that the Unrestricted Notes will be evidenced by the Unrestricted Global Note. Before any interest in the Unrestricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Restricted Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
4. It understands and acknowledges that its purchase and holding of such Unrestricted Notes or any interest therein constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Unrestricted Notes or any interest therein (a) it is not and is not using the assets of and will

not be: (i) an “employee benefit plan” as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a “plan” described in Section 4975(e)(1) of the Code to which Section 4975 of the Code applies, or (iii) any entity whose underlying assets include “plan assets” by reason of an investment in the entity by a person described in (a)(i) or (a)(ii) above; (b) if it is an employee benefit plan subject to any Similar Law, the purchase and holding of the Unrestricted Notes or any interest therein does not and will not violate any such Similar Law; and (c) it will not sell or otherwise transfer any such Unrestricted Note or any interest therein to any person unless the same foregoing representations and warranties apply to that person. Any purchase by or transfer to a person described in clause (a)(i), (a)(ii) or (a)(iii) above will be null and void *ab initio*.

5. It acknowledges that the Issuer, CBM, the Registrar, the Joint Lead Manager(s) and their respective affiliates, and others, will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Unrestricted Notes is no longer accurate, it shall promptly notify the Issuer, CBM and the applicable Joint Lead Manager(s). If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.
6. It acknowledges that for the period until and including the 40th day after the commencement of the Offering, it will not make and offer or sale of the Unrestricted Notes to, or for the account or benefit of, a U.S. person within the meaning of Regulation S.
7. It understands that the Unrestricted Global Note and any Unrestricted Note Certificates issued in exchange thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THE NOTES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”) AND MAY NOT BE OFFERED AND SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (I) AS PART OF THEIR DISTRIBUTION AT ANY TIME OR (II) OTHERWISE UNTIL 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING AND THE CLOSING DATE, EXCEPT IN EITHER CASE IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S.

EACH BENEFICIAL OWNER HEREOF OR OF ANY INTEREST HEREIN WILL BE DEEMED TO REPRESENT AND WARRANT THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE (A) AN “EMPLOYEE BENEFIT PLAN” AS DESCRIBED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”) THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A “PLAN” AS DEFINED IN AND TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), APPLIES OR (C) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (1)(A) OR (1)(B) ABOVE; (2) IF IT IS AN EMPLOYEE BENEFIT PLAN SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-U.S. STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR OTHER LEGAL AUTHORITY THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (“SIMILAR LAW”), THE PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT AND WILL NOT VIOLATE ANY SUCH SIMILAR LAW; AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS NOTE OR ANY INTEREST HEREIN TO ANY PERSON UNLESS THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS APPLY TO THAT PERSON. ANY PURCHASE BY OR TRANSFER TO A PERSON DESCRIBED IN (1)(A), (1)(B), AND (1)(C) ABOVE WILL BE NULL AND VOID AB INITIO.

FORM OF THE NOTES

Global Notes

The Notes will be evidenced on issue: (i) in the case of the Unrestricted Notes, a Unrestricted Global Note deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream, Luxembourg; and (ii) in the case of the Restricted Notes, a Restricted Global Note deposited with a custodian for, and registered in the name of a nominee of, DTC.

Beneficial interests in the Unrestricted Notes, as represented by the Unrestricted Global Note, may be held only through Euroclear or Clearstream at any time. See “– *Book-Entry Procedures for the Global Notes*”. On acquisition of a beneficial interest in the Unrestricted Notes, as represented by the Unrestricted Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, that it is located outside the United States and that, if it determines to transfer such beneficial interest prior to the expiration of the distribution compliance period (as such terms is defined in Rule 902 of Regulation S), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-US person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See “*Transfer Restrictions*”.

Beneficial interests in the Restricted Notes, as represented by the Restricted Global Note, may only be held through DTC at any time. See “– *Book-Entry Procedures for the Global Notes*”. By acquisition of a beneficial interest in the Restricted Note, as represented by the Restricted Global Note, the purchaser thereof will be deemed to represent, among other things, that if it is a U.S. person (within the meaning of Regulation S), it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See “*Transfer Restrictions*”.

Beneficial interests in either the Unrestricted Notes or the Restricted Notes, as evidenced by the relevant Global Note, will be subject to certain restrictions on transfer set forth thereon and in the Agency Agreement, and with respect to Restricted Notes, as set forth in Rule 144A, and the Restricted Global Note will bear the legends set forth thereon regarding such restrictions set forth under “*Transfer Restrictions*”. A beneficial interest in the Unrestricted Notes, as evidenced by the Unrestricted Global Note, may be transferred to a person who takes delivery in the form of an interest in the Restricted Global Note in denominations greater than or equal to the minimum denominations applicable to interests in the Restricted Notes, as evidenced by the Restricted Global Note and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Restricted Notes, as evidenced by the Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made to a non-US person and in accordance with Regulation S.

Any beneficial interest in the Unrestricted Notes, as evidenced by the relevant Global Note that is transferred to a person who takes delivery in the form of an interest in the Restricted Notes, as evidenced by the Restricted Global Note will, upon transfer, cease to be an interest in the Unrestricted Notes, as evidenced by the relevant Global Note and become an interest in the Restricted Notes, as evidenced by the Restricted Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Restricted Notes, as evidenced by the Restricted Global Note for as long as it remains such an interest. Any beneficial interest in the Restricted Notes, as evidenced by the Restricted Global Note that is transferred to a person who takes delivery in the form of an interest in the Unrestricted Notes, as evidenced by the Unrestricted Global Note will, upon transfer, cease to be an interest in the Restricted Notes, as evidenced by the Restricted Global Note and become an interest in the Unrestricted Notes, as evidenced by the Unrestricted Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Unrestricted Notes, as evidenced by the Unrestricted Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in either the Unrestricted Global Note or the Restricted Global Note will not be entitled to receive physical delivery of individual Note certificates (the “**Definitive Note Certificates**”). The Notes are not issuable in bearer form.

Exchange

Each Global Note will be exchangeable, in whole but not in part, for Note Certificates if: (i) interests in the relevant Global Note are held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Global Note or ceases to be a “clearing agency” registered under the U.S. Securities Exchange Act of 1934 (the “**Exchange Act**”) or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, as the case may be, is closed

for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent; or (ii) the Issuer has failed to pay an amount in respect of the Notes within five days of the date on which such amount became due and payable in accordance with the Conditions; or (iii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 (*Taxation*) which would not be suffered were the Notes evidenced by Definitive Note Certificates. The Issuer shall notify the holder of the occurrence of any of the events specified in (i), (ii) and (iii) above as soon as practicable thereafter.

Whenever a Global Note is to be exchanged for relevant Definitive Note Certificates in or substantially in the form set out in the relevant schedule to the Trust Deed, such Definitive Note Certificates shall be issued in an aggregate principal amount equal to the principal amount of that Global Note within five business days of the delivery, by or on behalf of (i) the holder, Euroclear and/or Clearstream, Luxembourg (in the case of Definitive Note Certificates representing the Unrestricted Notes); or (ii) the holder and/or DTC (in the case of Definitive Note Certificates representing the Restricted Notes), to the Registrar of (a) such information as is required to complete and deliver such Definitive Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Definitive Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of that Global Note at the specified office (as defined in the Conditions) of the Registrar and (b) in the case of a Restricted Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a U.S. person that is a QIB that is also a QP. Such exchange shall be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange. In this paragraph, "business day" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city in which the Registrar has its specified office.

Legends

The holder of a Definitive Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Definitive Note Certificate bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on such a Definitive Note Certificate, the Issuer will deliver only Definitive Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Notes

For the Unrestricted Global Note and the Restricted Global Note, custodial and depository links have been established between DTC, Euroclear and Clearstream to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading.

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in the Unrestricted Notes directly through Euroclear or Clearstream if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**", and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

References in the Global Note and this summary to Euroclear and/or Clearstream shall be deemed to include references to any other clearing system approved by the Trustee. The address of Euroclear is 1 Boulevard du Roi Albert 11, B 1210 Brussels, Belgium. The address of Clearstream, Luxembourg is L 2967 Luxembourg.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates.

Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Restricted Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Restricted Note as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “– *Exchange*”, DTC will surrender the Restricted Global Note for exchange for Definitive Note Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A). The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Amendments to Conditions

In addition, the Global Notes will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Notes. The following is a summary of certain of those provisions:

Notices

Notwithstanding Condition 14 (*Notices*), so long as a Global Note is held on behalf of Euroclear, Clearstream, Luxembourg or DTC or any other clearing system provided such other clearing system is regarded as a recognised clearing system by the Irish Revenue Commissioners (an “**Alternative Clearing System**”), notices to Holders of Notes represented by such Global Note may be given by delivery of the relevant notice to Euroclear, Clearstream or DTC (as the case may be) or such Alternative Clearing System for communication to the relative Accountholders rather than by publication as required by Condition 14 (*Notices*), *provided that*, for so long as the Notes are listed on the Irish Stock Exchange and the guidelines of the Irish Stock Exchange so require, notice will also be given by filing in the Companies Announcements Office of the Irish Stock Exchange. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream or DTC (as the case may be) or such Alternative Clearing System as aforesaid.

Payment

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to the person who appears on the register of the Noteholders as holder of the Notes represented by a Global Note on the Clearing System Business Day immediately prior to the date of the relevant payment against presentation and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying and Transfer Agent or such other Paying and Transfer Agent as shall have been notified to the relevant Noteholders for such purpose.

Upon any payment of principal or interest on a Global Note the amount so paid shall be endorsed by or on behalf of the Principal Paying Agent on behalf of the Issuer in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes. As used in this paragraph, “**Clearing System Business Day**” means Monday to Friday inclusive except 25 December and 1 January.

Meetings

The holder of the Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders.

Trustee Powers

In considering the interests of Noteholders while a Global Note is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its Accountholders with entitlements to such Global Note and may consider such interests as if such Accountholders were the holders of such Global Note.

Prescription

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by a Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 11 (*Prescription*)).

TAXATION

The following is a general description of certain tax laws relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, either in those countries referred to or elsewhere. Prospective purchasers of the Notes are advised to consult their own tax advisors as to the consequences of the purchase, ownership and disposition of the Notes in light of their particular circumstances, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of the Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Russian Taxation

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of Notes as well as taxation of interest payments on any corresponding 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 Notes. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Nor does the summary seek to address the availability of double tax treaties and the eligibility of double tax treaty relief in respect of any Series of Notes, and it should be noted that there may be practical difficulties, including satisfying certain documentation requirements, involved in claiming and obtaining such double tax treaty relief. Prospective investors should consult their own tax advisers regarding the tax consequences of investing in Notes in their own particular circumstances. No representation with respect to the Russian tax consequences of investing, owning or disposing of the Notes to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty and lack interpretive guidance. Further, the substantive provisions of Russian tax law applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change (possibly with retroactive effect) and inconsistency than in jurisdictions with more developed capital markets or more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

In practice, interpretation by different tax inspectorates may be inconsistent or contradictory and may result in the imposition of conditions, requirements or restrictions not provided for by the existing legislation. Similarly, court rulings on tax or related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a “**Non-Resident Noteholder**” means:

- an individual Noteholder actually present in Russia for an aggregate period of less than 183 calendar days (including days of arrival to Russia and including days of departure from Russia) in any period comprising 12 consecutive months. Presence in Russia for tax residency purposes is not considered interrupted for an individual's short term departure (less than 6 months) from Russia for medical treatment or education. The interpretation of this definition by the Ministry of Finance of the Russian Federation states that for withholding tax purposes an individual's tax residence status should be determined on the date of income payment (based on the number of Russian days in the 12-month period preceding the date of payment). The individual's final tax liability in the Russian Federation for the reporting calendar year should be determined based on the number of days spent in Russia in such calendar year; or
- a legal entity or organisation, in each case not organised under Russian law, which purchases, holds and/or disposes of the Notes otherwise than through a permanent establishment in Russia (as defined by Russian tax law).

A “**Resident Noteholder**” means any Noteholder (including any individual and any legal entity or organisation) who is not a Non-Resident Noteholder.

Russian tax residency rules may be affected by an applicable double tax treaty. Based on published comment of the Russian authorities, it is anticipated that the Russian tax residency rules applicable to legal entities may change in the future.

The Russian tax treatment of interest payments made by CBM to the Issuer (or to the Trustee, as the case may be) under any Subordinated Loan Agreement may affect the Noteholders. See “– *Taxation of Interest on the Subordinated Loan*” below.

Taxation of the Notes

Non-Resident Noteholders

Non-Resident Noteholders generally should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Notes received from the Issuer. Subject to what is stated in “*Taxation of interest on the 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. See “– *Resident Noteholders*” above.

If the disposal proceeds are paid by a tax agent (a Russian legal entity or a foreign legal entity carrying out activities in Russia through a permanent establishment which is a licenced broker, asset manager, management company or any other person that carries out operations under an agency agreement, a commission agreement or a brokerage contract), the applicable personal income tax should be withheld at source. If the tax is not withheld, a Non-Resident Noteholder, who is an individual, should file a tax return and pay tax in Russia on his/her own.

The personal income tax rate (including tax withheld at source) may be reduced pursuant to a double taxation treaty between Russia and the tax jurisdiction of the Non-Resident Noteholder. See “– *Tax Treaty Relief*” below.

Taxation of Non-Resident Noteholders – Legal Entities

Acquisition of the Notes

Acquisition of the Notes by Non-Resident Noteholders that are legal entities and organisations should not constitute a taxable event under Russian law. Consequently, the acquisition of the Notes should not trigger any Russian tax implications for Non-Resident Noteholders that are legal entities and organisations.

Interest on the Notes

Pursuant to the Russian Tax Code, as amended by Law No. 97-FZ, interest income received on the Notes by Non-Resident Noteholders should not be subject to Russian tax with respect to the Notes issued prior to 1 January 2014.

Sale or other disposal of the Notes

Income received by Non-Resident Noteholders that are legal entities from the sale or redemption of Notes should not be subject to Russian tax. However, if a Non-Resident Noteholder sells the Notes after 1 January 2014 and receives sales or other disposal proceeds from a source within Russia, there could be no assurance that the portion of the sales or other

disposal proceeds, if any, attributable to interest accrued after 1 January 2014 would not be subject to Russian withholding tax, even if the sale or other disposal results in a loss. In this case, while some Non-Resident Noteholders that are legal entities might be eligible for an exemption from or a reduction in Russian withholding tax based on provisions of the applicable double tax treaties relating to interest income (subject to compliance with the treaty clearance formalities by these Noteholders), there is also no assurance that such exemption or reduction will be available to them in practice, whilst obtaining a refund of Russian income tax withheld at source can be extremely difficult, if not impossible. That said, it cannot be predicted with absolute certainty whether or not the Russian entities remitting sales or disposal proceeds to Non-Resident Noteholders that are legal entities will be willing to follow this approach in practice.

Redemption of the Notes

Non-Resident Noteholders that are legal entities generally should not be subject to any Russian taxes in respect of repayment of principal on the Notes received from the Issuer.

Double Tax Treaty Relief

Where proceeds from the disposal of the Notes are received from a Russian source, in order for the Non-Resident Noteholders, whether an individual, legal entity or organisation, provided it is the beneficial recipient, to receive the benefits of an applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed. Currently a Non-Resident Noteholder that is a legal entity will need to provide the payer of income which is regarded a tax agent with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income. However, the payer of income in practice may request additional documents confirming the entitlement and eligibility of such Non-Resident Noteholder to the benefits of the relevant double tax treaty in relation to income concerned. The certificate should confirm that the respective Non-Resident Noteholder is the tax resident of the relevant double tax treaty country (specifically for the purposes of the applicable double tax treaty). This certificate generally should be apostilled or legalised and needs to be renewed on an annual basis. A notarised Russian translation of the certificate will have to be provided to the person which is regarded a tax agent. Non-Resident Noteholders that are legal entities or organisations should consult their own tax advisers with respect to the possibilities to enjoy any double tax treaty relief and the relevant Russian procedures.

Under Russian domestic tax legislation in order to enjoy benefits of the respective double tax treaty a Non-Resident Noteholder who is an individual will have to provide the Russian tax authorities with (i) a tax residency certificate, issued by the competent authorities of his/her country of tax residence and (ii) a confirmation from the relevant foreign tax authorities on income received and the tax paid by that Non-Resident Noteholder outside Russia in relation to income with respect to which the respective double tax treaty benefits are claimed until 31 December of the year following the reporting year. Such requirements in practice may be imposed even if they directly contradict provisions of the applicable double tax treaty. In practice, these requirements may mean that a Non-Resident Noteholder who is an individual would not be able to rely on any double tax treaty until he or she pays the tax with respect to that income in the jurisdiction of his or her tax residency and may not be able to obtain the advance treaty relief in relation to income derived by them from Russian sources, as it is very unlikely that the supporting documentation required for the treaty relief purposes would be provided to the Russian tax authorities and, consequently, the approval from the latter could be obtained, before the receipt of income by a Non-Resident Noteholder occurs.

Non-Resident Noteholders should consult their own tax advisors with respect to possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of interest income on the Notes or any income received in connection with the acquisition, sale or other disposal of the Notes.

Refund of Tax Withheld

If Russian withholding tax applicable to income derived from Russian sources by a Non-Resident Noteholder that is a legal entity, for which double tax treaty relief is available, was withheld at source, a refund of the tax that was excessively withheld at source is possible by filing a claim with the Russian tax authorities within three years following the year in which the tax was withheld. If Russian personal income tax on income derived from Russian sources by a Non-Resident Noteholder who is an individual for whom double tax treaty relief is available was withheld at source a refund of tax which was excessively withheld is possible by filing a claim with the Russian tax authorities within one year following the year in which the tax was withheld.

Although the Russian Tax Code arguably contains an exhaustive list of documents and information which have to be provided by the Non-Resident Noteholder to the Russian tax authorities for the tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming the right of a Non-Resident Noteholder to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates. In practice a Non-Resident Noteholder when seeking a refund of Russian taxes excessively withheld at source may face similar difficulties as when trying to obtain advance tax relief under the applicable double tax treaties, as discussed above.

Obtaining a refund of Russian income taxes which were excessively withheld at source is likely therefore to be a time consuming process requiring many efforts and no assurance can be given that such refund will be granted to the Non-Resident Noteholders in practice. The Non-Resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain refund of Russian income taxes, which were excessively withheld at source.

Taxation of Interest on the 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, under the provisions of the Tax Code introduced by the Law No. 97-FZ, interest income payable by Russian organisations on debt obligations that originate from issuance of tradable securities by foreign organisations (as defined by the Tax Code) shall not be subject to withholding of the tax by the tax agent, if the foreign organisation (such as the Issuer) that is the issuer of the securities is resident in a jurisdiction that has an effective double tax treaty with Russia.

Tradable securities mentioned above are defined in the law as securities and other debt obligations listed on a recognised stock exchange and (or) settled through recognised depository-clearing organisations. The list of such recognised institutions should be further approved by the Ministry of Finance. Upon agreement of the list any depository-clearing organisation should be considered as “recognised”.

Debt obligations of Russian organisations shall be treated as originating from the issuance of tradable securities by the foreign issuer if a direct link to such issuance is contained in the loan agreement between the issuer and the Russian organisation or if such a link is contained in terms of issuance or in a related prospectus, or can be confirmed by actual cash flows at the time of the placement of the securities.

For the withholding tax exemption envisaged by the newly adopted law to apply, the Issuer will have to submit to CBM a confirmation of its tax residence (“**Certificate**”) signed (or certified) by (or on behalf of) a competent body of Ireland prior to making an affected payment. This Certificate should be legalised through an apostil by a competent authority and be furnished with a notarised Russian translation. The Certificate should be submitted each calendar year, in each case prior to when the first applicable payment of such calendar year is made irrespective of the number and regularity of such payments.

In the absence of the proper Certificate having been submitted as outlined above, the applicable rate of withholding tax on any interest payments would be 20% under Russian tax legislation. Once the Certificate has subsequently been provided, the tax may be refunded to the Issuer from the tax authorities; however, obtaining such a refund can be extremely difficult, or impossible in practice. The mentioned exemption applies starting from 1 January 2007 to the tradable securities issued until 1 January 2014. Income under the tradable securities issued before 1 January 2014, but with a maturity exceeding that date should be subject to the exemption.

CBM believes that based on the above summarised provisions of the Tax Code the mentioned withholding tax exemption shall apply to the issuance of the Notes, which shall effectively exempt from withholding taxation in Russia interest income payable by CBM to the Issuer and ultimately to the Noteholders connected with the issuance of the Notes.

If interest under the Subordinated Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the Russia-Ireland Tax Convention will cease and payments of interest may be subject to Russian withholding tax at a rate of 20% (or, potentially, at a rate of 30% in respect to Non-Resident Noteholders who are individuals) or such other rate as may be in force at the time of payment. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty under such circumstances. In such cases, Noteholders may seek a reduction or refund of withholding tax under double taxation treaties entered into between their countries of residence and Russia, where such treaties exist and to the extent they are applicable. There is no assurance that treaty relief will be available.

See “*Risk Factors – Risks Relating to the Issuer, the Subordinated Loan, the Notes and the Trading Market – Payments on the Subordinated Loan may be subject to Russian withholding tax*”.

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.

If CBM is obliged to increase payments under the Subordinated Loan Agreement, it may (without premium or penalty), subject to certain conditions, prepay such Subordinated Loan in full. In such case, all outstanding Notes would each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of the redemption.

Value Added Tax

Russian VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore, no VAT will be payable in Russia in respect of interest and principal payments under each Subordinated Loan.

Ireland Taxation

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts, etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Withholding Tax

In general, tax at the standard rate of income tax (currently 20%) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

- (a) the Notes are Quoted Eurobonds, i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as the Irish, London or Luxembourg Stock Exchanges) and which carry a right to interest; and
- (b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:
 - (i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or
 - (ii) the Noteholder is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and
- (c) one of the following conditions is satisfied:
 - (i) the Noteholder is resident for tax purposes in Ireland; or
 - (ii) the Noteholder is a pension fund, government body or other person (other than a person described in paragraph (c)(iv) below), who is resident in a Relevant Territory (as defined below) and who, under the laws of that territory is exempted from tax that generally applies to profits, income or gains in that territory; or
 - (iii) the Noteholder is subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or
 - (iv) the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:
 - i. from whom the Issuer has acquired assets;
 - ii. to whom the Issuer has made loans or advances; or
 - iii. with whom the Issuer has entered into a Swap Agreement,where the aggregate value of such assets, loans, advances or Swap Agreements represents not less than 75 per cent. of the assets of the Issuer, or
 - (v) the Issuer is not aware at the time of the issue of any Notes that any Noteholder of those Notes is (i) a person of the type described in (c)(iv) above AND (ii) is not subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory,where for these purposes, the term

“Relevant Territory” means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty; and

“Swap Agreement” means any agreement, arrangement or understanding that -

- (i) provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and
- (ii) transfers to a person who is a party to the agreement, arrangement or undertaking, or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in the asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

Thus, so long as the Notes continue to be quoted on the Irish Stock Exchange are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised), and one of the conditions set out in paragraph (c) above is met, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland, and one of the conditions set out in paragraph (c) above is met.

Encashment Tax

Irish tax will be required to be withheld at the standard rate of income tax (currently 20%) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA, the recipient is not resident in Ireland and is resident in a Relevant Territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its business are exempt from income tax provided the recipient is not resident in Ireland and is a company which is either resident in a Relevant Territory which imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which is not yet in force but which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a Relevant Territory. Finance Act 2012 extends the foregoing exemption to companies which are under the control, whether directly or indirectly, of person(s) who by virtue of the law of a Relevant Territory are resident for the purpose of tax in a Relevant Territory and are not under the control of person(s) who are not so resident, and to 75% subsidiary companies of a company or companies the principal class of shares in which is substantially and regularly traded on a recognised stock exchange. For these purposes, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless such holder is either resident or ordinarily resident in Ireland or carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 33% if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland)).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Irish Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

EU Savings Directive on Taxation of Savings Income

Ireland has implemented the EU Savings Directive into national law. Accordingly, any Irish paying agent making an interest payment on behalf of the Issuer to an individual or certain residual entities resident in another Member State of the European Union or certain associated and dependent territories of a Member State will have to provide details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address) to the Irish Revenue Commissioners who in turn are obliged to provide such information to the competent authorities of the state or territory of residence of the individual or residual entity concerned. The Issuer shall be entitled to require Noteholders to provide any information regarding their tax status, identity or residency in order to satisfy the disclosure requirements in the EU Savings Directive and Noteholders will be deemed by their subscription for Notes to have authorised the automatic disclosure of such information by the Issuer or any other person to the relevant tax authorities.

U.S. Taxation

U.S. Federal Income Taxation

The discussion of U.S. tax matters set forth in this Prospectus was written in connection with the promotion or marketing of this offering and was not intended or written to be used, and cannot be used, by any person for the purpose of avoiding tax-related penalties under U.S. federal, state or local tax law. Each taxpayer should seek advice based on its particular circumstances from an independent tax advisor.

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary deals only with purchasers of Notes that are U.S. Holders acquiring Notes in the offering and that will hold the Notes as capital assets (generally, property held for investment). The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local, non-U.S. or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar). This summary also does not address the Medicare levy.

As used herein, the term “**U.S. Holder**” means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the

trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes. The U.S. federal income tax treatment of a partner in a partnership that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax adviser concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Notes by the partnership.

The summary is based on the tax laws of the United States including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

U.S. Federal Income Tax Characterisation of the Notes

No authority directly addresses the characterisation of securities like the Notes for U.S. federal income tax purposes and no ruling will be received from the IRS as to the characterisation of the Notes for such purposes. To the extent relevant for U.S. federal income tax purposes, the Issuer intends to treat the Notes as indebtedness for such purposes consistent with their form. It is possible, however, that the Notes could be treated as equity interests in the Issuer, as beneficial ownership interests in the underlying Subordinated Loan or as other types of financial instruments. No assurance can be given that the IRS will not assert, or a court would not sustain, a position regarding the characterisation of the Notes that is contrary to this discussion. If the Notes were treated as equity interests in the Issuer, U.S. Holders would be treated as owning interests in a passive foreign investment company (or “PFIC”), which could have materially adverse tax consequences for a U.S. Holder. Prospective investors should seek advice from their own tax advisors as to the consequences to them of alternative characterisations of the Notes and the possibility that the Notes will be classified as equity interest in a PFIC and the consequences of owning an equity interest in a PFIC. The discussion below assumes that the Notes will be treated as debt for U.S. federal income tax purposes.

In the case of a Loss Absorption Event (as defined in the Subordinated Loan Agreement), payments of principal, additional amounts and accrued and unpaid interest may not be paid in full. See “*Terms and Conditions of the Notes— 6 Redemption; Purchase; and Loss Absorption Write-Down*”. The Issuer intends to take the position that there is no more than a remote chance that a Loss Absorption Event will occur and the Notes should accordingly not be treated as contingent payment debt instruments (“CPDIs”) for U.S. federal income tax purposes because of the possibility that principal and accrued interest may not be paid in full. Assuming such position is respected, a U.S. Holder would be required to include in income the amount of any such additional payment at the time such payments are received or accrued in accordance with such U.S. Holder’s method of accounting for United States federal income tax purposes. If the IRS successfully challenged this position, and the Notes were treated as CPDIs, a U.S. Holder could be required to accrue interest income at a rate higher than the stated interest rate on the Note and to treat as ordinary income, rather than capital gain, any gain recognised on a sale, exchange or redemption of the Note. U.S. Holders are urged to consult their own tax advisors regarding the potential application to the Notes of the CPDI rules and the consequences thereof.

Payments of Interest

Interest on a Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. A U.S. Holder will also be required to include any withholding taxes paid, or deemed paid on its behalf as ordinary income. Interest and any additional amount paid by the Issuer on the Notes generally will constitute income from sources outside the United States and generally will be considered “passive category income” or, in the case of certain U.S. Holders, “general category income” in computing the foreign tax credit allowable to U.S. Holders under U.S. federal income tax laws. U.S. Holders should consult their tax advisors regarding the creditability or deductibility of any withholding taxes.

Prospective purchasers should consult their tax advisors concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes or the Subordinated Loan.

Sale and Retirement of Notes

A U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. A U.S. Holder's tax basis in a Note will generally be its cost. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Gain or loss recognised on the sale or retirement of a Note will generally be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the Notes exceeds one year. Long term capital gain is taxable to non-corporate U.S. Holders at preferential rates, subject to certain limitations. The ability of U.S. Holders to use capital losses is subject to limitations.

Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source income or loss. Consequently, if non-U.S. tax is imposed on such gain, the U.S. holder will not be able to use the corresponding foreign

tax credit, unless the holder has other foreign-source income of the appropriate type in respect of which the credit may be used. The U.S. foreign tax credit rules are very complex. U.S. Holders should consult their tax advisors with respect to the application of the foreign tax credit rules to their particular circumstances.

Substitution of the Issuer

Under certain circumstances described in the section “*Terms and Conditions of the Notes – 10 Meetings of Noteholders; Modification; Waiver; Substitution of the Lender – Substitution,*” the Issuer's obligations under the Notes and the Trust Deed may be assumed by another person. An assumption by another person of the Issuer's obligations under the Notes and the Trust Deed might be deemed for U.S. federal income tax purposes to be an exchange by a holder of the Notes for new notes, resulting in recognition of gain or loss for such purposes and possibly other adverse tax consequences to the holder. U.S. Holders should consult their own tax advisors regarding the tax consequences of such an assumption.

Backup Withholding and Information Reporting

In general, payments of interest and the proceeds of the sale or retirement of, the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

Foreign Asset Reporting

Certain U.S. Holders may be required to report to the IRS information with respect to their investment in Notes not held through an account with a domestic financial institution. U.S. Holders should consult their own tax advisors regarding any reporting obligations they may have as a result of their acquisition, ownership or disposition of Notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

SUBSCRIPTION AND SALE

Subscription Agreement

Pursuant to the terms and conditions set forth in a subscription agreement dated 30 April 2013 (the “**Subscription Agreement**”), HSBC Bank plc, Raiffeisen Bank International AG and The Royal Bank of Scotland plc have, severally and not jointly, agreed with the Issuer, subject to the satisfaction of certain conditions set forth therein, to subscribe and pay for the Notes at the issue price of 100%, of the principal amount of the Notes. Each of the Joint Lead Managers has agreed severally and not jointly, to purchase from the Issuer, the principal amount of Notes set forth opposite its name below.

<i>Initial Purchaser</i>	<i>Principal Amount of Notes</i>
HSBC Bank plc	US\$167,000,000
Raiffeisen Bank International AG	US\$167,000,000
The Royal Bank of Scotland plc	US\$166,000,000
Total	US\$500,000,000

The Issuer and CBM have agreed in the Subscription Agreement to indemnify the Joint Lead Managers against certain liabilities.

Commissions

CBM has agreed to pay the Facility Fee to the Issuer in consideration for the Issuer agreeing to advance the Subordinated Loan. From the Facility Fee, the Issuer has agreed to pay certain commissions, fees, costs and expenses in connection with the offering of the Notes and to reimburse the Joint Lead Managers and the Trustee for certain of their expenses in connection with the offering of the Notes. The Joint Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Issuer.

To the extent permitted by local law, the Joint Lead Managers and the Issuer have agreed that commissions may be offered to certain brokers, financial advisors and other intermediaries based upon the amount of investment in the Notes purchased by such intermediary and/or its customers. Each such intermediary is required by law to comply with any disclosure and other obligations related thereto, and each customer of any such intermediary is responsible for determining for itself whether an investment in the Notes is consistent with its investment objectives.

Settlement

The Issuer expects that the delivery of the Notes will be made to investors on or about 13 May 2013, which will be the eleventh business day following the date of the pricing of the Notes (such settlement being referred to as “T+11”). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes prior to the delivery of the Notes hereunder will be required, by virtue of the fact that the Notes initially settle in T+11, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their date of delivery hereunder should consult their advisers.

Broker Dealer Affiliates

The Issuer has agreed and acknowledged that the Joint Lead Managers may make offers and sales into the United States through their U.S. registered broker dealer affiliates in order to fulfil their obligations under the Subscription Agreement and to ensure compliance with U.S. securities laws and regulation with respect to U.S. investors.

Other Relationships

The Joint Lead Managers and their affiliates have engaged in, and may in the future engage in, investment banking, financial advisory, consulting, commercial banking and other commercial dealings in the ordinary course of business with the Issuer, CBM or their respective affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

The Joint Lead Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such

investments and securities activities may involve securities and/or instruments of the Issuer, CBM or their respective affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer, CBM or their respective affiliates routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the securities of the Issuer, CBM or their respective affiliates, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or in a transaction not subject to the registration requirements of, the Securities Act. Accordingly, the Notes are being offered and sold only (1) to QIBs in reliance on Rule 144A that are also QPs and (2) to non-U.S. persons, as defined in Regulation S, outside the United States in reliance on Regulation S.

Each of the Joint Lead Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the “**distribution compliance period**”) within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

“The Notes covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S or Rule 144A under the Securities Act. Terms used above have the meanings given to them by Regulation S.”

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

The Subscription Agreement provides that the Joint Lead Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States pursuant to Rule 144A only to persons whom they reasonably believe are U.S. persons who are QIBs and QPs who can represent that (a) they are QIBs within the meaning of Rule 144A who are also QPs within the meaning of Section 2(a)(51) of the Investment Company Act, (b) they are not broker-dealers who own and invest on a discretionary basis less than US\$25 million in securities of unaffiliated issuers, (c) they are not a participant-directed employee plan, such as a 401(k) plan, (d) they are acting for their own account, or the account of one or more QIBs each of which is also a QP, (e) they are not formed for the purpose of investing in the Issuer or the Notes, (f) each account for which they are purchasing will hold and transfer at least US\$200,000 in principal amount of Notes at any time, (g) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositaries, and (h) they will provide notice of the transfer restrictions set forth in this Prospectus to any subsequent transferees.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Joint Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Joint Lead Managers; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State. The expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

United Kingdom

Each of the Joint Lead Managers has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Austria

No prospectus has been or will be approved and/or published pursuant to the Austrian Capital Markets Act (*Kapitalmarktgesetz*) as amended. Neither this document nor any other document connected therewith constitutes a prospectus according to the Austrian Capital Markets Act and neither this document nor any other document connected therewith may be distributed, passed on or disclosed to any other person in Austria, save as specifically agreed with the Joint Lead Managers. Each of the Joint Lead Managers has represented and agreed that it will offer the Notes in Austria only in compliance with the provisions of the Austrian Capital Markets Act and all other laws and regulations in Austria applicable to the offer and sale of the Notes in Austria.

Hong Kong

Each of the Joint Lead Managers has represented, warranted and agreed that:

This Prospectus has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong.

No person may offer or sell in Hong Kong, by means of any document, any Notes other than

- (a) to “**professional investors**” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or
- (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance.

No person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “**professional investors**” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Ireland

Each of the Joint Lead Managers has agreed that:

- (a) it will not underwrite the issue of or place the Notes, otherwise than in conformity with the provisions of the Irish European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) (as amended), including without limitation, Regulations 7 and 152 thereof or any codes of conduct used in connection therewith and the provisions of the Investors Compensation Act 1998;
- (b) it will not underwrite the issue of or place the Notes, otherwise than in conformity with the provisions of the Companies Acts 1963-2012 (as amended), the Central Bank Acts 1942-2011 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;
- (c) it will not underwrite the issue of, or place or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and

any rules issued under Section 51 of the Irish Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Central Bank of Ireland; and

- (d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/ EC) Regulations 2005 (as amended) and any rules issued under Section 34 of the Irish Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank of Ireland.

Russian Federation

Each of the Joint Lead Managers has represented and agreed that it has not offered or sold or transferred or otherwise disposed of, and will not offer or sell or transfer or otherwise dispose of, any Notes (as part of their initial distribution or at any time thereafter) to, or for the benefit of, any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation, or to any person located within the territory of the Russian Federation, unless and to the extent otherwise permitted under Russian law.

Singapore

Each of the Joint Lead Managers has represented, warranted and agreed that:

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore (the “MAS”) under the Securities and Futures Act, Chapter 289 of Singapore (the “**Securities and Futures Act**”). Accordingly, the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of such Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person, or any person pursuant to Section 275(1 A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following relevant persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased Notes, namely a person who is:

- (i) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes under Section 275 of the Securities and Futures Act except:

- (A) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act;
- (B) where no consideration is given for the transfer; or
- (C) by operation of law.

Switzerland

Each of the Joint Lead Managers has severally and not jointly represented, warranted and agreed that:

This Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes described therein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Prospectus nor any other offering or marketing material relating to the offering nor the Issuer, nor CBM nor the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, e.g., Swiss Financial Markets Supervisory Authority FINMA, and investors in the Notes will not benefit from protection or supervision by such authority.

General

Each of the Joint Lead Managers has agreed, severally and not jointly, that it has (to the best of its knowledge and belief) complied and will comply with all applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or CBM.

No action has been taken or will be taken in any jurisdiction by the Issuer, CBM or the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes or possession or distribution of the Prospectus of any other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Accordingly, each of the Joint Lead Managers has, severally and not jointly, undertaken to the Issuer and CBM that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

Persons into whose possession this Prospectus comes are required by the Issuer, CBM and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

1. *Clearing Systems*

The Notes are expected to be accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg. The Common Code and ISIN of the Unrestricted Global Notes are 092407845 and XS0924078453 respectively. The Common Code, ISIN and CUSIP Number of the Restricted Global Notes are 092550826, US12504PAB67 and 12504PAB6 respectively.

2. *Admission to Trading*

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market. It is expected that admission of the Notes to trading will be granted on or before the next working day after the Closing Date.

3. *Authorisations*

The Issuer and CBM have obtained all necessary consents, approvals and authorisations in Ireland and Russia, respectively, in connection with the issue and performance of the Notes and the making of the 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 29 April 2013. 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 11 April 2013.

4. *Consents*

No consents, approvals or orders of any regulatory authorities are required by the Issuer under the laws of Ireland for the maintenance of and performance of its obligations under the 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 31 December 2012 and no material adverse change in the prospects of CBM (or of CBM together with its subsidiaries) since 31 December 2012. 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 2012. The Issuer has no subsidiaries.

6. *Litigation*

There are no, and have not been, any governmental, legal or arbitration proceedings that may have or have had during the twelve months before the date of this Prospectus a significant effect on the financial position or profitability of CBM (or of CBM together with its subsidiaries), nor, so far as CBM is aware, are any such proceedings pending or threatened. There are no, and have not been, any governmental, legal or arbitration proceedings that may have or have had during the twelve months before the date of this Prospectus a significant effect on the financial position or profitability of the Issuer, nor, so far as the Issuer is aware, are any such proceedings pending or threatened.

7. *Auditors*

ZAO KPMG have audited, and rendered unqualified audit reports on, the Financial Statements of CBM.

KPMG have audited and rendered unqualified audit reports on, the audited financial statements of the Issuer.

8. *No Other Contracts*

Neither CBM nor the Issuer has entered into contracts outside the ordinary course of business and which could result in any member of CBM or the Issuer becoming subject to an obligation or entitlement that would be material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes or CBM's ability to meet its obligations under the 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 2012 Financial Statements, the 2011 Financial Statements, the 2010 Financial Statements and the Directors report and audited financial statements of the Issuer dated 31 December 2012, 31 December 2011 and 31 December 2010;
- (e) the reports of ZAO KPMG in respect of the audited financial statements;
- (f) the reports of KPMG in respect of the audited financial statements of the Issuer;
- (g) the Trust Deed;
- (h) the Subordinated Loan Agreement; and
- (i) the Agency Agreement.

10. *Yield*

The yield on the Notes is 8.70% per annum.

11. *Interests in the Issue of the Notes*

Save for the fees payable to the Joint Lead Managers, the Trustee and the Agents, so far as CBM and the Issuer are aware no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.

12. *Listing Agent*

Arthur Cox Listing Services Limited is acting solely in its capacity as Listing Agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List or trading on the regulated market of the Irish Stock Exchange for the purpose of the Prospectus Directive.

13. *Websites*

Any reference to websites in this Prospectus is for information purposes only and such websites shall not form part of this Prospectus.

14. *Expenses*

The estimated expenses associated with the admission to trading of the Notes on the regulated market of the ISE are expected to be approximately €3,000.

15. *Post-Issuance Information*

Neither the Issuer nor CBM intends to provide any post-issuance information.

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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

Chief Accountant


 Vladimir A. Chubar


 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



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 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:

	31 December 2012	31 December 2011
	RUB'000	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	31 December 2011
	RUB'000	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 RUB'000	31 December 2011 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/>		
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
<hr/>		

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	1 to 6 months	6 months to 1 year	Over 1 year	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
LIABILITIES					
Deposits by credit institutions	2 244 139	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	1 to 6 months	6 months to 1 year	Over 1 year	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
LIABILITIES					
Deposits by credit institutions	2 244 927	5 084 321	11 146 691	8 097 348	26 573 287
Deposits by customers	43 222 843	43 141 677	35 265 353	36 520 146	158 150 019
Debt securities issued	1 979 301	5 370 272	10 955 480	16 274 938	34 579 991
Total 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	2011
	RUB'000	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								
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

CREDIT BANK OF MOSCOW (open joint-stock company)
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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
	9 2 456 943	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
Accumulated gap	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	

CREDIT BANK OF MOSCOW (open joint-stock company)
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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
5	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'000	RUB RUB'000	Other currencies RUB'000	Total RUB'000	USD RUB'000	RUB RUB'000	Other currencies RUB'000	Total RUB'000	RUB RUB'000	Total 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		

	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	currencies	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.

Chairman of the Management Board



Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass

CREDIT BANK OF MOSCOW
(open joint-stock company)

Consolidated Financial Statements
for the year ended 31 December 2011

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Independent Auditors' Report

To the Management of Credit Bank of Moscow (open joint-stock company)

We have audited the accompanying consolidated financial statements of Credit Bank of Moscow (open joint-stock company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
27 March 2012

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2011

	Notes	31 December 2011 RUB'000	31 December 2010 RUB'000
Interest income	4	20 980 864	14 544 991
Interest expense	4	(12 257 202)	(8 478 432)
Net interest income	4	8 723 662	6 066 559
Provision for impairment of loans	13	(1 283 719)	(1 539 798)
Net interest income after provision for impairment		7 439 943	4 526 761
Fee and commission income	5	2 718 563	1 757 978
Net (loss) gain on financial instruments at fair value through profit or loss		(856 946)	83 474
Net realized gain on available-for-sale assets		39 994	338 527
Foreign exchange gains, net		473 386	232 039
Other operating income		182 455	181 488
Non-interest income		2 557 452	2 593 506
Salaries and employment benefits	6	(2 126 118)	(1 373 503)
Administrative expenses	6	(1 862 731)	(1 287 388)
Provision for impairment of other assets and credit related commitments	7	(247 039)	(143 438)
Depreciation of property and equipment	14	(242 048)	(178 163)
Fee and commission expense		(192 366)	(102 363)
State deposit insurance scheme contributions		(269 583)	(153 049)
Other operating expenses		(199 170)	(129 840)
Non-interest expense		(5 139 055)	(3 367 744)
Income before income taxes		4 858 340	3 752 523
Income tax	8	(972 806)	(731 147)
Net income		3 885 534	3 021 376

Other comprehensive income

Revaluation reserve for available-for-sale securities			
- Net change in fair value		(137 169)	(780 485)
- Net change in fair value transferred to profit or loss		35 814	408 326
Income tax related to other comprehensive income		20 271	74 432
Other comprehensive loss for the period, net of tax		(81 084)	(297 727)
Comprehensive income for the period		3 804 450	2 723 649

Chairman of the Management Board

Vladimir V. Chubar

Chief Accountant

Svetlana V. Sass



CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Financial Position
as at 31 December 2011

	Notes	31 December 2011 RUB'000	31 December 2010 RUB'000
ASSETS			
Cash and cash equivalents	9	34 433 419	23 336 426
Obligatory reserves with the Central Bank of the Russian Federation		2 259 170	756 584
Due from credit institutions	10	5 301 412	586 968
Financial instruments at fair value through profit or loss	11	22 783 760	27 475 153
Available-for-sale securities	12	2 030 678	4 461 645
Loans to customers	13	159 019 821	103 852 309
Property and equipment	14	4 969 932	4 255 117
Other assets	15	1 572 561	746 441
Total assets		232 370 753	165 470 643
LIABILITIES AND EQUITY			
Deposits by credit institutions	16	24 964 128	27 863 284
Deposits by customers	17	146 690 886	95 088 028
Debt securities issued	18	31 118 869	27 251 096
Deferred tax liability	8	2 074 397	493 903
Current tax liability	8	15 870	142 237
Other liabilities	19	1 898 697	865 000
Total liabilities		206 762 847	151 703 548
Equity			
Share capital	20	11 638 088	7 138 088
Additional paid-in capital		3 699 047	162 686
Revaluation surplus for buildings		500 424	500 424
Revaluation reserve for available-for-sale securities		(53 017)	28 067
Retained earnings		9 823 364	5 937 830
Total equity		25 607 906	13 767 095
Total liabilities and equity		232 370 753	165 470 643
Commitments and Contingencies	21-23		

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Cash Flows
for the year ended 31 December 2011

Notes	31 December 2011 RUB'000	31 December 2010 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	3 885 534	3 021 376
out of which:		
- Interest income received	21 206 266	13 717 602
- Interest expense paid	(11 133 384)	(7 569 069)
- Income tax paid	(327 181)	(362 042)
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for impairment of loans	1 283 719	1 539 798
Depreciation and amortization	242 884	180 323
Deferred tax expense	716 676	318 073
Revaluation of financial instruments at fair value through profit or loss	735 120	226 804
Provision for impairment of other assets and credit related commitments	247 039	143 438
Accrued interest income	159 472	(827 388)
Accrued interest expense	678 917	909 363
Other	301 462	(190 096)
Operating cash flows before changes in operating assets and liabilities	8 250 823	5 321 691
(Increase) decrease in operating assets		
Obligatory reserves with the Central Bank of the Russian Federation	(1 502 586)	(355 578)
Due from credit institutions	(4 478 956)	309 899
Financial instruments at fair value through profit or loss	3 735 101	(15 018 949)
Loans to customers	(55 657 388)	(47 051 333)
Other assets	(676 254)	(564 398)
Increase (decrease) in operating liabilities		
Deposits by credit institutions and the Central Bank of the Russian Federation	(3 025 179)	6 749 875
Deposits by customers	55 243 039	42 458 167
Promissory notes	(10 551 690)	12 117 623
Other liabilities	400 211	492
Net cash (used in) from operations	(8 262 879)	3 967 489
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sale (purchase) of available-for-sale securities	2 395 388	(1 529 672)
Net purchase of property and equipment and intangible assets	(806 212)	(1 401 581)
Net cash from (used in) investing activities	1 589 176	(2 931 253)

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Cash Flows
for the year ended 31 December 2011

Notes	31 December 2011 RUB'000	31 December 2010 RUB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock	4 500 000	-
Proceeds from subordinated borrowings	982 398	6 614 638
Proceeds from syndicated borrowings	4 864 375	4 356 750
Repayment of syndicated borrowings	(5 022 958)	(892 263)
Proceeds from issuance of bonds	16 315 336	5 270 896
Repayment of bonds	(4 103 013)	(1 478 592)
Net cash from financing activities	17 536 138	13 871 429
Effect of exchange rates changes on cash and cash equivalents	234 558	(201 014)
Change in cash and cash equivalents	11 096 993	14 706 651
Cash and cash equivalents, beginning of the period	23 336 426	8 629 775
Cash and cash equivalents, end of the period 9	34 433 419	23 336 426

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Changes in Equity
for the year ended 31 December 2011

	Share capital	Additional paid-in capital	Revaluation surplus for buildings	Revaluation reserve for available-for- sale securities	Retained earnings	Total equity
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
1 January 2010	7 138 088	162 686	500 424	325 794	2 916 454	11 043 446
Total comprehensive income for the period	-	-	-	(297 727)	3 021 376	2 723 649
31 December 2010	7 138 088	162 686	500 424	28 067	5 937 830	13 767 095
Total comprehensive income for the period	-	-	-	(81 084)	3 885 534	3 804 450
Transactions with owners, recorded directly in equity						
Shares issued	4 500 000	-	-	-	-	4 500 000
Contribution from the ultimate shareholder (net of deferred tax of RUB 884 090 thousand) (note 20)	-	3 536 361	-	-	-	3 536 361
Total transactions with owners, recorded directly in equity	4 500 000	3 536 361	-	-	-	8 036 361
31 December 2011	11 638 088	3 699 047	500 424	(53 017)	9 823 364	25 607 906

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1 Background

Principal activities

These consolidated financial statements include the financial statements of CREDIT BANK OF MOSCOW (open joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was formed on 5 August 1992 as an open joint-stock company, then re-registered as a closed joint-stock company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganized as an open joint-stock company. The Bank's registered legal address is 2 (bldg. 1) Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central Bank of the Russian Federation, granted on 20 January 2000. In December 2004 the Bank was admitted to the Central Bank of Russia program for individual deposit insurance. The Bank is among the 25 largest banks in Russia by assets and runs its business in Moscow and the Moscow region with a branch network comprising 60 branches, and ATMs and payment terminals totaling 604 and 4014 items, respectively.

The principal subsidiaries of the Group are as follows:

Name	Date of incorporation	Country of incorporation	Principal activities	Degree of control, %	
				31 December 2011	31 December 2010
CBOM Finance p.l.c.	17 Aug 2006	Ireland	Raising finance	100%	100%
MKB-Invest	4 June 2007	Russia	Operations with securities	100%	100%
MKB-Leasing	20 Sep 2005	Russia	Finance leasing	100%	100%

The Bank does not have any direct or indirect shareholdings in the subsidiaries noted above. CBOM Finance p.l.c. was established to raise capital by the issue of debt securities and to use an amount equal to the proceeds of each such issuance to advance loans to the Bank. MKB-Invest and MKB-Leasing are controlled by the Group through option agreements.

Shareholders

The Group is wholly-owned by Concern Rossium (the Shareholder Group). The sole shareholder of Concern Rossium is Roman I. Avdeev, who is also member of the Supervisory Board of the Bank. The members of the Supervisory Board are as follows:

Supervisory Board

Sandy Vaci	Chairman
Richard Damien Glasspool	Member
Genadi Lewinski	Member
Mustafa Boran	Member
Roman I. Avdeev	Member
Alexander N. Nikolashin	Member
Anton R. Avdeev	Member
Nikolay V. Kosarev	Member
Vladimir A. Chubar	Member

Related party transactions are detailed in note 25.

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial securities are stated at fair value and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - note 13
- building revaluation estimates - note 14.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied by the Group entities to all periods presented in these consolidated financial statements. Future changes in accounting policies are described at the end of this note.

Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Special purpose entities

The Bank established a special purpose entity (SPE) for execution of borrowing transactions. The Bank does not have any direct or indirect shareholdings in this entity. However, the SPE is established under terms that impose strict limits on the decision-making powers of the SPE's management over the operations of the SPE. In addition, the benefits related to its operations and net assets are presently attributable to the Bank via a number of agreements.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Foreign currency

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value and whose appraised value is denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income.

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group considers cash and nostro accounts with the Central Bank of the Russian Federation, and due from credit institutions with maturity of less than one month to be cash and cash equivalents. The minimum reserve deposit with the Central Bank of the Russian Federation is not considered to be a cash equivalent due to restrictions on its withdrawability.

Financial instruments

Classification

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

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

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

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

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

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the 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 arms's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

Gains and losses on subsequent measurement

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

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

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

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within due from credit institutions. The difference between the purchase and resale prices represents interest income and is recognized in the profit or loss over the term of the repo agreement using the effective interest method.

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

Offsetting

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised as other comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	50
Furniture and other property	6
Computers and office equipment	4
Vehicles	5

When a building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale securities that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in the profit or loss and cannot be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably. Financial guarantee liabilities and allowance for credit related commitments are included in other liabilities.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service has been provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment, and assess its performance, and for which discrete financial information is available.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2011, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these new standards on its financial position or performance.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between

power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 *Interests in Joint Ventures*. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results in a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other

comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	31 December 2011 RUB'000	31 December 2010 RUB'000
Interest income		
Loans to customers	17 790 664	11 868 667
Financial instruments at fair value through profit or loss and available-for-sale securities	2 892 224	2 626 061
Due from credit institutions and the Central Bank of the Russian Federation	297 976	50 263
	20 980 864	14 544 991
Interest expense		
Deposits by customers	(8 249 337)	(5 446 181)
Debt securities issued	(2 717 073)	(2 179 243)
Deposits by credit institutions and the Central Bank of the Russian Federation	(1 290 792)	(853 008)
	(12 257 202)	(8 478 432)
Net interest income	8 723 662	6 066 559

5 Fee and commission income

	31 December 2011 RUB'000	31 December 2010 RUB'000
Settlements and wire transfers	764 428	458 847
Cash collection delivery	750 537	549 536
Guarantees and letters of credit	533 983	492 866
Plastic cards	273 704	116 925
Insurance contracts processing	213 063	-
Other cash operations	104 558	77 280
Other	78 290	62 524
Fee and commission income	2 718 563	1 757 978

6 Salaries, employment benefits and administrative expenses

	31 December 2011 RUB'000	31 December 2010 RUB'000
Salaries	1 701 338	1 143 744
Social security costs	402 778	216 439
Other	22 002	13 320
Salaries and employment benefits	2 126 118	1 373 503
Occupancy	580 825	332 191
Advertising and business development	413 006	261 149
Operating taxes	368 852	290 234
Security	159 485	123 726
Property maintenance	147 781	77 378
Communications	49 433	59 827
Computer maintenance and software expenses	43 027	43 310
Transport	42 331	40 335
Other	57 991	59 238
Administrative expenses	1 862 731	1 287 388

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the statement of comprehensive income in the period the related compensation is earned by the employee. The Group does not have any stock option plans.

7 Provision for impairment of other assets and credit related commitments

	31 December 2011 RUB'000	31 December 2010 RUB'000
Provision for impairment of credit related commitments	223 978	96 830
Provision for impairment of other assets	23 061	46 608
	247 039	143 438

8 Income tax

	31 December 2011 RUB'000	31 December 2010 RUB'000
Current tax charge	256 131	413 074
Deferred taxation	716 675	318 073
Income tax expense	972 806	731 147

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The income tax rate for the Bank is 20% (2010: 20%).

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Income before tax	4 858 340	3 752 523
Applicable statutory tax rate	20%	20%
Income tax using the applicable tax rate	971 668	750 505
Income taxed at lower rate	(46 071)	(30 307)
Net non-deductible costs	47 209	10 949
Income tax expense	972 806	731 147

Income tax liabilities are recorded in the consolidated statement of financial position as follows:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Current tax liability	15 870	142 237
Deferred tax liability	2 074 397	493 903
Income tax liability	2 090 267	636 140

Movements in temporary differences during the years ended 31 December 2011 and 2010 are presented as follows.

RUB'000	Balance 1 January 2011	Recognised in profit or loss	Recognised in equity	Balance 31 December 2011
Due from credit institutions	(1 585)	(4 187)	-	(5 772)
Financial instruments at fair value through profit or loss	55 383	(65 036)	-	(9 653)
Available-for-sale securities	(1 385)	23 881	(20 271)	2 225
Loans to customers	251 334	581 014	-	832 348
Property and equipment	234 144	31 662	-	265 806
Other assets	(7 518)	8 191	-	673
Deposits by credit institutions	29 301	(6 709)	-	22 592
Deposits by customers	-	(7 226)	884 090	876 864
Debt securities issued	1 798	22 758	-	24 556
Other liabilities	(67 569)	132 327	-	64 758
	493 903	716 675	863 819	2 074 397

RUB'000	Balance 1 January 2010	Recognised in profit or loss	Recognised in equity	Balance 31 December 2010
Due from credit institutions	(3 249)	1 664	-	(1 585)
Financial instruments at fair value through profit or loss	137 604	(82 221)	-	55 383
Available-for-sale securities	23 919	49 128	(74 432)	(1 385)
Loans to customers	(116 751)	368 085	-	251 334
Property and equipment	189 075	45 069	-	234 144
Other assets	(1 417)	(6 101)	-	(7 518)
Deposits by credit institutions	3 704	25 597	-	29 301
Debt securities issued	(6 839)	8 637	-	1 798
Other liabilities	24 216	(91 785)	-	(67 569)
	250 262	318 073	(74 432)	493 903

Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income comprise:

RUB'000	2011			2010		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Revaluation reserve for available-for-sale securities	(101 355)	20 271	(81 084)	(372 159)	74 432	(297 727)
Other comprehensive income	(101 355)	20 271	(81 084)	(372 159)	74 432	(297 727)

9 Cash and cash equivalents

	31 December 2011 RUB'000	31 December 2010 RUB'000
Cash on hand	7 235 147	3 894 457
Correspondent account with the Central Bank of the Russian Federation	7 369 693	9 563 916
Nostro accounts with other banks		
rated AAA	-	644
rated from AA+ to AA-	844 958	947 472
rated from A+ to A-	697 121	61 884
rated BBB	-	443 966
rated from BBB+ to BBB-	1 876 423	-
rated from BB+ to BB-	5 504	4 008
rated from B+ to B-	183 608	112 262
not rated	1 719 034	585 818
Total nostro accounts with other banks	5 326 648	2 156 054
Due from credit institutions with maturity of less than 1 month		
rated from AA+ to AA-	1 337 973	458 512
rated A- to A+	-	24 410
rated BBB	-	2 968 673
rated from BBB+ to BBB-	9 729 891	-
rated from BB- to BB+	-	727 633
rated from B+ to B-	1 932 050	1 713 940
not rated	1 502 017	1 828 831
Total due from credit institutions with maturity of less than 1 month	14 501 931	7 721 999
Total cash and cash equivalents	34 433 419	23 336 426

Ratings are based on Standard & Poor's rating system.

None of cash and cash equivalents are impaired or past due.

The correspondent account with the Central Bank of the Russian Federation represents balances held with the Central Bank of the Russian Federation related to settlement activity, and was available for withdrawal at period end.

Settlements with the stock exchange are included in not rated nostro accounts in the amount of RUB 1 271 352 thousand as at 31 December 2011 (31 December 2010: RUB 535 604 thousand).

As at 31 December 2011 not rated due from credit institutions with maturity of less than 1 month includes term deposits secured by highly liquid debt securities under agreements to resell (reverse repo) in the amount of RUB 1 103 927 thousand (31 December 2010: RUB 1 783 806 thousand).

As at 31 December 2011 there are no balances that individually exceed 10% of total cash and cash equivalents (31 December 2010: one counterparty, with the gross value of these facilities RUB 3 184 487 thousand) .

Information about the currency and maturity of cash and cash equivalents is presented in note 28.

10 Due from credit institutions

	31 December 2011 RUB'000	31 December 2010 RUB'000
Term deposits		
rated from AA+ to AA-	-	201 666
rated from A+ to A-	30 586	-
rated from BBB+ to BBB-	2 841 567	-
rated from B+ to B-	1 620 332	235 302
not rated	808 927	150 000
Total due from credit institutions	5 301 412	586 968

As at 31 December 2011 the Group had three counterparties (31 December 2010: three) whose deposit balances exceed 10% of total due from credit institutions. The gross value of these facilities as at 31 December 2011 is RUB 5 270 826 thousand (31 December 2010: RUB 586 968 thousand).

Information about the currency and maturity and effective interest rates on amounts due from credit institutions is presented in note 28.

11 Financial instruments at fair value through profit or loss

	31 December 2011 RUB'000	31 December 2010 RUB'000
<u>Held by the Bank</u>		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	9 286 846	-
Moscow Government bonds	927 144	425 309
Regional authorities and municipal bonds	372 780	787 634
Russian Government Eurobonds	1 789 318	2 059 403
Corporate bonds		
from BBB+ to BBB-	4 007 920	1 377 171
from BB+ to BB-	2 101 783	1 479 989
from B+ to B-	3 213 814	7 159 838
from CCC+ to CCC-	52 618	-
not rated	1 031 514	2 502 079
Equity investments	23	-
Total financial instruments at fair value through profit or loss held by the Bank	22 783 760	15 791 423
<u>Pledged under sale and repurchase agreements</u>		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	-	6 960 112
Moscow Government bonds	-	803 035
Regional authorities and municipal bonds	-	44 566
Corporate bonds		
from BBB+ to BBB-	-	1 544 220
from BB+ to BB-	-	1 493 081
from B+ to B-	-	838 716
Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements	-	11 683 730
Total financial instruments at fair value through profit or loss	22 783 760	27 475 153

As at 31 December 2011 debt instruments in the amount of RUB 20 225 639 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2010: RUB 24 153 390 thousand).

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of spot and forward exchange contracts outstanding as at 31 December 2011 and 2010 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resulting unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in other assets, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2011 RUB'000	2010 RUB'000	2011	2010
Buy USD sell RUB				
Less than 3 months	9 606 535	2 158 199	31.9154	30.3972
Buy RUB sell USD				
Less than 3 months	-	239 769	-	30.4645
Buy EUR sell USD				
Less than 3 months	-	602 317	-	1.3230
Buy EUR sell RUB				
Less than 3 months	-	344 596	-	39.9440
	<u>9 606 535</u>	<u>3 344 881</u>		

12 Available-for-sale securities

	31 December 2011 RUB'000	31 December 2010 RUB'000
<u>Held by the Bank</u>		
Government and municipal bonds		
Regional authorities and municipal bonds	10 277	17 140
Corporate bonds		
from BBB+ to BBB-	410 734	147 373
from BB+ to BB-	385 133	915 370
from B+ to B-	1 017 580	2 655 298
not rated	179 948	465 186
Equity investments	27 006	59 799
Total available-for-sale securities held by the Bank	<u>2 030 678</u>	<u>4 260 166</u>

	31 December 2011 RUB'000	31 December 2010 RUB'000
<u>Pledged under sale and repurchase agreements</u>		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	-	50 529
Corporate bonds		
from BBB+ to BBB-	-	33 523
from B+ to B-	-	117 427
Total available-for-sale securities pledged under sale and repurchase agreements	-	201 479
Total available-for-sale securities	2 030 678	4 461 645

As at 31 December 2011 debt instruments in the amount of RUB 371 884 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2010: RUB 2 436 745 thousand).

13 Loans to customers

	31 December 2011 RUB'000	31 December 2011 RUB'000	31 December 2010 RUB'000	31 December 2010 RUB'000
	Loans	Impairment allowance	Loans	Impairment allowance
Loans to corporate clients	132 844 258	(2 624 407)	88 317 606	(1 990 001)
Loans to individuals				
Auto loans	6 175 018	(23 778)	5 478 500	(87 657)
Mortgage loans	7 661 002	(261 229)	7 641 432	(430 242)
Other loans to individuals	16 021 975	(773 018)	5 207 880	(285 209)
Total loans to individuals	29 857 995	(1 058 025)	18 327 812	(803 108)
Gross loans to customers	162 702 253	(3 682 432)	106 645 418	(2 793 109)
Net loans to customers	159 019 821		103 852 309	

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 December 2011:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Loans to customers				
- Not past due	160 099 212	(2 566 290)	157 532 922	1.6%
- Overdue less than 31 days	355 052	(71 237)	283 815	20.1%
- Overdue 31-60 days	350 478	(111 034)	239 444	31.7%
- Overdue 61-90 days	132 488	(68 061)	64 427	51.4%
- Overdue 91-180 days	911 837	(285 716)	626 121	31.3%
- Overdue 181-360 days	307 977	(229 514)	78 463	74.5%
- Overdue more than 360 days	545 209	(350 580)	194 629	64.3%
Total loans to customers	162 702 253	(3 682 432)	159 019 821	2.3%

The following table provides information on credit quality of the loan portfolio as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Loans to customers				
- Not past due	104 463 388	(1 662 364)	102 801 024	1.6%
- Overdue less than 31 days	357 274	(41 642)	315 632	11.7%
- Overdue 31-60 days	78 384	(27 312)	51 072	34.8%
- Overdue 61-90 days	118 576	(42 282)	76 294	35.7%
- Overdue 91-180 days	242 943	(120 561)	122 382	49.6%
- Overdue 181-360 days	286 708	(191 925)	94 783	66.9%
- Overdue more than 360 days	1 098 145	(707 023)	391 122	64.4%
Total loans to customers	106 645 418	(2 793 109)	103 852 309	2.6%

As at 31 December 2011, the loan portfolio includes loans that have been restructured and would otherwise be past due or impaired in the amount of RUB 904 633 thousand (31 December 2010: RUB 1 247 175 thousand). Such restructuring activity is aimed at managing customer relationships and maximizing the quality of the loan portfolio. Restructured loans are included in loans not past due unless the borrower is unable to comply with the renegotiated terms.

The following table provides information on restructured loans as at 31 December 2011 and 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Restructured loans				
- As at 31 December 2011	904 633	(48 185)	856 448	5.3%
- As at 31 December 2010	1 247 175	(86 135)	1 161 040	6.9%

As at 31 December 2011, the gross amount of overdue loans with payments that are overdue at least one day totals RUB 2 603 041 thousand, which represents 1.6% of the loan portfolio (31 December 2010: RUB 2 182 030 thousand and 2.0%, respectively).

Nonperforming loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 1 765 023 thousand or 1.2% of the loan portfolio (31 December 2010: RUB 1 627 796 thousand and 1.5%, respectively).

NPLs together with restructured loans amount to RUB 2 669 656 thousand or 1.6% of the loan portfolio (31 December 2010: RUB 2 874 971 thousand and 2.7%, respectively).

As at 31 December 2011, the ratio of total impairment allowance to overdue loans equals 141.5%, the ratio of total impairment allowance to NPLs equals 208.6% and the ratio of total impairment allowance to NPLs together with restructured loans equals 137.9% (31 December 2010: 128.0%, 171.6% and 97.2%, respectively).

Movements in the loan impairment allowance for the years ended 31 December 2011 and 31 December 2010 are as follows:

	2011 RUB'000	2010 RUB'000
Balance at the beginning of the period	2 793 109	1 824 201
Net charge	1 283 719	1 539 798
Net write-offs	(394 396)	(570 890)
Balance at the end of the period	3 682 432	2 793 109

As at 31 December 2011, interest accrued on overdue loans amounts to RUB 232 214 thousand (31 December 2010: RUB 385 673 thousand).

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 31 December 2011:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment to gross loans %
Loans to corporate clients				
- Not past due	132 187 233	(2 459 881)	129 727 352	1.9%
- Overdue less than 31 days	48 560	(22 774)	25 786	46.9%
- Overdue 31-60 days	130 641	(54 930)	75 711	42.0%
- Overdue 61-90 days	2 616	(826)	1 790	31.6%
- Overdue 91-180 days*	405 492	(21 128)	384 364	5.2%
- Overdue 181-360 days	22 599	(19 506)	3 093	86.3%
- Overdue more than 360 days	47 117	(45 362)	1 755	96.3%
Total loans to corporate clients	132 844 258	(2 624 407)	130 219 851	2.0%

* Included in overdue loans to corporate clients for 91-180 days is a loan in the amount of RUB 403 127 thousand with liquid real estate collateral. The Group estimates loan impairment for this loan based on an analysis of future cash flows from the collateral.

The following table provides information on credit quality of loans to corporate clients as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Loans to corporate clients				
- Not past due	87 733 857	(1 597 527)	86 136 330	1.8%
- Overdue less than 31 days	119 781	(16 689)	103 092	13.9%
- Overdue 31-60 days	9 993	(3 796)	6 197	38.0%
- Overdue 61-90 days	19 427	(9 008)	10 419	46.4%
- Overdue 91-180 days	40 310	(21 419)	18 891	53.1%
- Overdue 181-360 days	159 452	(117 458)	41 994	73.7%
- Overdue more than 360 days	234 786	(224 104)	10 682	95.5%
Total loans to corporate clients	88 317 606	(1 990 001)	86 327 605	2.3%

The Bank estimates loan impairment for loans to corporate clients based on an analysis of the future cash flows for impaired loans and based on its past loss experience adjusted for recent changes in the economic environment for portfolios of loans for which no indications of impairment have been identified. The key assumptions used in the analysis of future cash flows for impaired loans are based on the assessment of the value of collateral pledged to secure these loans when applicable. To estimate net realizable value of collateral for sale, management, generally, assumes a discount of 20-50 percent to its fair value, depending on type of collateral and market conditions.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance, as of 31 December 2011, would increase/decrease by RUB 1 302 199 thousand (31 December 2010: RUB 863 276 thousand).

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transactions: real estate (manufacturing premises, warehouses), machinery and equipment, motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes.

Loans to corporate customers that are past due or impaired

Impaired or overdue loans to corporate customers are secured by collateral with a fair value of RUB 581 065 thousand (2010: RUB 555 195 thousand), excluding the effect of overcollateralization.

As of 31 December 2011 the Group plans to recover a portion of impaired lease contracts with a gross amount of RUB 15 715 thousand (31 December 2010: RUB 19 646 thousand) through the sale of collateral with a fair value of RUB 12 099 thousand (31 December 2010: RUB 9 455 thousand).

Loans to corporate customers that are neither past due or impaired

For loans to corporate customers with a net carrying amount of RUB 129 727 352 thousand (2010: RUB 86 136 330 thousand), which are neither past due or impaired, the fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

Collateral obtained

During the year ended 31 December 2011, the Group obtained certain assets by taking possession of collateral for loans to corporate customers. As at 31 December 2011, the carrying amount of such assets was RUB 95 321 thousand (2010: RUB 68 812 thousand). The Group's policy is to sell these assets as soon as it is practicable.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance for loans to corporate clients for the years ended 31 December are as follows:

	2011 RUB'000	2010 RUB'000
Balance at the beginning of the period	1 990 001	1 003 134
Net charge	866 943	1 237 765
Net write-offs	(232 537)	(250 898)
Balance at the end of the period	2 624 407	1 990 001

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2011:

	Gross loans RUB'000	Impairment allowance RUB'000	Net loans RUB'000	Impairment to gross loans %
Auto loans				
- Not past due	6 097 845	(2 515)	6 095 330	0.0%
- Overdue less than 31 days	29 710	(1 551)	28 159	5.2%
- Overdue 31-60 days	9 312	(1 297)	8 015	13.9%
- Overdue 61-90 days	10 388	(2 194)	8 194	21.1%
- Overdue 91-180 days	10 691	(3 696)	6 995	34.6%
- Overdue 181-360 days	10 383	(6 317)	4 066	60.8%
- Overdue more than 360 days	6 689	(6 208)	481	92.8%
Total auto loans	6 175 018	(23 778)	6 151 240	0.4%
Mortgage loans				
- Not past due	6 975 596	(25 571)	6 950 025	0.4%
- Overdue less than 31 days	46 368	(42)	46 326	0.1%
- Overdue 31-60 days	93 765	(2 935)	90 830	3.1%
- Overdue 61-90 days	3 795	-	3 795	0.0%
- Overdue 91-180 days	117 849	(9 098)	108 751	7.7%
- Overdue 181-360 days	16 312	(3 340)	12 972	20.5%
- Overdue more than 360 days	407 317	(220 243)	187 074	54.1%
Total mortgage loans	7 661 002	(261 229)	7 399 773	3.4%

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Other loans to individuals				
- Not past due	14 838 538	(78 323)	14 760 215	0.5%
- Overdue less than 31 days	230 414	(46 870)	183 544	20.3%
- Overdue 31-60 days	116 760	(51 872)	64 888	44.4%
- Overdue 61-90 days	115 689	(65 041)	50 648	56.2%
- Overdue 91-180 days	377 805	(251 794)	126 011	66.6%
- Overdue 181-360 days	258 683	(200 351)	58 332	77.5%
- Overdue more than 360 days	84 086	(78 767)	5 319	93.7%
Total other loans to individuals	16 021 975	(773 018)	15 248 957	4.8%
Total loans to individuals	29 857 995	(1 058 025)	28 799 970	3.5%

The following table provides information on the credit quality of loans to individuals as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUB'000	RUB'000	RUB'000	%
Auto loans				
- Not past due	5 360 587	(12 314)	5 348 273	0.2%
- Overdue less than 31 days	23 274	(3 312)	19 962	14.2%
- Overdue 31-60 days	8 512	(2 349)	6 163	27.6%
- Overdue 61-90 days	9 193	(3 679)	5 514	40.0%
- Overdue 91-180 days	14 554	(7 713)	6 841	53.0%
- Overdue 181-360 days	14 166	(11 168)	2 998	78.8%
- Overdue more than 360 days	48 214	(47 122)	1 092	97.7%
Total auto loans	5 478 500	(87 657)	5 390 843	1.6%
Mortgage loans				
- Not past due	6 566 886	(6 028)	6 560 858	0.1%
- Overdue less than 31 days	121 582	(129)	121 453	0.1%
- Overdue 31-60 days	15 905	(343)	15 562	2.2%
- Overdue 61-90 days	42 573	(1 570)	41 003	3.7%
- Overdue 91-180 days	60 238	(2 861)	57 377	4.8%
- Overdue 181-360 days	54 675	(16 737)	37 938	30.6%
- Overdue more than 360 days	779 573	(402 574)	376 999	51.6%
Total mortgage loans	7 641 432	(430 242)	7 211 190	5.6%
Other loans to individuals				
- Not past due	4 802 058	(46 495)	4 755 563	1.0%
- Overdue less than 31 days	92 637	(21 512)	71 125	23.2%
- Overdue 31-60 days	43 974	(20 824)	23 150	47.4%
- Overdue 61-90 days	47 383	(28 025)	19 358	59.1%
- Overdue 91-180 days	127 841	(88 568)	39 273	69.3%
- Overdue 181-360 days	58 415	(46 562)	11 853	79.7%
- Overdue more than 360 days	35 572	(33 223)	2 349	93.4%
Total other loans to individuals	5 207 880	(285 209)	4 922 671	5.5%
Total loans to individuals	18 327 812	(803 108)	17 524 704	4.4%

Management estimates loan impairment based on historical loss experience for these types of loans using historical loss migration patterns for the past twenty four months and fair value of collateral. The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- the Group can sell auto loans and other loans to individuals overdue more than 360 days for 6.2 % and 4.1 % of their gross amounts, respectively
- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months
- in respect of mortgage loans, a delay of 18 months in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income, and a discount of 20% to the originally appraised value if the property pledged is sold through court procedures. For impaired loans where the fair value of collateral is equal to at least 150% of the outstanding mortgage loan balance, management eliminates the impairment allowance that would otherwise result from the migration analysis.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance, as of 31 December 2011, would increase/decrease by RUB 288 000 thousand (31 December 2010: RUB 175 247 thousand).

Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying car. Credit card overdrafts and consumer loans are not secured.

Management does not estimate loan impairment based on analysis of fair value of collateral. However once a loan becomes impaired, management considers the fair value of collateral when assessing the impairment allowance for each individual loan.

As of 31 December 2011 impaired mortgage loans in the amount of RUB 685 406 thousand are secured by a collateral with a fair value of RUB 586 475 thousand. As of 31 December 2011, the Group estimates the fair value of private real estate undergoing foreclosure to be RUB 36 396 thousand (31 December 2010: RUB 300 902 thousand).

Management believes that it is impracticable to estimate the fair value of collateral held in respect of auto loans.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2011 are as follows:

	Auto loans	Mortgage loans	Other loans to individuals	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

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2010 are as follows:

	Auto loans	Mortgage loans	Other loans to individuals	Total
	RUB'000	RUB'000	RUB'000	RUB'000
Balance at the beginning of the period	139 619	362 826	318 622	821 067
Net charge	8 625	90 238	203 170	302 033
Net write-offs	(60 587)	(22 822)	(236 583)	(319 992)
Balance at the end of the period	87 657	430 242	285 209	803 108

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	31 December 2011	31 December 2010
	RUB'000	RUB'000
Loans to individuals	29 857 995	18 327 812
Food and farm products	20 956 404	7 881 881
Consumer electronics, appliances and computers	18 459 411	13 135 208
Residential and commercial construction and development	12 119 200	7 167 974
Construction and decorative materials, furniture	10 813 405	6 643 890
Clothing, shoes, textiles and sporting goods	9 149 182	6 320 591
Industrial equipment and machinery	8 318 855	4 946 366
Property rental	8 164 457	5 650 503
Pharmaceutical and medical products	6 099 881	1 390 506
Automotive, motorcycles and spare parts	5 396 030	3 431 007
Services	4 809 991	2 720 873
Equipment leasing	4 443 980	4 031 825
Consumer chemicals, perfumes and hygiene products	4 023 559	4 578 510
Paper, stationery and packaging products	4 001 577	3 014 739
Metallurgical	3 681 045	3 203 615
Oil and industrial chemicals	3 182 725	2 918 276
Industrial and infrastructure construction	1 510 690	773 780
Financial	1 424 049	5 895 633
Telecommunications	1 340 167	1 531 982
Gardening and pet products	942 175	516 667
Books, video, print and copy	526 557	310 410
Electric utility	-	498 302
Products for home, gifts, jewelry and business accessories	408 239	346 555
Other	3 072 679	1 408 513
	162 702 253	106 645 418
Impairment allowance	(3 682 432)	(2 793 109)
	159 019 821	103 852 309

Finance lease

Finance lease receivables included in loans to customers are as follows:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Gross investment in finance lease	4 565 174	1 776 992
Unearned interest income	(991 063)	(391 230)
Net investment in finance lease before allowance	3 574 111	1 385 762
Impairment allowance	(84 971)	(310 522)
Net investment in finance lease	3 489 140	1 075 240

The contractual maturity of the net investment in leases is as follows:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Less than 1 year	1 400 740	630 110
Between 1 and 5 years	1 688 791	442 093
More than 5 years	9	3 037
	3 089 540	1 075 240

Loan maturities

The maturity of the loan portfolio is presented in note 28.

14 Property and equipment

The movement in property and equipment for the year ended 31 December 2011 is presented in the table below:

RUB'000	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2011	2 216 926	146 259	86 192	747 310	1 498 854	4 695 541
Additions	13 526	127 772	175 447	394 858	259 108	970 711
Disposals	-	(18 140)	(2 268)	(28 471)	-	(48 879)
At 31 December 2011	2 230 452	255 891	259 371	1 113 697	1 757 962	5 617 373
Accumulated depreciation						
At 1 January 2011	96 053	48 540	50 823	245 008	-	440 424
Depreciation charge	45 295	37 107	29 602	130 044	-	242 048
Disposals	-	(17 415)	(1 515)	(16 101)	-	(35 031)
At 31 December 2011	141 348	68 232	78 910	358 951	-	647 441
Carrying value						
At 31 December 2011	2 089 104	187 659	180 461	754 746	1 757 962	4 969 932

The movement in property and equipment for the year ended 31 December 2010 is presented in the table below:

RUB'000	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2010	2 215 029	101 912	64 511	526 051	21 311	2 928 814
Additions	1 897	66 811	22 235	277 871	1 477 543	1 846 357
Disposals	-	(22 464)	(554)	(56 612)	-	(79 630)
At 31 December 2010	2 216 926	146 259	86 192	747 310	1 498 854	4 695 541
Accumulated depreciation						
At 1 January 2010	42 026	43 195	39 848	187 327	-	312 396
Depreciation charge	54 027	21 402	11 529	91 205	-	178 163
Disposals	-	(16 057)	(554)	(33 524)	-	(50 135)
At 31 December 2010	96 053	48 540	50 823	245 008	-	440 424
Carrying value						
At 31 December 2010	2 120 873	97 719	35 369	502 302	1 498 854	4 255 117

Revalued assets

At 31 December 2009 buildings were revalued based on the results of an independent appraisal performed by OOO "MEF-Audit". The basis used for the appraisal is the market approach. The market approach is based upon an analysis of the results of comparable sales of similar buildings.

As at 31 December 2011 management determined that the fair value of buildings was consistent with the value obtained in 2009, and accordingly, no adjustments to fair value were made.

The carrying value of buildings as of 31 December 2011, if the buildings would not have been revalued, would be RUB 1 499 193 thousand (31 December 2010: RUB 1 517 587 thousand).

15 Other assets

	31 December 2011 RUB'000	31 December 2010 RUB'000
Receivables	759 249	469 950
Property held for sale	167 244	66 271
Prepaid expenses	165 279	88 444
Current income tax receivable	118 596	16
Intangibles	73 962	4 677
Other	288 231	117 083
Total other assets	1 572 561	746 441

16 Deposits by credit institutions

	31 December 2011 RUB'000	31 December 2010 RUB'000
Demand deposits	64 496	53 986
Term deposits	18 168 718	10 194 233
Syndicated loans	5 421 197	5 213 680
Payables under repurchase agreements	-	11 166 555
Subordinated debt	1 309 717	1 234 830
Total deposits by credit institutions	24 964 128	27 863 284

Syndicated loans represent loans denominated in USD with effective interest rates ranging from 3.4% to 5.5% (31 December 2010: from 3.8% to 5.2%) and maturity from 2012 to 2015 (31 December 2010: from 2011 to 2015).

Subordinated debt represents loans denominated in USD with effective interest rates ranging from 6.0% to 9.4% (31 December 2010: 5.7% to 8.5%) and maturity from 2015 to 2017 (31 December 2010: 2015 to 2017).

The Group shall observe certain covenants attached to syndicated loans and subordinated debt from International Finance Corporation, European Bank for Reconstruction and Development and BLACK SEA TRADE AND DEVELOPMENT BANK. As at 31 December 2011 and 2010, the Group fully meets all covenants of the loan agreements.

Information about the currency and maturity and effective interest rates on deposits by credit institutions is presented in note 28.

Concentrations of deposits by credit institutions

As at 31 December 2011 the Group has two counterparties (31 December 2010: three) whose deposits balance exceed 10% of deposits by credit institutions. The gross value of these facilities as at 31 December 2011 is RUB 8 900 996 thousand (31 December 2010: RUB 14 388 231 thousand).

17 Deposits by customers

		31 December 2011 RUB'000	31 December 2010 RUB'000
Corporate customers	Demand	17 838 871	11 142 438
	Term	34 843 029	25 630 335
	Subordinated	2 745 236	6 057 760
	Term notes	5 894 492	1 532 248
Total corporate customers		61 321 628	44 362 781
Individuals	Demand	4 842 326	2 839 841
	Term	80 526 932	47 885 406
Total individuals		85 369 258	50 725 247
Total deposits by customers		146 690 886	95 088 028

Concentrations of deposits by customers

As of 31 December 2011 and 2010, there are no demand or term deposits from customers that individually exceed 10% of total customer accounts.

Information about the currency and maturity and effective interest rates on deposits by customers is presented in note 28.

18 Debt securities issued

	31 December 2011 RUB'000	31 December 2010 RUB'000
Promissory notes issued at nominal value	6 789 426	16 307 223
Accrued interest	32 768	215 005
Unamortized discount on promissory notes	(304 874)	(412 355)
	6 517 320	16 109 873
 Bonds issued	 24 601 549	 11 141 223
	31 118 869	27 251 096

Bondholders are entitled to demand early redemption of bonds at their nominal value. The next date on which bondholders can demand redemption is July 2012. In note 28 bonds are presented on the early redemption option dates.

RUB denominated bonds issue 05 (31 December 2011: RUB 1 682 876 thousand) was issued in April 2009 with a fixed coupon rate of 15% for the first year. The coupon rate for the six month period was reset in October 2011 at 7.4% until the final maturity date of 25 April 2012.

RUB denominated bonds issue 06 (31 December 2011: RUB 2 013 542 thousand) was issued in August 2009 with a fixed coupon rate of 16% for the first year. The coupon rate for the six month period was reset in August 2011 at 9.4% until the final maturity date of 7 August 2012.

RUB denominated bonds issue 07 (31 December 2011: RUB 2 049 005 thousand) was issued in July 2010 with a fixed coupon rate of 9.76% for the first 2 years. The Bank sets the coupon rate for each subsequent six month period until the final maturity date of 14 July 2015.

RUB denominated bonds issue 08 (31 December 2011: RUB 1 540 542 thousand) was issued in April 2010 with a fixed coupon rate of 9.7% for the first 1.5 years. The Bank sets the coupon rate for each subsequent six month period until the final maturity date of 8 April 2015. The coupon rate for the six month period was reset in October 2011 at 9.0% until April 2012.

RUB denominated bonds issue BO-01 (31 December 2011: RUB 2 585 541 thousand) was issued in February 2011 with a fixed coupon rate of 8.5% for the first 2 years. The Bank sets the coupon rate for each subsequent six month period until the final maturity date of 22 February 2014.

RUB denominated bonds issue BO-04 (31 December 2011: RUB 3 819 034 thousand) was issued in April 2011 with a fixed coupon rate of 8.0% for the first 1.5 years. The Bank sets the coupon rate for each subsequent six month period until the final maturity date of 15 April 2014.

RUB denominated bonds issue BO-05 (31 December 2011: RUB 4 494 877 thousand) was issued in June 2011 with a fixed coupon rate of 9.2% for each six month period until the final maturity date of 23 June 2014.

USD denominated Eurobonds issue (31 December 2011: RUB 6 416 132 thousand) was issued in July 2011 with a fixed coupon rate of 8.25% for each six month period until the final maturity date of 5 August 2014.

Information about the currency and maturity and effective interest rates on debt securities issued is presented in note 28.

19 Other liabilities

	31 December 2011 RUB'000	31 December 2010 RUB'000
Allowance for credit related commitments	484 397	260 419
Cash collection payables	397 693	152 366
Payables to suppliers	347 725	198 981
Deferred income	225 985	69 714
Operating taxes payable	97 944	59 253
Payables to Deposit Insurance Agency	80 119	45 231
Other	264 834	79 036
Total other liabilities	1 898 697	865 000

20 Share capital

Share capital consists of ordinary shares and was contributed by the shareholder in Roubles. The shareholder is entitled to dividends and capital distributions. Issued, outstanding and paid share capital comprises 10 776 158 008 shares (31 December 2010: 6 276 158 008 shares) with par value of 1 RUB per share. In July 2011 the Central Bank of the Russian Federation registered the Bank's share capital increase in the amount of RUB 4 500 000 000. The total hyperinflation adjustment, related to equity as at 31 December 2002, was RUB 861 930 thousand.

Due to the fact that interest rates applicable to subordinated loans from the owner of the Bank are substantially lower than the market rates, the Bank converted part of these subordinated loans in the amount of RUB 3 536 361 thousand (net of deferred tax of RUB 884 090 thousand) into additional paid-in-capital. This additional paid-in capital represents tier 1 capital according to the Basel Capital Accord.

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation, as of the reporting date, retained earnings available for distribution amount to RUB 695 720 thousand (2010: RUB 1 254 331 thousand).

21 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	31 December 2011 RUB'000	31 December 2010 RUB'000
Guarantees and letters of credit	29 869 161	15 419 408
Undrawn loan commitments	1 079 727	503 892
Other contingent liabilities	214 784	-
	31 163 672	15 923 300

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

22 Operating leases

Leases as lessee

Future minimum lease payments on non-cancellable lease agreements are as follows:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Less than 1 year	227 407	128 331
Between 1 and 5 years	247 167	174 282
More than 5 years	214 929	102 328
	689 503	404 941

23 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

24 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

25 Related party transactions

The outstanding balances with related parties and related average interest rates as at 31 December 2011 and 31 December 2010 are as follows:

	31 December 2011		31 December 2010	
	Amount RUB'000	Average effective interest rate	Amount RUB'000	Average effective interest rate
Loans to customers				
Ultimate shareholder	70 208	12.0%	308 765	11.4%
Under control of ultimate shareholder	87 138	12.0%	333 697	10.0%
Management	43 977	10.7%	39 529	10.7%
Total loans	201 323		681 991	
Deposits by customers				
Ultimate shareholder	31 993	3.9%	51 069	10.4%
Parent company	250 896	8.3%	5 489	8.1%
Under control of ultimate shareholder	2 909 463	7.9%	6 310 867	6.3%
Management	35 481	7.6%	17 913	9.8%
Total deposits	3 227 833		6 385 338	

Amounts included in the consolidated statement of comprehensive income for the year ended 31 December in relation to transactions with related parties are as follows:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Interest income on loans to customers		
Ultimate shareholder	34 236	12 244
Under control of ultimate shareholder	38 956	17 377
Management	4 786	2 980
Total interest income on loans to customers	77 978	32 601
Interest expense on deposits by customers		
Ultimate shareholder	459	18 692
Under control of ultimate shareholder	166 694	49 890
Management	1 716	1 523
Parent company	31 743	922
Total interest expense on deposits by customers	200 612	71 027

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the year ended 31 December (refer to note 6) is as follows:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Members of the Supervisory Board	3 957	2 315
Members of the Management Board	45 596	39 373
	49 553	41 688

26 Capital management

The Central Bank of the Russian Federation sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of the Russian Federation, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2011, this minimum level is 10%. The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2011 and 2010.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December:

	31 December 2011 RUB'000	31 December 2010 RUB'000
Tier 1 capital		
Share capital and additional paid-in capital	15 337 135	7 300 774
Retained earnings	9 823 364	5 937 830
Total tier 1 capital	25 160 499	13 238 604
Tier 2 capital		
Revaluation surplus for buildings	500 424	500 424
Revaluation reserve for investments available-for-sale	(53 017)	28 067
Subordinated loans		
Subordinated loan from EBRD	482 942	579 061
Subordinated loan from BLACK SEA TRADE AND DEVELOPMENT BANK	643 922	609 538
Subordinated loans from WELLCREEK CORPORATION	2 745 236	6 000 000
Less limitation of subordinated capital to 50% of tier 1	-	(569 297)
Total tier 2 capital	4 319 507	7 147 793
Total capital	29 480 006	20 386 397
Risk-weighted assets		
Banking book	184 090 083	119 410 805
Trading book	21 012 847	30 390 992
Total risk weighted assets	205 102 930	149 801 797
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	14.4	13.6
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	12.3	8.8

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised exposures, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. The Group complied with all externally imposed capital requirements during the years ended 31 December 2011 and 2010.

27 Analysis by segment

The Group has five reportable segments, as described below, which are strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the First deputy of the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate banking: comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guaranties, corporate deposit taking, settlements and money transfer, currency conversion
- Retail banking: comprises retail demand and term deposit services; retail lending, including consumer loans, car loans and mortgages, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals
- Treasury: comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes
- International business: comprises borrowings from international financial institutions and trade finance operations
- Cash collection and other cash operations: comprise all operations connected with cash, cash collection, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on financial information prepared in accordance with IFRS, as included in the internal management reports that are reviewed by the First deputy of the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The segment breakdown of assets and liabilities is set out below:

	31 December 2011 RUB'000	31 December 2010 RUB'000
ASSETS		
Corporate banking	131 168 702	86 675 635
Retail banking	30 110 289	17 933 259
Treasury	57 314 123	51 965 735
Cash operations	7 235 146	3 894 457
Unallocated assets	6 542 493	5 001 557
Total assets	232 370 753	165 470 643
LIABILITIES		
Corporate banking	61 321 627	42 830 533
Retail banking	85 369 257	50 725 247
Treasury	31 243 275	44 551 898
International business	24 839 723	12 094 730
Unallocated liabilities	3 988 965	1 501 140
Total liabilities	206 762 847	151 703 548

Segment information for the main reportable segments for the year ended 31 December 2011 is set below:

RUB'000	Corporate banking	Retail banking	Treasury	International business	Cash operations	Unallocated	Total
External interest income	13 475 361	4 440 110	3 065 393	-	-	-	20 980 864
Fee and commission income	1 123 736	796 771	4 970	-	793 086	-	2 718 563
Net loss on securities	-	-	(816 952)	-	-	-	(816 952)
Net foreign exchange income	241 975	28 178	203 233	-	-	-	473 386
Other income	80 985	90 430	11 040	-	-	-	182 455
(Expenses) revenue from other segments	(4 554 527)	3 868 990	(468 876)	1 136 386	18 027	-	-
Revenue	10 367 530	9 224 479	1 998 808	1 136 386	811 113	-	23 538 316
Impairment losses on loans	(866 943)	(416 776)	-	-	-	-	(1 283 719)
Interest expense	(2 317 426)	(6 172 591)	(3 226 993)	(540 192)	-	-	(12 257 202)
Fee and commission expense	(7 601)	(43 439)	(65 792)	(74 999)	(535)	-	(192 366)
General administrative and other expenses	(500 947)	(2 275 176)	(105 956)	(21 211)	(712 453)	(1 330 946)	(4 946 689)
Income (loss) before income taxes	6 674 613	316 497	(1 399 933)	499 984	98 125	(1 330 946)	4 858 340
Income tax	-	-	-	-	-	(972 806)	(972 806)
Segment result	6 674 613	316 497	(1 399 933)	499 984	98 125	(2 303 752)	3 885 534

Segment information for the main reportable segments for the year ended 31 December 2010 is set below:

RUB'000	Corporate banking	Retail banking	Treasury	International business	Cash operations	Unallocated	Total
External interest income	9 639 922	2 688 915	2 216 154	-	-	-	14 544 991
Fee and commission income	877 965	296 619	11 865	-	571 529	-	1 757 978
Net gain on securities	-	-	422 001	-	-	-	422 001
Net foreign exchange income (loss)	233 088	31 098	(32 147)	-	-	-	232 039
Other income (expenses)	72 036	109 821	(369)	-	-	-	181 488
(Expenses) revenue from other segments	(4 162 192)	2 577 642	610 021	953 725	20 804	-	-
Revenue	6 660 819	5 704 095	3 227 525	953 725	592 333	-	17 138 497
Impairment losses on loans	(1 237 765)	(302 033)	-	-	-	-	(1 539 798)
Interest expense	(1 395 715)	(4 426 918)	(2 459 924)	(195 875)	-	-	(8 478 432)
Fee and commission expense	(12 525)	(34 076)	(32 173)	(23 344)	(245)	-	(102 363)
General administrative and other expenses	(358 596)	(1 351 148)	(75 672)	(8 740)	(495 255)	(975 970)	(3 265 381)
Income (loss) before income taxes	3 656 218	(410 080)	659 756	725 766	96 833	(975 970)	3 752 523
Income tax	-	-	-	-	-	(731 147)	(731 147)
Segment result	3 656 218	(410 080)	659 756	725 766	96 833	(1 707 117)	3 021 376

28 Risk management

Management of risk is fundamental to the banking business and is an essential element of operations. The main risks inherent in the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for recognised and unrecognised exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and individuals)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Corporate Lending Department, which is responsible for the corporate loan portfolio. Credit reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Division's Credit Risk Management Department and a second opinion is given accompanied by a check that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Corporate Lending Division and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists of the Collateral Evaluation and Monitoring Service, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan credit applications are reviewed by the Retail Lending Division through the use of scoring models and borrowers' credit worthiness evaluation procedures and verification procedures developed together with the Risk Division.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Division with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk in relation to assets recognized at the reporting date is as follows:

	31 December 2011 RUB'000	31 December 2010 RUB'000
ASSETS		
Cash and cash equivalents	27 198 272	19 441 969
Obligatory reserves with the Central Bank of the Russian Federation	2 259 170	756 584
Due from credit institutions	5 301 412	586 968
Financial instruments at fair value through profit or loss	22 783 737	27 475 153
Available-for-sale securities	2 003 672	4 401 846
Loans to customers	159 019 821	103 852 309
Other assets	870 522	479 138
Total maximum exposure to credit risk on statement of financial position	219 436 606	156 993 967

For the analysis of concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to credit risk in relation to guarantees and commitments at the reporting date is presented in note 21.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, can be covered by the funds deposited by customers and therefore bear limited credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group established an Operational Risk Unit as a part of the Internal Control Department. The Operational Risk Unit determines policies and procedures in the area of operational risks.

The Unit collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools. The Operational Risk Unit reports to the Head of Internal Control Department on important developments and issues. The Head of Internal Control Department reports directly to the Supervisory Board.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Asset and Liability Management Committee (ALCO) sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of the Russian Federation. These ratios are: (i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; (ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; (iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The Bank was in compliance with these ratios during the years ended 31 December 2011 and 2010.

The following table as at 31 December 2011 shows the undiscounted cash flows from financial liabilities on the basis of their contractual maturity. These expected cash flows can vary significantly from the actual future cash flows.

Foreign currency payments are translated using the spot exchange rate at the reporting date.

31 December 2011	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
LIABILITIES					
Deposits by credit institutions	2 244 927	5 084 321	11 146 691	8 097 348	26 573 287
Deposits by customers	43 222 843	43 141 677	35 265 353	36 520 146	158 150 019
Debt securities issued	1 979 301	5 370 272	10 955 480	16 274 938	34 579 991
Total potential future payments for financial obligations as at 31 December 2011	47 447 071	53 596 270	57 367 524	60 892 432	219 303 297
Guarantees and letters of credit	1 020 402	13 841 576	7 126 078	7 881 105	29 869 161
Credit related commitments	1 079 727	-	-	-	1 079 727

31 December 2010	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
LIABILITIES					
Deposits by credit institutions	12 755 231	4 951 238	6 671 004	4 672 006	29 049 479
Deposits by customers	22 350 904	28 234 189	18 688 821	31 793 379	101 067 293
Debt securities issued	1 571 491	7 675 117	12 525 993	8 799 614	30 572 215
Total potential future payments for financial obligations as at 31 December 2010	36 677 626	40 860 544	37 885 818	45 264 999	160 688 987
Guarantees and letters of credit	690 760	10 442 552	3 631 970	654 126	15 419 408
Credit related commitments	503 892	-	-	-	503 892

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Management considers term deposits from individuals to be a stable source of funding based on the past experience, thus classifying them in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

	2011 RUB'000	2010 RUB'000
Demand and less than 1 month	5 040 073	3 145 962
From 1 to 6 months	32 490 657	20 702 151
From 6 to 12 months	23 931 570	16 083 299
More than 1 year	19 064 632	7 953 994
	80 526 932	47 885 406

The following tables show all assets and liabilities as at 31 December 2011 and 2010 by their remaining contractual maturities, including term deposits with individuals, with the exception of securities included in financial instruments at fair value through profit or loss and available-for-sale securities that qualify as collateral for borrowing from the Central Bank of the Russian Federation as collateral for its loans. Such securities are shown in the category "Less than 1 month" as management believes they are liquid assets which can be sold quickly in response to liquidity needs, if necessary. The amounts shown here represent carrying amounts on the reporting dates and do not include cash flows associated with future interest and coupon payments.

As at 31 December 2011 and 2010 the contractual maturities of all securities included in financial instruments at fair value through profit or loss and available-for-sale securities were as follows:

31 December 2011	Less than 1 month RUB'000	1 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	3 to 5 years RUB'000	Over 5 years RUB'000	No maturity RUB'000	Total RUB'000
Financial instruments at fair value through profit or loss	-	1 598 664	961 248	7 629 243	6 547 877	6 046 705	23	22 783 760
Available-for-sale securities	-	197 250	528 167	625 001	103 079	550 175	27 006	2 030 678
31 December 2010	Less than 1 month RUB'000	1 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	3 to 5 years RUB'000	Over 5 years RUB'000	No maturity RUB'000	Total RUB'000
Financial instruments at fair value through profit or loss	-	3 211 012	4 104 788	8 560 974	9 536 426	2 061 953	-	27 475 153
Available-for-sale securities	-	729 542	777 134	2 266 619	525 147	103 404	59 799	4 461 645

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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	20 225 992	-	559 346	79 191	350 998	177 323	689 737	701 150	-	23	-	22 783 760
Available-for-sale securities	371 885	-	51 626	419 739	98 150	515 525	-	103 079	443 668	27 006	-	2 030 678
Loans to customers	12 292 527	27 454 499	32 353 751	12 361 218	15 868 355	22 021 814	14 764 676	13 852 822	6 563 260	-	1 486 899	159 019 821
Property and equipment	-	-	-	-	-	-	-	-	-	4 969 932	-	4 969 932
Other assets	376 104	475 110	271 558	167 749	39 439	942	452	-	-	241 207	-	1 572 561
	67 699 927	33 200 435	33 266 867	13 027 897	16 356 942	22 715 604	15 454 865	14 657 051	7 006 928	7 497 338	1 486 899	232 370 753
LIABILITIES												
Deposits by credit institutions	2 239 428	2 191 591	2 839 045	4 450 240	6 315 653	3 525 359	897 906	1 904 128	600 778	-	-	24 964 128
Deposits by customers	43 158 216	18 528 125	23 602 385	17 195 828	15 970 309	9 135 332	14 092 833	2 262 622	2 745 236	-	-	146 690 886
Debt securities issued	1 875 939	1 623 996	3 014 127	4 977 035	5 364 688	2 591 335	11 664 500	6 559	690	-	-	31 118 869
Income tax liability	15 870	-	-	-	-	-	-	-	-	2 074 397	-	2 090 267
Other liabilities	748 221	267 234	84 297	108 365	60 228	96 393	121	-	-	533 838	-	1 898 697
	48 037 674	22 610 946	29 539 854	26 731 468	27 710 878	15 348 419	26 655 360	4 173 309	3 346 704	2 608 235	-	206 762 847
Net position	19 662 253	10 589 489	3 727 013	(13 703 571)	(11 353 936)	7 367 185	(11 200 495)	10 483 742	3 660 224	4 889 103	1 486 899	25 607 906
Accumulated gap	19 662 253	30 251 742	33 978 755	20 275 184	8 921 248	16 288 433	5 087 938	15 571 680	19 231 904	24 121 007	25 607 906	

31 December 2010

	Less than 1 month RUB'000	1 to 6 months RUB'000	6 months to 1 year RUB'000	1 to 3 years RUB'000	3 to 5 years RUB'000	Over 5 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
ASSETS									
Cash and cash equivalents	23 336 426	-	-	-	-	-	-	-	23 336 426
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	-	756 584	-	756 584
Due from credit institutions	-	436 968	150 000	-	-	-	-	-	586 968
Financial instruments at fair value through profit or loss	24 153 390	582 640	708 848	851 524	1 178 751	-	-	-	27 475 153
Available-for-sale securities	2 436 745	-	310 803	1 094 020	525 147	35 131	59 799	-	4 461 645
Loans to customers	5 991 701	34 496 158	23 184 002	25 715 433	8 580 143	4 833 587	-	1 051 285	103 852 309
Property and equipment	-	-	-	-	-	-	4 255 117	-	4 255 117
Other assets	164 058	166 952	245 111	74 220	12 554	-	83 546	-	746 441
	56 082 320	35 682 718	24 598 764	27 735 197	10 296 595	4 868 718	5 155 046	1 051 285	165 470 643
LIABILITIES									
Deposits by credit institutions	12 740 236	4 859 385	6 504 503	1 959 843	1 189 779	609 538	-	-	27 863 284
Deposits by customers	22 674 633	28 062 409	19 431 717	15 022 786	3 838 723	6 057 760	-	-	95 088 028
Debt securities issued	1 140 658	7 291 566	10 860 363	7 958 509	-	-	-	-	27 251 096
Income tax liability	142 237	-	-	-	-	-	493 903	-	636 140
Other liabilities	319 510	110 673	103 946	-	-	-	330 871	-	865 000
	37 017 274	40 324 033	36 900 529	24 941 138	5 028 502	6 667 298	824 774	-	151 703 548
Net position	19 065 046	(4 641 315)	(12 301 765)	2 794 059	5 268 093	(1 798 580)	4 330 272	1 051 285	13 767 095
Accumulated gap	19 065 046	14 423 731	2 121 966	4 916 025	10 184 118	8 385 538	12 715 810	13 767 095	

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate currency and equity financial instruments which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters 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.

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	Less than 1 month RUB'000	1 to 6 months RUB'000	6 months to 1 year RUB'000	Over 1 year RUB'000	Overdue RUB'000	Total RUB'000
31 December 2011						
Interest-bearing assets	25 742 936	66 905 576	29 718 988	78 704 652	1 486 900	202 559 052
Interest-bearing liabilities	23 680 936	51 799 268	54 273 753	49 427 278	-	179 181 235
Net interest sensitivity gap as at 31 December 2011	2 062 000	15 106 308	(24 554 765)	29 277 374	1 486 900	23 377 817
31 December 2010						
Interest-bearing assets	40 303 835	35 515 766	24 353 653	42 813 737	1 051 285	144 038 276
Interest-bearing liabilities	18 519 259	40 213 360	36 796 583	40 636 938	-	136 166 140
Net interest sensitivity gap as at 31 December 2010	21 784 576	(4 697 594)	(12 442 930)	2 176 799	1 051 285	7 872 136

An analysis of sensitivity of profit or loss and equity to changes in market interest rates based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2011 and 2010 is as follows:

	2011		2010	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
100 bp parallel rise	57 164	57 164	152 662	152 662
100 bp parallel fall	(57 164)	(57 164)	(152 662)	(152 662)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value 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 2011 and 2010 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2011		2010	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
100 bp parallel rise	(363 888)	(392 369)	(526 594)	(585 445)
100 bp parallel fall	363 888	392 369	526 594	585 445

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2011 and a simplified scenario of a 10% change in USD to Russian Rouble exchange rates is as follows:

	2011	
	Profit or loss RUB'000	Equity RUB'000
10% appreciation of USD against RUB	(6 468)	(6 468)
10% depreciation of USD against RUB	6 468	6 468

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2010 and a simplified scenario of a 10% change in USD to Russian Rouble exchange rates is as follows:

	2010	
	Profit or loss RUB'000	Equity RUB'000
10% appreciation of USD against RUB	(38 093)	(38 093)
10% depreciation of USD against RUB	38 093	38 093

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

An analysis of sensitivity of profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 5% change in all securities prices is as follows:

	2011		2010	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
5% increase in securities prices	-	1 080	-	2 392
5% decrease in securities prices	-	(1 080)	-	(2 392)

Interest rate analysis

The interest rate policy is reviewed and approved by ALCO. The average effective interest rates for interest bearing financial instruments are as follows:

	31 December 2011			31 December 2010		
	USD	RUB	Other foreign currencies	USD	RUB	Other foreign currencies
Interest bearing assets						
Cash and cash equivalents	-	5.7%	-	0.7%	3.9%	1.2%
Due from credit institutions	3.2%	9.0%	3.0%	6.2%	6.0%	-
Financial instruments at fair value through profit or loss – government bonds	5.9%	7.9%	-	5.4%	6.9%	-
Financial instruments at fair value through profit or loss – corporate notes and municipal bonds	-	10.1%	-	-	8.3%	-
Available-for-sale securities – government bonds	-	-	-	-	6.4%	-
Available-for-sale securities – corporate notes and municipal bonds	8.8%	11.3%	-	9.7%	9.9%	-
Loans to customers	9.2%	12.5%	9.6%	11.6%	14.0%	11.9%
Interest bearing liabilities						
Deposits by credit institutions	4.0%	7.6%	3.3%	4.1%	4.8%	2.3%
- Syndicated loans	3.9%	-	-	4.0%	-	-
- Subordinated debt	7.7%	-	-	7.1%	-	-
Term deposits by customers	5.9%	9.3%	6.3%	7.5%	9.7%	7.4%
Debt securities issued	8.3%	8.7%	5.2%	3.6%	7.1%	4.7%

Currency analysis

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Supervisory Board sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation. The exposure of assets and liabilities to foreign currency exchange rate risk is as follows:

	31 December 2011				31 December 2010			
	USD RUB'000	RUB RUB'000	Other currencies RUB'000	Total RUB'000	USD RUB'000	RUB RUB'000	Other currencies RUB'000	Total RUB'000
ASSETS								
Cash and cash equivalents	2 853 889	28 513 466	3 066 064	34 433 419	1 887 758	17 550 107	3 898 561	23 336 426
Obligatory reserves with the Central Bank of the Russian Federation	-	2 259 170	-	2 259 170	-	756 584	-	756 584
Due from credit institutions	3 262 873	1 620 332	418 207	5 301 412	235 303	150 000	201 665	586 968
Financial instruments at fair value through profit or loss	1 789 318	20 994 442	-	22 783 760	2 059 403	25 415 750	-	27 475 153
Available-for-sale securities	546 748	1 483 930	-	2 030 678	127 883	4 333 762	-	4 461 645
Loans to customers	18 186 054	132 935 173	7 898 594	159 019 821	13 853 038	84 589 069	5 410 202	103 852 309
Property and equipment	-	4 969 932	-	4 969 932	-	4 255 117	-	4 255 117
Other assets	38 388	1 494 063	40 110	1 572 561	75 648	668 208	2 585	746 441
	26 677 270	194 270 508	11 422 975	232 370 753	18 239 033	137 718 597	9 513 013	165 470 643

	31 December 2011			31 December 2010				
	USD	RUB	Other currencies	Total	USD	RUB	Other currencies	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
LIABILITIES								
Deposits by credit institutions	16 752 464	6 504 539	1 707 125	24 964 128	10 978 350	15 463 943	1 420 991	27 863 284
Deposits by customers	12 883 207	123 628 785	10 178 894	146 690 886	8 341 260	77 625 812	9 120 956	95 088 028
Debt securities issued	6 700 568	24 407 370	10 931	31 118 869	702 440	26 377 351	171 305	27 251 096
Income tax liability	-	2 090 267	-	2 090 267	-	636 140	-	636 140
Other liabilities	28 413	1 840 441	29 843	1 898 697	9 263	853 417	2 320	865 000
	36 364 652	158 471 402	11 926 793	206 762 847	20 031 313	120 956 663	10 715 572	151 703 548
Net position before hedging	(9 687 382)	35 799 106	(503 818)	25 607 906	(1 792 280)	16 761 934	(1 202 559)	13 767 095
Spot contracts	9 606 635	(9 606 635)	-	-	1 316 113	(2 263 026)	946 913	-
Net position	(80 747)	26 192 471	(503 818)	25 607 906	(476 167)	14 498 908	(255 646)	13 767 095

Geographical risk

The geographical risk is the risk due to political economic or social instability in the respective country.

The geographical concentration of financial assets and liabilities as at 31 December 2011 and 2010 is disclosed in the table below:

	31 December 2011				31 December 2010			
	Russia 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	29 860 525	4 567 963	4 931	34 433 419	18 020 750	5 314 349	1 327	23 336 426
Obligatory reserves with the Central Bank of the Russian Federation	2 259 170	-	-	2 259 170	756 584	-	-	756 584
Due from credit institutions	1 620 331	3 681 081	-	5 301 412	385 303	201 665	-	586 968
Financial instruments at fair value through profit or loss	22 783 760	-	-	22 783 760	27 321 018	-	154 135	27 475 153
Available-for-sale securities	2 030 678	-	-	2 030 678	4 461 645	-	-	4 461 645
Loans to customers	153 650 417	4 236 030	1 133 374	159 019 821	103 401 019	451 290	-	103 852 309
	212 204 881	12 485 074	1 138 305	225 828 260	154 346 319	5 967 304	155 462	160 469 085
LIABILITIES								
Deposits by credit institutions	6 540 537	18 413 350	10 241	24 964 128	15 768 554	12 094 730	-	27 863 284
Deposits by customers	140 648 047	333 081	5 709 758	146 690 886	87 288 843	302 939	7 496 246	95 088 028
Debt securities issued	28 183 391	2 501 684	433 794	31 118 869	27 136 318	1 770	113 008	27 251 096
	175 371 975	21 248 115	6 153 793	202 773 883	130 193 715	12 399 439	7 609 254	150 202 408
Net position	36 832 906	(8 763 041)	(5 015 488)	23 054 377	24 152 604	(6 432 135)	(7 453 792)	10 266 677

29 Fair value of financial instruments

For financial instruments whose fair value is estimated by using active market data the fair value represents quoted market prices at the reporting date without any deduction for transaction costs. The estimated fair values of all other financial assets (except for cash on hand) and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The following table provides an analysis of financial assets and liabilities for which the discounted cash flow techniques are used to estimate their fair value:

	2011 RUB'000	2011 RUB'000	2010 RUB'000	2010 RUB'000
	Fair value	Carrying value	Fair value	Carrying value
ASSETS				
Cash and cash equivalents	34 433 419	34 433 419	23 336 426	23 336 426
Obligatory reserves with the Central Bank of the Russian Federation	2 259 170	2 259 170	756 584	756 584
Due from credit institutions	5 301 412	5 301 412	586 968	586 968
Loans to customers	159 499 028	159 019 821	104 521 779	103 852 309
LIABILITIES				
Deposits by credit institutions	24 964 128	24 964 128	27 863 284	27 863 284
Deposits by customers	147 245 274	146 690 886	95 234 842	95 088 028
Debt securities issued	31 118 869	31 118 869	28 970 940	27 251 096

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

As disclosed in note 29, the fair value of unquoted equity securities available-for-sale with a carrying value of RUB 27 006 thousand can not be determined.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 11.8% (roubles) and 8.0 % (foreign currency) are used for discounting future cash flows from corporate loans
- discount rates of 14.6% (roubles) and 12.6 % (foreign currency) are used for discounting future cash flows from loans to retail customers
- discount rates of 9.5% (roubles) and 5.5% (foreign currency) are used for discounting future cash flows from retail deposits.

Fair value hierarchy

The Group measures fair values for financial instruments recorded on the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2: Valuation techniques based on observable inputs, either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table shows an analysis of financial instruments recorded at fair value for which fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2011:

	Level 1 Quoted market prices	Level 2 Valuation techniques based on market observable inputs	Total
	RUB'000	RUB'000	RUB'000
Financial assets at fair value through profit or loss	22 515 445	268 315	22 783 760
Available-for-sale securities	1 342 130	688 548	2 030 678

The following table shows an analysis of financial instruments recorded at fair value whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2010:

	Level 1 Quoted market prices	Level 2 Valuation techniques based on market observable inputs	Total
	RUB'000	RUB'000	RUB'000
Financial assets at fair value through profit or loss	27 245 376	229 777	27 475 153
Available-for-sale securities	4 310 667	150 978	4 461 645

During 2011 there were no transfers of financial instruments between Level 1 and Level 2.

As at 31 December 2011 and 2010 the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of unobservable inputs.

30 Events subsequent to the reporting date

In January 2012 the Bank paid out the third coupon in the amount of RUB 97.34 million or RUB 48.67 per bond on domestic bonds series 07. The issue was placed on 20 July 2010 in the amount of RUB 2 billion with a maturity of 5 years.

In January 2012 the Bank repaid US\$ 10 million 5-year credit line granted for financing of small and medium-sized enterprises by the European Bank for Reconstruction and Development.

In January 2012 international rating agency Standard and Poor's assigned to the Bank 'B+' long-term and 'B' short-term counterparty credit and 'ruA+' Russia national scale ratings, with a stable outlook.

In February 2012 the following major changes in the management structure of the Bank took place: Chairman of the Management Board of CREDIT BANK OF MOSCOW Alexander Nikolashin became the Bank's President and First Deputy Chairman of the Management Board Vladimir Chubar became Chairman of the Management Board.

In February 2012 the Bank paid out the fifth coupon in the amount of RUB 93.74 million or RUB 46.87 per bond on domestic bonds series 06. The issue was placed on 11 August 2009 in the amount of RUB 2 billion with a maturity of 3 years.

In February 2012 the Bank paid out the second coupon in the amount of RUB 128.55 million or RUB 42.85 per bond on domestic bonds series BO-01. The issue was placed on 22 February 2011 in the amount of RUB 3 billion with a maturity of 3 years.

CREDIT BANK OF MOSCOW
(open joint-stock company)

Consolidated Financial Statements
for the year ended 31 December 2010

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Independent Auditors' Report

To the Management of Credit Bank of Moscow (open joint-stock company)

We have audited the accompanying consolidated financial statements of Credit Bank of Moscow (open joint-stock company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
29 March 2011

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2010

	Notes	31 December 2010 RUR'000	31 December 2009 RUR'000
Interest income	4	14,544,991	9,584,791
Interest expense	4	(8,478,432)	(5,671,209)
Net interest income	4	6,066,559	3,913,582
Provision for impairment of loans	13	(1,539,798)	(2,465,362)
Net interest income after provision for impairment		4,526,761	1,448,220
Fee and commission income	5	1,757,978	1,191,323
Net gain on financial instruments at fair value through profit or loss		83,474	429,497
Net realized gain on available-for-sale assets		338,527	61,633
Foreign exchange gains, net		232,039	212,098
Other operating income		181,488	117,032
Non-interest income		2,593,506	2,011,583
Salaries and employment benefits	6	(1,373,503)	(1,064,102)
Administrative expenses	6	(1,287,388)	(868,148)
Provision for impairment of other assets and credit related commitments	7	(143,438)	(193,314)
Depreciation of property and equipment	14	(178,163)	(106,625)
Fee and commission expense		(102,363)	(84,653)
State deposit insurance scheme contributions		(153,049)	(82,651)
Other operating expenses		(129,840)	(88,923)
Non-interest expense		(3,367,744)	(2,488,416)
Income before income taxes		3,752,523	971,387
Income tax	8	(731,147)	(191,425)
Net income		3,021,376	779,962
Other comprehensive income			
Revaluation reserve for available-for-sale securities		(372,159)	469,456
Revaluation of buildings		-	625,531
Income tax related to other comprehensive income		74,432	(218,998)
Other comprehensive (loss) income for the period, net of tax		(297,727)	875,989
Comprehensive income for the period		2,723,649	1,655,951

Chairman of the Management Board

Alexander N.Nikolashin

Chief Accountant

Svetlana V.Sass



The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Financial Position
as at 31 December 2010

	Notes	31 December 2010 RUR'000	31 December 2009 RUR'000
ASSETS			
Cash and cash equivalents	9	23,336,426	8,629,775
Obligatory reserves with the Central Bank of the Russian Federation		756,584	401,006
Due from credit institutions	10	586,968	957,665
Financial instruments at fair value through profit or loss	11	27,475,153	12,472,290
Available-for-sale securities	12	4,461,645	3,235,045
Loans to customers	13	103,852,309	58,290,515
Property and equipment	14	4,255,117	2,616,418
Other assets	15	746,441	456,286
Total assets		165,470,643	87,059,000
LIABILITIES AND EQUITY			
Deposits by the Central Bank of the Russian Federation	16	-	6,129,195
Deposits by credit institutions	17	27,863,284	11,052,903
Deposits by customers	18	93,555,780	45,624,691
Debt securities issued	19	28,783,344	12,385,902
Deferred tax liability	8	493,903	250,262
Current tax liability	8	142,237	153,797
Other liabilities	20	865,000	418,804
Total liabilities		151,703,548	76,015,554
Equity			
Share capital	21	7,138,088	7,138,088
Additional paid-in capital		162,686	162,686
Revaluation surplus for buildings		500,424	500,424
Revaluation reserve for available-for-sale securities		28,067	325,794
Retained earnings		5,937,830	2,916,454
Total equity		13,767,095	11,043,446
Total liabilities and equity		165,470,643	87,059,000
Commitments and Contingencies	22-24		

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Cash Flows
for the year ended 31 December 2010

Notes	31 December 2010 RUR'000	31 December 2009 RUR'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	3,021,376	779,962
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for impairment of loans	1,539,798	2,465,362
Depreciation and amortization	180,323	107,767
Deferred tax expense (benefit)	318,073	(202,534)
Revaluation of financial instruments at fair value through profit or loss	226,804	(490,759)
Provision for impairment of other assets and credit related commitments	143,438	193,314
Accrued interest income	(827,388)	(153,493)
Accrued interest expense	909,363	161,032
Impairment of available-for-sale securities	-	175,722
Other	(190,096)	110,310
Operating cash flows before changes in operating assets and liabilities	5,321,691	3,146,683
(Increase) decrease in operating assets		
Obligatory reserves with the Central Bank of the Russian Federation	(355,578)	(344,171)
Due from credit institutions	309,899	(628,446)
Financial instruments at fair value through profit or loss	(15,018,949)	(12,212,968)
Loans to customers	(47,051,333)	(20,348,382)
Other assets	(564,398)	(76,677)
Increase (decrease) in operating liabilities		
Deposits by credit institutions and the Central Bank of the Russian Federation	6,749,875	(3,888,872)
Deposits by customers	42,458,167	21,375,353
Debt securities issued	12,117,623	3,688,965
Other liabilities	492	(178,074)
Net cash from (used in) operations	3,967,489	(9,466,589)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (purchase) sale of available-for-sale securities	(1,529,672)	4,920,606
Net purchase of property and equipment and intangible assets	(1,401,581)	(110,004)
Net cash (used in) from investing activities	(2,931,253)	4,810,602

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Cash Flows
for the year ended 31 December 2010

	Notes	31 December 2010 RUR'000	31 December 2009 RUR'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock		-	3,000,000
Receipts of subordinated borrowings		6,614,638	-
Receipts of syndicated borrowings		4,356,750	-
Repayment of syndicated borrowings		(892,263)	(2,371,122)
Proceeds from issuance of bonds		5,270,896	7,626,060
Repayment of bonds		(1,478,592)	(5,440,670)
Net cash from financing activities		13,871,429	2,814,268
Effect of exchange rates changes on cash and cash equivalents		(201,014)	116,107
Change in cash and cash equivalents		14,706,651	(1,725,612)
Cash and cash equivalents, beginning of the period		8,629,775	10,355,387
Cash and cash equivalents, end of the period	9	23,336,426	8,629,775

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Changes in Equity
for the year ended 31 December 2010

	Common stock	Additional paid-in capital	Revaluation surplus for buildings	Revaluation reserve for available-for- sale assets	Retained earnings	Total equity
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
1 January 2009	4,138,088	162,686	-	(49,771)	2,136,492	6,387,495
Total comprehensive income for the period	-	-	500,424	375,565	779,962	1,655,951
Shares issued	3,000,000	-	-	-	-	3,000,000
31 December 2009	7,138,088	162,686	500,424	325,794	2,916,454	11,043,446
Total comprehensive income for the period	-	-	-	(297,727)	3,021,376	2,723,649
31 December 2010	7,138,088	162,686	500,424	28,067	5,937,830	13,767,095

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1 Background

Principal activities

These consolidated financial statements include the financial statements of CREDIT BANK OF MOSCOW (open joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

CREDIT BANK OF MOSCOW was formed on 5 August 1992 as an open joint-stock company, then re-registered as a closed joint-stock company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganized as an open joint-stock company. The Bank's registered legal address is 2 (bldg. 1) Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central Bank of the Russian Federation, granted on 20 January 2000. In December 2004 the Bank was admitted to the Central Bank of Russia program for individual deposit insurance. The Bank is among the 30 largest banks in Russia by assets and runs its business in Moscow and the Moscow region with a branch network comprising 51 branches, and ATMs and payment terminals totaling 402 and 1737 items, respectively.

The principal subsidiaries of the Group are as follows:

Name	Date of incorporation	Country of incorporation	Principal Activities	Degree of control, %	
				31 December 2010	31 December 2009
CBOM Finance p.l.c.	17 Aug 2006	Ireland	Raising finance	100%	100%
MKB-Invest	4 June 2007	Russia	Operations with securities	100%	100%
MKB-Leasing	20 Sep 2005	Russia	Finance leasing	100%	100%

The Bank does not have any direct or indirect shareholdings in the subsidiaries noted above. However CBOM Finance p.l.c. was established under terms that impose strict limits on the decision-making powers of its management. MKB-Invest and MKB-Leasing are controlled by the Group through option agreements.

Shareholders

The Group is wholly-owned by Concern Rossium (the Shareholder Group). The sole shareholder of Concern Rossium is Roman I. Avdeev, who is also member of the Supervisory Board of the Bank. The members of the Supervisory Board are as follows:

Supervisory Board

Sandy Vaci	Chairman
Richard Damien Glasspool	Member
Genadi Lewinski	Member
Roman I. Avdeev	Member
Alexander N. Nikolashin	Member
Anton R. Avdeev	Member
Nikolay V. Kosarev	Member
Vladimir A. Chubar	Member

Related party transactions are detailed in note 26.

Russian business environment

The Russian Federation is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets and its impact on the Russian economy has further increased the level of economic uncertainty in the environment. These consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value and buildings are stated at revalued amounts.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (RUR). Management determined the functional currency to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Bank. The RUR is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUR is rounded to the nearest thousand.

Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - note 13
- building revaluation estimates - note 14.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied. Changes in accounting policies described at the end of this note.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Special purpose entities

The Bank established a special purpose entity (SPE) for trading and investment purposes. The Bank does not have any direct or indirect shareholdings in this entity. However, the SPE is established under terms that impose strict limits on the decision-making powers of the SPE's management over the operations of the SPE. In addition, the benefits related to their operations and net assets are presently attributable to the Bank via a number of agreements.

Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value and whose appraised value is denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognized in the consolidated statement of comprehensive income.

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group considers cash and nostro accounts with the Central Bank of the Russian Federation, and due from credit institutions with maturity of less than one month to be cash and cash equivalents. The minimum reserve deposit with the Central Bank of the Russian Federation is not considered to be a cash equivalent due to restrictions on its withdrawability.

Financial instruments

Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated by the Group as at fair value through profit or loss.

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

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

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

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the 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 assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Recognition

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

Measurement

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

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

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

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

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

Gains and losses on subsequent measurement

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

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

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

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits by credit institutions. The difference between the sale and repurchase prices represents interest expense and is recognized in the consolidated statement of comprehensive income over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within due from credit institutions. The difference between the purchase and resale prices represents interest income and is recognized in the consolidated statement of comprehensive income over the term of the repo agreement using the effective interest method.

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

Offsetting

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income directly in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised as other comprehensive income directly in equity.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	50
Furniture and other property	6
Computers and office equipment	4
Vehicles	5

When a building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in the consolidated statement of comprehensive income and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in the consolidated statement of comprehensive income and can not be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably. Financial guarantee liabilities and allowance for credit related commitments are included in other liabilities.

Share capital

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service has been provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment, and assess its performance, and for which discrete financial information is available.

Comparative information

The presentation of certain captions relating to cash and cash equivalents was changed as at 31 December 2010 in comparison with 31 December 2009 to better present the nature of the underlying transactions. Comparative information is reclassified to conform to changes in presentation in the current year. The effect of this change in presentation is as follows:

	2009 as previously reported RUR'000	2009 as currently reported RUR'000
Reclassification of cash and cash equivalents from statement of financial position captions "Cash and due from the Central Bank of the Russian Federation", "Due from credit institutions" into separate statement of financial position caption "Cash and cash equivalents"		
Cash and cash equivalents	-	8,629,775
Cash and due from the Central Bank of the Russian Federation	6,457,166	401,006
Due from credit institutions	3,531,280	957,665

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2010, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these new standards on its financial statements.

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts are expected to be issued during the first half of 2011. Management recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements.

- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in a foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after 1 February 2010.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance on accounting for debt for equity swaps by the debtor. The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph 41 of IAS 39 *Financial Instruments: Recognition and Measurement*. Additionally, the interpretation clarifies how to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010.
- *Improvements to IFRSs 2010* resulting from the International Accounting Standards Board's third annual improvements project are to be dealt with on a standard-by-standard basis. The effective date of each amendment is included in the IFRSs affected.

4 Net interest income

	31 December 2010 RUR'000	31 December 2009 RUR'000
Interest income		
Loans to customers	11,868,667	8,033,840
Financial instruments at fair value through profit or loss and available-for-sale securities	2,626,061	1,422,654
Due from credit institutions and the Central Bank of the Russian Federation	50,263	128,297
	14,544,991	9,584,791
Interest expense		
Deposits by customers	(5,446,181)	(2,931,465)
Debt securities issued	(2,179,243)	(1,320,755)
Deposits by credit institutions and the Central Bank of the Russian Federation	(853,008)	(1,418,989)
	(8,478,432)	(5,671,209)
Net interest income	6,066,559	3,913,582

5 Fee and commission income

	31 December 2010 RUR'000	31 December 2009 RUR'000
Cash collection delivery	549,536	443,509
Guarantees and letters of credit	492,866	307,016
Settlements and wire transfers	458,847	271,577
Plastic cards	116,925	59,686
Other cash operations	77,280	60,563
Other	62,524	48,972
Fee and commission income	1,757,978	1,191,323

6 Salaries, employment benefits and administrative expenses

	31 December 2010 RUR'000	31 December 2009 RUR'000
Salaries	1,143,744	890,184
Social security costs	216,439	158,955
Other	13,320	14,963
Salaries and employment benefits	1,373, 503	1,064,102

	31 December 2010 RUR'000	31 December 2009 RUR'000
Occupancy	332,191	183,274
Operating taxes	290,234	141,435
Advertising and business development	261,149	222,868
Security	123,726	117,170
Property maintenance	77,378	69,967
Communications	59,827	52,775
Computer maintenance and software expenses	43,310	24,125
Transport	40,335	30,612
Other	59,238	25,922
Administrative expenses	1,287,388	868,148

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the statement of comprehensive income in the period the related compensation is earned by the employee. The Group does not have any stock option plans.

7 Provision for impairment of other assets and credit related commitments

	31 December 2010 RUR'000	31 December 2009 RUR'000
Provision for impairment of credit related commitments	96,830	148,985
Provision for impairment of other assets	46,608	44,329
	143,438	193,314

8 Income tax

	31 December 2010 RUR'000	31 December 2009 RUR'000
Current tax charge	413,074	393,959
Deferred taxation	318,073	(202,534)
Income tax expense	731,147	191,425

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The income tax rate for the Bank is 20% (2009: 20%).

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

CREDIT BANK OF MOSCOW (open joint-stock company)
Notes to, and forming part of, the Consolidated Financial Statements
for the year ended 31 December 2010

	31 December 2010 RUR'000	31 December 2009 RUR'000
Income before tax	3,752,523	971,387
Applicable statutory tax rate	20%	20%
Income tax using the applicable tax rate	750,505	194,277
Income taxed at lower rate	(30,307)	(9,622)
Net non-deductible costs	10,949	6,770
Income tax expense	731,147	191,425

Income tax liabilities are recorded in the consolidated statement of financial position as follows:

	31 December 2010 RUR'000	31 December 2009 RUR'000
Current tax liability	142,237	153,797
Deferred tax liability	493,903	250,262
Income tax liability	636,140	404,059

Movements in temporary differences during the years ended 31 December 2010 and 2009 are presented as follows.

RUR'000	Balance 1 January 2010	Recognised in profit or loss	Recognised in equity	Balance 31 December 2010
Due from credit institutions	(3,249)	1,664	-	(1,585)
Financial instruments at fair value through profit or loss	137,604	(82,221)	-	55,383
Available-for-sale securities	23,919	49,128	(74,432)	(1,385)
Loans to customers	(116,751)	368,085	-	251,334
Property and equipment	189,075	45,069	-	234,144
Other assets	(1,417)	(6,101)	-	(7,518)
Deposits by credit institutions and the Central Bank of the Russian Federation	3,704	25,597	-	29,301
Debt securities issued	(6,839)	8,637	-	1,798
Other liabilities	24,216	(91,785)	-	(67,569)
	250,262	318,073	(74,432)	493,903

RUR'000	Balance 1 January 2009	Recognised in profit or loss	Recognised in equity	Balance 31 December 2009
Due from credit institutions	1,407	(4,656)	-	(3,249)
Financial instruments at fair value through profit or loss	-	137,604	-	137,604
Available-for-sale securities	5,075	(75,047)	93,891	23,919
Loans to customers	172,624	(289,375)	-	(116,751)
Property and equipment	56,908	7,060	125,107	189,075
Other assets	3,671	(5,088)	-	(1,417)
Deposits by credit institutions and the Central Bank of The Russian Federation	282	3,422	-	3,704
Debt securities issued	-	(6,839)	-	(6,839)
Other liabilities	(6,169)	30,385	-	24,216
	233,798	(202,534)	218,998	250,262

Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income comprise:

RUR'000	2010			2009		
	Amount before tax	Tax gain	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Revaluation reserve for available-for-sale securities	(372,159)	74,432	(297,727)	469,456	(93,891)	375,565
Revaluation of property and equipment	-	-	-	625,531	(125,107)	500,424
Other comprehensive income	(372,159)	74,432	(297,727)	1,094,987	(218,998)	875,989

9 Cash and cash equivalents

	31 December 2010 RUR'000	31 December 2009 RUR'000
Cash on hand	3,894,457	2,482,467
Correspondent account with the Central Bank of the Russian Federation	9,563,916	3,573,693
Nostro accounts with other banks		
rated AAA	644	-
rated from AA+ to AA-	947,472	330,158
rated from A+ to A-	61,884	274,390
rated BBB	443,966	1,009,893
rated from BB+ to BB-	4,008	-
rated from B+ to B-	112,262	26,860
not rated	585,818	598,564
Total nostro accounts with other banks	2,156,054	2,239,865
Due from credit institutions with maturity of less than 1 month		
rated from AA+ to AA-	458,512	323,630
rated A- to A+	24,410	-
rated BBB	2,968,673	-
rated from BB- to BB+	727,633	-
rated from B+ to B-	1,713,940	-
not rated	1,828,831	10,120
Total due from credit institutions with maturity of less than 1 month	7,721,999	333,750
Total cash and cash equivalents	23,336,426	8,629,775

Ratings are based on Standard & Poor's rating system.

None of cash and cash equivalents are impaired or past due.

The correspondent account with the Central Bank of the Russian Federation represents balances held with the Central Bank of the Russian Federation related to settlement activity, and was available for withdrawal at period end.

Settlements with the stock exchange are included in not rated nostro accounts in the amount of RUR 535,604 thousand as at 31 December 2010 (31 December 2009: RUR 480,751 thousand).

As at 31 December 2010 not rated due from credit institutions with maturity of less than 1 month includes term deposits secured by highly liquid debt securities under agreements to resell ("reverse repo") in the amount of RUR 1,783,806 thousand (31 December 2009: none).

As at 31 December 2010 the Group has one counterparty (31 December 2009: none) whose nostro accounts and deposits with maturity of less than 1 month exceed 10% of total cash and cash equivalents. The gross value of these facilities as at 31 December 2010 is RUR 3,184,487 thousand.

Information about the currency and maturity of cash and cash equivalents is presented in note 29.

10 Due from credit institutions

	31 December 2010 RUR'000	31 December 2009 RUR'000
Term deposits		
rated from AA+ to AA-	201,666	-
rated from A+ to A-	-	957,665
rated from B+ to B-	235,302	-
not rated	150,000	-
Total due from credit institutions	586,968	957,665

Information about the currency and maturity and effective interest rates on amounts due from credit institutions is presented in note 29.

11 Financial instruments at fair value through profit or loss

	31 December 2010 RUR'000	31 December 2009 RUR'000
<u>Held by the Bank</u>		
Government and municipal bonds		
Russian Government Eurobonds	2,059,403	-
Russian Government Federal bonds (OFZ)	-	931,583
Moscow Government bonds	425,309	408,359
Regional authorities and municipal bonds	787,634	-
Corporate bonds		
from BBB+ to BBB-	1,377,171	603,456
from BB+ to BB-	1,479,989	481,832
from B+ to B-	7,159,838	2,663,910
not rated	2,502,079	1,449,045
Total financial instruments at fair value through profit or loss held by the Bank	15,791,423	6,538,185
<u>Pledged as collateral for interbank and other loans</u>		
Government and municipal bonds		
Regional authorities and municipal bonds	-	652,608
Corporate bonds		
from BBB+ to BBB-	-	104,267
from BB+ to BB-	-	103,089
from B+ to B-	-	1,383,011
Total financial instruments at fair value through profit or loss pledged as collateral for interbank and other loans	-	2,242,975
<u>Pledged under sale and repurchase agreements</u>		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	6,960,112	844,667
Moscow Government bonds	803,035	297,055
Regional authorities and municipal bonds	44,566	-
Corporate bonds		
from BBB+ to BBB-	1,544,220	647,642
from BB+ to BB-	1,493,081	1,150,835
from B+ to B-	838,716	402,165
not rated	-	348,766
Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements	11,683,730	3,691,130
Total financial instruments at fair value through profit or loss	27,475,153	12,472,290

As at 31 December 2010 debt instruments in the amount of RUR 24,153,390 thousand are included in the list of securities that can be pledged to attract funds from the Central Bank of the Russian Federation (31 December 2009: RUR 10,197,400 thousand).

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of spot and forward exchange contracts outstanding as at 31 December 2010 and 2009 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2010 RUR'000	2009 RUR'000	2010	2009
Buy EUR sell USD				
Less than 3 months	602,317	1,320,732	1.3230	1.4354
Buy RUR sell USD				
Less than 3 months	239,769	26,452	30.4645	30.1995
Buy USD sell RUR				
Less than 3 months	2,158,199	128,819	30.3972	29.9927
Buy EUR sell RUR				
Less than 3 months	344,596	932,639	39.9440	43.1079
	<u>3,344,881</u>	<u>2,408,642</u>		

12 Available-for-sale securities

	31 December 2010 RUR'000	31 December 2009 RUR'000
<u>Held by the Bank</u>		
Government and municipal bonds		
Russian Government Eurobonds	-	7,497
Moscow Government bonds	-	29,819
Regional authorities and municipal bonds	17,140	213,005
Corporate bonds		
from BBB+ to BBB-	147,373	69,631
from BB+ to BB-	915,370	-
from B+ to B-	2,655,298	666,565
not rated	465,186	32,651
Equity investments	59,799	70,025
Total available-for-sale securities held by the Bank	<u>4,260,166</u>	<u>1,089,193</u>

	31 December 2010 RUR'000	31 December 2009 RUR'000
<u>Pledged as collateral for interbank and other loans</u>		
Government and municipal bonds		
Russian Government Eurobonds	-	1,594,223
Regional authorities and municipal bonds	-	230,605
Corporate bonds		
from BB+ to BB-	-	157,185
Promissory notes	-	66,580
Total available-for-sale securities pledged as collateral for interbank and other loans	-	2,048,593
<u>Pledged under sale and repurchase agreements</u>		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	50,529	47,794
Corporate bonds		
from BBB+ to BBB-	33,523	49,465
from B+ to B-	117,427	-
Total available-for-sale securities pledged under sale and repurchase agreements	201,479	97,259
Total available-for-sale securities	4,461,645	3,235,045

As at 31 December 2010 debt instruments in the amount of RUR 2,436,745 thousand are included in the list of securities that can be pledged to attract funds from the Central Bank of the Russian Federation (31 December 2009: RUR 2,996,160 thousand).

13 Loans to customers

	31 December 2010 RUR'000	31 December 2010 RUR'000	31 December 2009 RUR'000	31 December 2009 RUR'000
	Loans	Impairment allowance	Loans	Impairment allowance
Loans to corporate clients	88,317,606	(1,990,001)	50,088,406	(1,003,134)
Loans to individuals				
Auto loans	5,478,500	(87,657)	1,947,239	(139,619)
Mortgage loans	7,641,432	(430,242)	5,582,649	(362,826)
Other loans to individuals	5,207,880	(285,209)	2,496,422	(318,622)
Total loans to individuals	18,327,812	(803,108)	10,026,310	(821,067)
Gross loans to customers	106,645,418	(2,793,109)	60,114,716	(1,824,201)
Net loans to customers	103,852,309		58,290,515	

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Loans to customers				
- Not past due	104,463,388	(1,662,364)	102,801,024	1.6%
- Overdue less than 31 days	357,274	(41,642)	315,632	11.7%
- Overdue 31-60 days	78,384	(27,312)	51,072	34.8%
- Overdue 61-90 days	118,576	(42,282)	76,294	35.7%
- Overdue 91-180 days	242,943	(120,561)	122,382	49.6%
- Overdue 181-360 days	286,708	(191,925)	94,783	66.9%
- Overdue more than 360 days	1,098,145	(707,023)	391,122	64.4%
Total loans to customers	106,645,418	(2,793,109)	103,852,309	2.6%

The following table provides information on credit quality of the loan portfolio as at 31 December 2009:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Loans to customers				
- Not past due	57,826,397	(793,085)	57,033,312	1.4%
- Overdue less than 31 days	245,683	(22,810)	222,873	9.3%
- Overdue 31-60 days	126,988	(24,200)	102,788	19.1%
- Overdue 61-90 days	122,023	(56,089)	65,934	46.0%
- Overdue 91-180 days	395,372	(114,527)	280,845	29.0%
- Overdue 181-360 days	622,488	(379,955)	242,533	61.0%
- Overdue more than 360 days	775,765	(433,535)	342,230	55.9%
Total loans to customers	60,114,716	(1,824,201)	58,290,515	3.0%

As at 31 December 2010, the loan portfolio includes loans that have been restructured and would otherwise be past due or impaired in the amount of RUR 1,247,175 thousand (31 December 2009: RUR 655,577 thousand). Such restructuring activity is aimed at managing customer relationships and maximizing the quality of the loan portfolio. Restructured loans are included in loans not past due unless the borrower is unable to comply with the renegotiated terms.

The following table provides information on restructured loans as at 31 December 2010 and 31 December 2009:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Restructured loans				
- As at 31 December 2010	1,247,175	(86,135)	1,161,040	6.9%
- As at 31 December 2009	655,577	(6,312)	649,265	1.0%

As at 31 December 2010, the gross amount of overdue loans with payments that are overdue at least one day, totals RUR 2,182,030 thousand, which represents 2.0% of the loan portfolio (31 December 2009: RUR 2,288,319 thousand and 3.8%, respectively).

Nonperforming loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUR 1,627,796 thousand or 1.5% of the loan portfolio (31 December 2009: RUR 1,793,625 thousand and 3.0%, respectively).

NPLs together with restructured loans amount to RUR 2,874,971 thousand or 2.7% of the loan portfolio (31 December 2009: RUR 2,449,202 thousand and 4.1%, respectively).

As at 31 December 2010, the ratio of total impairment allowance to overdue loans equals 128.0%, the ratio of total impairment allowance to NPLs equals 171.6% and the ratio of total impairment allowance to NPLs together with the restructured loans equals 97.2% (31 December 2009: 79.7%, 101.7% and 74.5%, respectively).

Movements in the loan impairment allowance for the years ended 31 December 2010 and 31 December 2009 are as follows:

	2010 RUR'000	2009 RUR'000
Balance at the beginning of the period	1,824,201	506,140
Net charge	1,539,798	2,465,362
Net write-offs	(570,890)	(1,147,301)
Balance at the end of the period	2,793,109	1,824,201

As at 31 December 2010, interest accrued on overdue loans amounts to RUR 385,673 thousand (31 December 2009: RUR 214,939 thousand).

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality the loans to corporate clients as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Loans to corporate clients				
- Not past due	87,733,857	(1,597,527)	86,136,330	1.8%
- Overdue less than 31 days	119,781	(16,689)	103,092	13.9%
- Overdue 31-60 days	9,993	(3,796)	6,197	38.0%
- Overdue 61-90 days	19,427	(9,008)	10,419	46.4%
- Overdue 91-180 days	40,310	(21,419)	18,891	53.1%
- Overdue 181-360 days	159,452	(117,458)	41,994	73.7%
- Overdue more than 360 days	234,786	(224,104)	10,682	95.5%
Total loans to corporate clients	88,317,606	(1,990,001)	86,327,605	2.3%

The following table provides information on credit quality of loans to corporate clients as at 31 December 2009 :

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Loans to corporate clients				
- Not past due	49,406,492	(750,960)	48,655,532	1.5%
- Overdue less than 31 days	89,523	(3,066)	86,457	3.4%
- Overdue 31-60 days	21,669	(5,045)	16,624	23.3%
- Overdue 61-90 days	80,363	(40,449)	39,914	50.3%
- Overdue 91-180 days	189,536	(42,653)	146,883	22.5%
- Overdue 181-360 days	190,107	(117,055)	73,052	61.6%
- Overdue more than 360 days	110,716	(43,906)	66,810	39.7%
Total loans to corporate clients	50,088,406	(1,003,134)	49,085,272	2.0%

The Bank estimates loan impairment for loans to corporate clients based on an analysis of the future cash flows for impaired loans and based on its past loss experience adjusted for recent changes in economic environment for portfolios of loans for which no indications of impairment has been identified. The key assumptions used in the analysis of future cash flows for impaired loans are based on the assessment of the value of collateral pledged to secure these loans when applicable. To estimate net realizable value of collateral for sale, management, generally, assumes a discount of 20-50 percent to its fair value, depending on type of collateral and market conditions.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance, as of 31 December 2010, would increase/decrease by RUR 863,276 thousand (31 December 2009: RUR 490,853 thousand).

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transactions: real estate (manufacturing premises, warehouses), machinery and equipment, motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes. As of 31 December 2010 the Group plans to recover a portion of impaired lease contracts with gross amount of RUR 19,646 thousand (31 December 2009: RUR 67,843 thousand) through the sale of collateral with a fair value of RUR 9,455 thousand (31 December 2009: RUR 55,994 thousand).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance for loans to corporate clients for the year ended 31 December 2010 are as follows:

	RUR'000
Balance at the beginning of the period	1,003,134
Net charge	1,237,765
Net write-offs	(250,898)
Balance at the end of the period	1,990,001

Movements in the loan impairment allowance for loans to corporate clients for the year ended 31 December 2009 are as follows:

	RUR'000
Balance at the beginning of the period	241,563
Net charge	1,796,596
Net write-offs	(1,035,025)
Balance at the end of the period	1,003,134

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Auto loans				
- Not past due	5,360,587	(12,314)	5,348,273	0.2%
- Overdue less than 31 days	23,274	(3,312)	19,962	14.2%
- Overdue 31-60 days	8,512	(2,349)	6,163	27.6%
- Overdue 61-90 days	9,193	(3,679)	5,514	40.0%
- Overdue 91-180 days	14,554	(7,713)	6,841	53.0%
- Overdue 181-360 days	14,166	(11,168)	2,998	78.8%
- Overdue more than 360 days	48,214	(47,122)	1,092	97.7%
Total auto loans	5,478,500	(87,657)	5,390,843	1.6%
Mortgage loans				
- Not past due	6,566,886	(6,028)	6,560,858	0.1%
- Overdue less than 31 days	121,582	(129)	121,453	0.1%
- Overdue 31-60 days	15,905	(343)	15,562	2.2%
- Overdue 61-90 days	42,573	(1,570)	41,003	3.7%
- Overdue 91-180 days	60,238	(2,861)	57,377	4.8%
- Overdue 181-360 days	54,675	(16,737)	37,938	30.6%
- Overdue more than 360 days	779,573	(402,574)	376,999	51.6%
Total mortgage loans	7,641,432	(430,242)	7,211,190	5.6%
Other loans to individuals				
- Not past due	4,802,058	(46,495)	4,755,563	1.0%
- Overdue less than 31 days	92,637	(21,512)	71,125	23.2%
- Overdue 31-60 days	43,974	(20,824)	23,150	47.4%
- Overdue 61-90 days	47,383	(28,025)	19,358	59.1%
- Overdue 91-180 days	127,841	(88,568)	39,273	69.3%
- Overdue 181-360 days	58,415	(46,562)	11,853	79.7%
- Overdue more than 360 days	35,572	(33,223)	2,349	93.4%
Total other loans to individuals	5,207,880	(285,209)	4,922,671	5.5%
Total loans to individuals	18,327,812	(803,108)	17,524,704	4.4%

The following table provides information on the credit quality of loans to individuals as at 31 December 2009 :

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	RUR'000	RUR'000	RUR'000	%
Auto loans				
- Not past due	1,742,956	(6,964)	1,735,992	0.4%
- Overdue less than 31 days	19,156	(3,757)	15,399	19.6%
- Overdue 31-60 days	17,382	(6,359)	11,023	36.6%
- Overdue 61-90 days	10,943	(5,516)	5,427	50.4%
- Overdue 91-180 days	27,618	(16,407)	11,211	59.4%
- Overdue 181-360 days	101,737	(75,566)	26,171	74.3%
- Overdue more than 360 days	27,447	(25,050)	2,397	91.3%
Total auto loans	1,947,239	(139,619)	1,807,620	7.2%
Mortgage loans				
- Not past due	4,563,263	(5,331)	4,557,932	0.1%
- Overdue less than 31 days	83,427	(80)	83,347	0.1%
- Overdue 31-60 days	68,156	(1,704)	66,452	2.5%
- Overdue 61-90 days	16,070	(402)	15,668	2.5%
- Overdue 91-180 days	109,926	(3,984)	105,942	3.6%
- Overdue 181-360 days	172,181	(54,635)	117,546	31.7%
- Overdue more than 360 days	569,626	(296,690)	272,936	52.1%
Total mortgage loans	5,582,649	(362,826)	5,219,823	6.5%
Other loans to individuals				
- Not past due	2,113,686	(29,830)	2,083,856	1.4%
- Overdue less than 31 days	53,577	(15,907)	37,670	29.7%
- Overdue 31-60 days	19,781	(11,092)	8,689	56.1%
- Overdue 61-90 days	14,647	(9,722)	4,925	66.4%
- Overdue 91-180 days	68,292	(51,483)	16,809	75.4%
- Overdue 181-360 days	158,463	(132,699)	25,764	83.7%
- Overdue more than 360 days	67,976	(67,889)	87	99.9%
Total other loans to individuals	2,496,422	(318,622)	2,177,800	12.8%
Total loans to individuals	10,026,310	(821,067)	9,205,243	8.2%

Management estimates loan impairment based on historical loss experience on these types of loans using historical loss migration patterns for the past twenty four months and fair value of collateral. The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- the Group can sell consumer and auto loans to individuals overdue more than 360 days for 7.63 % and 9.0 % of their gross amounts, respectively
- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months
- in respect of mortgage loans, a delay of 18 months in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income, and a discount of 20% to the originally appraised value if the property pledged is sold through court procedures.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance, as of 31 December 2010, would increase/decrease by RUR 175,247 thousand (31 December 2009: RUR 92,052 thousand).

Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying car. Credit card overdrafts and consumer loans are not secured. As of 31 December 2010, the Bank estimates the fair value of private real estate undergoing foreclosure to be RUR 300,902 thousand (31 December 2009: RUR 316,931 thousand).

Management believes that it is impracticable to estimate the fair value of collateral held in respect of auto loans.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2010 are as follows:

	Auto loans	Mortgage loans	Other loans to individuals	Total
	RUR'000	RUR'000	RUR'000	RUR'000
Balance at the beginning of the period	139,619	362,826	318,622	821,067
Net charge	8,625	90,238	203,170	302,033
Net write-offs	(60,587)	(22,822)	(236,583)	(319,992)
Balance at the end of the period	87,657	430,242	285,209	803,108

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2009 are as follows:

	Auto loans	Mortgage loans	Other loans to individuals	Total
	RUR'000	RUR'000	RUR'000	RUR'000
Balance at the beginning of the period	61,448	60,719	142,410	264,577
Net charge	111,281	302,107	255,378	668,766
Net write-offs	(33,110)	-	(79,166)	(112,276)
Balance at the end of the period	139,619	362,826	318,622	821,067

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	31 December 2010	31 December 2009
	RUR'000	RUR'000
Loans to individuals	18,327,812	10,026,310
Consumer electronics, appliances and computers	13,135,208	9,418,115
Food and farm products	7,881,881	6,766,368
Residential and commercial construction and development	7,167,974	713,320
Construction and decorative materials, furniture	6,643,890	4,090,780
Clothing, shoes, textiles and sporting goods	6,320,591	3,399,728
Financial	5,895,633	19,663
Property rental	5,650,503	1,255,519
Industrial equipment and machinery	4,946,366	2,822,333
Consumer chemicals, perfumes and hygiene products	4,578,510	2,753,586
Equipment leasing	4,031,825	1,773,504
Automotive, motorcycles and spare parts	3,431,007	2,726,147
Metallurgical	3,203,615	1,740,984
Paper, stationery and packaging products	3,014,739	2,614,697
Oil and industrial chemicals	2,918,276	1,764,246
Services	2,720,873	1,842,839
Telecommunications	1,531,982	1,576,154
Pharmaceutical and medical products	1,390,506	638,306
Industrial and infrastructure construction	773,780	270,661
Gardening and pet products	516,667	321,242
Electric utility	498,302	2,013,045
Products for home, gifts, jewelry and business accessories	346,555	236,131
Books, video, print and copy	310,410	398,840
Other	1,408,513	932,198
	106,645,418	60,114,716
Impairment allowance	(2,793,109)	(1,824,201)
	103,852,309	58,290,515

Finance lease

Finance lease receivables included in loans to customers are as follows:

	31 December 2010	31 December 2009
	RUR'000	RUR'000
Gross investment in finance lease	1,776,992	1,276,316
Unearned interest income	(391,230)	(273,322)
Net investment in finance lease before allowance	1,385,762	1,002,994
Impairment allowance	(310,522)	(48,115)
Net investment in finance lease	1,075,240	954,879

The contractual maturity of the net investment in leases is as follows:

	2010 RUR'000	2009 RUR'000
Less than 1 year	630,110	542,280
Between 1 and 5 years	442,093	411,445
More than 5 years	3,037	1,154
	1,075,240	954,879

Loan maturities

The maturity of the loan portfolio is presented in note 29.

14 Property and equipment

The movement in property and equipment for the year ended 31 December 2010 is presented in the table below:

RUR'000	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2010	2,215,029	101,912	64,511	526,051	21,311	2,928,814
Additions	1,897	66,811	22,235	277,871	1,477,543	1,846,357
Disposals	-	(22,464)	(554)	(56,612)	-	(79,630)
At 31 December 2010	2,216,926	146,259	86,192	747,310	1,498,854	4,695,541
Accumulated depreciation						
At 1 January 2010	42,026	43,195	39,848	187,327	-	312,396
Depreciation charge	54,027	21,402	11,529	91,205	-	178,163
Disposals	-	(16,057)	(554)	(33,524)	-	(50,135)
At 31 December 2010	96,053	48,540	50,823	245,008	-	440,424
Carrying value						
At 31 December 2010	2,120,873	97,719	35,369	502,302	1,498,854	4,255,117

The movement in property and equipment for the year ended 31 December 2009 is presented in the table below:

RUR'000	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Constructio n in progress	Total
Cost/revalued amount						
At 1 January 2009	1,587,664	86,285	55,377	354,191	42,941	2,126,458
Additions	3,357	25,028	9,327	217,209	15,324	270,245
Disposals	(1,523)	(9,401)	(193)	(45,349)	(36,954)	(93,420)
Revaluation	625,531	-	-	-	-	625,531
At 31 December 2009	2,215,029	101,912	64,511	526,051	21,311	2,928,814
Accumulated depreciation						
At 1 January 2009	20,392	33,445	28,441	157,572	-	239,850
Depreciation charge	21,854	18,292	11,574	54,905	-	106,625
Disposals	(220)	(8,542)	(167)	(25,150)	-	(34,079)
At 31 December 2009	42,026	43,195	39,848	187,327	-	312,396
Carrying value						
At 31 December 2009	2,173,003	58,717	24,663	338,724	21,311	2,616,418

Revalued assets

At 31 December 2009 buildings were revalued based on the results of an independent appraisal performed by OOO "MEF-Audit". The basis used for the appraisal is the market approach. The market approach is based upon an analysis of the results of comparable sales of similar buildings.

The carrying value of buildings as of 31 December 2010, if the buildings would not have been revalued, would be RUR 1,495,342 thousand (31 December 2009: RUR 1,547,472 thousand).

As at 31 December 2010 management did not perform revaluation of the buildings as the movement in the fair values of buildings being revalued did not change significantly during 2010.

15 Other assets

	31 December 2010 RUR'000	31 December 2009 RUR'000
Receivables	469,950	231,085
Prepaid expenses	88,444	52,821
Property held for sale	66,271	98,359
Intangibles	4,677	11,281
Other	117,099	62,740
Total other assets	746,441	456,286

16 Deposits by the Central Bank of the Russian Federation

	31 December 2010 RUR'000	31 December 2009 RUR'000
Term deposits	-	1,605,794
Payables under repurchase agreements or collateral loans	-	4,523,401
Total deposits by the Central Bank of the Russian Federation	-	6,129,195

17 Deposits by credit institutions

	31 December 2010 RUR'000	31 December 2009 RUR'000
Demand deposits	53,986	36,473
Term deposits	10,194,233	5,291,736
Syndicated loans	5,213,680	1,825,518
Subordinated debt	1,234,830	604,884
Payables under repurchase agreements	11,166,555	3,294,292
Total deposits by credit institutions	27,863,284	11,052,903

Syndicated loans represents loans denominated in USD with effective interest rates ranging from 3.8% to 5.2% (31 December 2009: from 3.2% to 4.1%) and maturity from 2011 to 2015 (31 December 2009: from 2010 to 2011).

Subordinated debt represent loans denominated in USD with effective interest rates ranging from 5.7% to 8.5% (31 December 2009: 6.4%) and maturity from 2015 to 2017 (31 December 2009: 2015).

Information about the currency and maturity and effective interest rates on deposits by credit institutions is presented in note 29.

Concentrations of deposits by credit institutions

As at 31 December 2010 the Group has three counterparties (31 December 2009: two) whose deposits balance exceed 10% of the due to credit institutions. The gross value of these facilities as at 31 December 2010 is RUR 14,388,231 thousand (31 December 2009: RUR 4,032,910 thousand).

18 Deposits by customers

		31 December 2010 RUR'000	31 December 2009 RUR'000
Corporate customers	Demand	11,142,438	5,564,236
	Term	25,630,335	8,309,781
	Subordinated	6,057,760	-
Total corporate customers		42,830,533	13,874,017
Individuals	Demand	2,839,841	1,484,515
	Term	47,885,406	30,266,159
Total individuals		50,725,247	31,750,674
Total deposits by customers		93,555,780	45,624,691

Concentrations of deposits by customers

As of 31 December 2010 and 2009, 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 2010 RUR'000	31 December 2009 RUR'000
Promissory notes issued at nominal value	17,914,958	5,344,584
Accrued interest	215,005	-
Unamortized discount on promissory notes	(487,842)	(207,768)
	17,642,121	5,136,816
Bonds issued	11,141,223	7,249,086
	28,783,344	12,385,902

Information about the currency and maturity and effective interest rates on debt securities issued is presented in note 29.

Bondholders are entitled to demand early redemption of bonds at their nominal value. The next date on which bondholders can demand redemption is October 2011. In note 29 bonds are presented on the early redemption option dates.

RUR denominated bonds issue 04 was issued in March 2008 with a fixed coupon rate of 11.5% for the first year of floatation. Coupon rate for the six month period was reset in March 2009 at 18% and in September 2009 at 15% until the final maturity date. In March 2011 the Bank repaid the bond at par.

RUR denominated bonds issue 05 was issued in April 2009 with a fixed coupon rate of 15% for the first year of floatation. Coupon rate for the six month period was reset in April 2010 at 8.5%

until April 2011. The remaining two coupon rates are to be defined by the Bank in April 2011 and October 2011.

RUR denominated bonds issue 06 was issued in August 2009 with a fixed coupon rate of 16% for the first year of floatation. Coupon rate for the six month period was reset in August 2010 at 9.4% until the final maturity date of 7 August 2012.

RUR denominated bonds issue 07 was issued in July 2010 with a fixed coupon rate of 9.76% for the first year of floatation. The Bank sets the coupon rate for each subsequent six month period until the final maturity date of 14 July 2015.

RUR denominated bonds issue 08 was issued in April 2010 with a fixed coupon rate of 9.7% for the first 1.5 years of floatation. The Bank sets the coupon rate for each subsequent six month period until the final maturity date of 8 April 2015.

20 Other liabilities

	31 December 2010 RUR'000	31 December 2009 RUR'000
Allowance for credit related commitments	260,419	163,589
Payables to suppliers	198,981	81,761
Deferred income	69,714	10,828
Operating taxes payable	59,253	37,047
Payables to Deposit Insurance Agency	45,231	27,619
Other	231,402	97,960
Total other liabilities	865,000	418,804

21 Share capital

The share capital of the Bank consists of ordinary shares and was contributed by the shareholder in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital comprised 6,276,158,008 shares (31 December 2009: 6,276,158,008 shares) with par value of 1 RUR per share. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUR 861,930 thousand.

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation, as of the reporting date, reserves available for distribution amount to RUR 1,254,331 thousand (2009: RUR 1,102,761 thousand) (unaudited).

22 Commitments

	31 December 2010 RUR'000	31 December 2009 RUR'000
Guarantees and letters of credit	15,419,408	11,137,417
Undrawn loan commitments	503,892	294,333
	15,923,300	11,431,750

23 Operating leases

Leases as lessee

	2010 RUR'000	2009 RUR'000
Less than 1 year	128,331	100,161
Between 1 and 5 years	174,282	123,463
More than 5 years	102,328	75,510
	404,941	299,134

24 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

25 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

26 Related party transactions

The outstanding balances and related average interest rates as at 31 December with related parties are as follows:

	31 December 2010		31 December 2009	
	Amount	Average effective interest rate	Amount	Average effective interest rate
Loans to customers				
Ultimate shareholder	308,765	11.4%	207,682	15.7%
Under control of ultimate shareholder	333,697	10.0%	411,475	16.7%
Management	39,529	10.7%	27,188	12.4%
Total loans	681,991		646,345	
Deposits by customers				
Ultimate shareholder	51,069	10.4%	247,217	11.7%
Parent company	5,489	8.1%	41,060	15.8%
Under control of ultimate shareholder	6,310,867	6.3%	128,451	2.0%
Management	17,913	9.8%	4,446	12.9%
Total deposits	6,385,338		421,174	

Amounts included in the statement of comprehensive income for the year ended 31 December in relation to transactions with related parties are as follows:

	31 December 2010 RUR'000	31 December 2009 RUR'000
Interest income on loans to customers		
Ultimate shareholder	12,244	14,809
Under control of ultimate shareholder	17,377	51,537
Management	2,980	3,371
Total interest income on loans to customers	32,601	69,717
Interest expense on deposits by customers and promissory notes		
Ultimate shareholder	18,692	23,369
Under control of ultimate shareholder	49,890	2,569
Management	1,523	575
Parent company	922	6,500
Total interest expense on deposits by customers and promissory notes	71,027	33,013

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the year ended 31 December (refer to note 6) is as follows:

	2010 RUR'000	2009 RUR'000
Members of the Supervisory Board	2,315	2,903
Members of the Management Board	39,373	27,284
	41,688	30,187

27 Capital management

The Central Bank of the Russian Federation sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of the Russian Federation, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2010, this minimum level is 10%. The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2010 and 2009.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December:

	2010 RUR'000	2009 RUR'000
Tier 1 capital		
Share capital and additional paid-in capital	7,300,774	7,300,774
Retained earnings	5,937,830	2,916,454
Total tier 1 capital	13,238,604	10,217,228
Tier 2 capital		
Revaluation surplus for buildings	500,424	500,424
Revaluation reserve for investments available-for-sale	28,067	325,794
Subordinated loans		
Subordinated loan from EBRD	579,061	604,884
Subordinated loan from BLACK SEA TRADE AND DEVELOPMENT BANK	609,538	-
Subordinated loans from WELLCREEK CORPORATION	6,000,000	-
Less limitation of subordinated capital to 50% of tier 1	(569,297)	-
Total tier 2 capital	7,147,793	1,431,102
Total capital	20,386,397	11,648,330
Risk-weighted assets		
Banking book	119,410,805	67,618,009
Trading book	30,390,992	15,619,814
Total risk weighted assets	149,801,797	83,237,823
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	13.6	14.0
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	8.8	12.3

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised exposures, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. The Group complied with all externally imposed capital requirements during the years ended 31 December 2010 and 2009.

28 Analysis by segment

The Group has five reportable segments, as described below, which are strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the First deputy of the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate banking: comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guaranties, corporate deposit taking, settlements and money transfer, currency conversion
- Retail banking: comprises retail demand and term deposit services; retail lending, including consumer loans, car loans and mortgages, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals
- Treasury: comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promisory notes
- International business: comprises borrowings from international financial institutions and trade finance operations
- Cash collection and other cash operations: comprise all operations connected with cash, cash collection, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on statutory financial information, as included in the internal management reports that are reviewed by the First deputy of the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The segment breakdown of assets and liabilities is set out below:

	2010 RUR'000	2009 RUR'000
ASSETS		
Corporate banking	80,175,809	46,689,068
Retail banking	20,510,355	9,871,494
Treasury	55,263,244	25,673,818
Cash operations	4,252,559	2,696,122
Unallocated assets	2,949,964	1,605,018
Total assets	163,151,931	86,535,520
LIABILITIES		
Corporate banking	43,668,169	13,865,315
Retail banking	50,177,207	31,372,727
Treasury	44,566,186	24,862,583
International business	10,580,271	5,190,420
Unallocated liabilities	2,609,003	1,293,002
Total liabilities	151,600,836	76,584,047

Segment information for the main reportable segments for the year ended 31 December 2010 is set below:

RUR'000	Corporate banking	Retail banking	Treasury	International business	Cash operations	Unallocated	Total
External interest income	9,217,357	2,023,678	2,220,537	-	-	-	13,461,572
Fee and commission income	1,474,816	376,684	102,123	73,067	574,063	-	2,600,753
Net gain on securities	-	-	713,392	-	-	-	713,392
Net foreign exchange income (loss)	(4,879)	28,142	(29,091)	-	-	-	(5,828)
Other income	32,456	58,501	-	-	-	-	90,957
(Expenses) revenue from other segments	(4,282,550)	3,355,381	98,059	829,110	-	-	-
Revenue	6,437,200	5,842,386	3,105,020	902,177	574,063	-	16,860,846
Impairment losses	(2,244,200)	(374,734)	(108,595)	-	-	-	(2,727,529)
Interest expense	(1,402,924)	(4,449,783)	(2,324,419)	(475,097)	-	-	(8,652,223)
Fee and commission expense	(25,705)	-	(13,342)	(131,042)	-	-	(170,089)
Depreciation	(19,135)	(116,525)	(227)	(10)	(26,138)	-	(162,035)
General administrative expenses	(419,156)	(1,163,332)	(58,286)	(23,051)	(469,364)	(835,502)	(2,968,691)
Other expenses	(90,029)	(6,097)	(47,635)	-	-	(47,898)	(191,659)
Income before income taxes	2,236,051	(268,085)	552,516	272,977	78,561	(883,400)	1,988,620
Income tax	-	-	-	-	-	(314,062)	(314,062)
Segment result	2,236,051	(268,085)	552,516	272,977	78,561	(1,197,462)	1,674,558

Segment information for the main reportable segments for the year ended 31 December 2009 is set below:

RUR'000	Corporate banking	Retail banking	Treasury	International business	Cash operations	Unallocated	Total
External interest income	6,392,026	1,179,501	1,627,705	-	-	-	9,199,232
Fee and commission income	907,877	205,861	84,377	-	443,952	-	1,642,067
Net gain on securities	-	-	787,270	-	-	-	787,270
Net foreign exchange income (loss)	180,012	169,568	(155,153)	-	-	20,091	214,518
Other income	43,076	62,881	-	-	-	13,051	119,008
(Expenses) revenue from other segments	(3,516,001)	1,867,439	310,250	1,338,312	-	-	-
Revenue	4,006,990	3,485,250	2,654,449	1,338,312	443,952	33,142	11,962,095
Impairment losses	(1,645,976)	(772,252)	(74,319)	-	-	-	(2,492,547)
Interest expense	(443,264)	(2,603,604)	(2,183,487)	(408,560)	-	-	(5,638,915)
Fee and commission expense	(1,321)	(5,265)	(22,134)	(73,604)	-	-	(102,324)
Depreciation	(548)	(55,520)	(688)	(41)	(20,977)	-	(77,774)
General administrative expenses	(59,680)	(665,970)	(20,771)	(29,021)	(378,529)	(1,045,387)	(2,199,358)
Other expenses	-	(67,279)	-	-	-	(113,113)	(180,392)
Income before income taxes	1,856,201	(684,640)	353,050	827,086	44,446	(1,125,358)	1,270,785
Income tax	-	-	-	-	-	(240,007)	(240,007)
Segment result	1,856,201	(684,640)	353,050	827,086	44,446	(1,365,365)	1,030,778

The segment breakdown of additions to property and equipment for the years ended 31 December 2010 and 2009 is set out below:

	2010 RUR'000	2009 RUR'000
Retail banking	1,721,836	203,286
Cash operations	67,314	30,518
Corporate banking	3,286	14,362
Treasury	58	914
International business	8	457
Unallocated assets	53,855	20,708
Total additions to property and equipment	1,846,357	270,245

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

	2010 RUR'000	2009 RUR'000
Income before income taxes per management accounting	1,988,620	1,270,785
Consolidation adjustments	26,173	4,921
Interest and commission accruals	440,679	(84,729)
Fair value and other adjustments to securities	(331,694)	(296,140)
Adjustments to impairment allowances	1,187,731	(166,129)
Personnel, administrative and operating expenses accruals	479,954	155,606
Other adjustments	(38,940)	87,073
Income before income tax per IFRS financials	3,752,523	971,387

	31 December 2010 RUR'000		31 December 2009 RUR'000	
	Assets	Liabilities	Assets	Liabilities
Total assets/liabilities per management accounting	163,151,931	151,600,836	86,535,520	76,584,047
Accrual of administrative and operating expenses	(2,950)	85,693	-	48,766
Consolidation adjustments	25,695	(75,389)	(678,977)	(753,888)
Revaluation and other adjustments to property and equipment	137,237	-	913,437	-
Adjustment of current and deferred tax assets and liabilities	(44,453)	623,340	-	385,102
Accrual of interest and commissions	(213,202)	(151,467)	(360,981)	(12,377)
Adjustments to impairment allowances	2,612,705	(404,687)	659,753	(245,221)
Fair value adjustment to securities	(196,320)	-	(9,752)	-
Accrual of employee compensation payable	-	25,222	-	9,125
Total assets/liabilities per IFRS financials	165,470,643	151,703,548	87,059,000	76,015,554

29 Risk management

Management of risk is fundamental to the banking business and is an essential element of operations. The main risks inherent in the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for recognised and unrecognised exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and individuals)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Corporate Lending Department, which is responsible for the corporate loan portfolio. Credit reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Division's Credit Risk Management Department and a second opinion is given accompanied by a check that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Corporate Lending Division and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists of the Collateral Evaluation and Monitoring Service, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan credit applications are reviewed by the Retail Lending Division through the use of scoring models and borrowers' credit worthiness evaluation procedures and verification procedures developed together with the Risk Division.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Division with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk at the reporting date is as follows:

	31 December 2010 RUR'000	31 December 2009 RUR'000
ASSETS		
Cash and cash equivalents	19,441,969	6,147,308
Obligatory reserves with the Central Bank of the Russian Federation	756,584	401,006
Due from credit institutions	586,968	957,665
Financial instruments at fair value through profit or loss	27,475,153	12,472,290
Available-for-sale securities	4,401,846	3,165,020
Loans to customers	103,852,309	58,290,515
Other assets	479,138	346,646
Total maximum exposure to credit risk on statement of financial position	156,993,967	81,780,450

For the analysis of concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to unrecognised credit risk at the reporting date is presented in note 22.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, can be covered by the funds deposited by customers and therefore bear limited credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group established an Operational Risk Unit as a part of the Internal Control Department. The Operational Risk Unit determines policies and procedures in the area of operational risks.

The Unit collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools. The Operational Risk Unit reports to the Head of Internal Control Department on important developments and issues. The Head of Internal Control Department reports directly to the Supervisory Board.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Asset and Liability Management Committee (ALCO) sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of the Russian Federation. These ratios are: (i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; (ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; (iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The Bank was in compliance with these ratios during the years ended 31 December 2010 and 2009.

The following table as at 31 December 2010 shows the undiscounted cash flows from financial liabilities on the basis of their earliest possible contractual maturity. These expected cash flows can vary significantly from the actual future cash flows.

Foreign currency payments are translated using the spot exchange rate at the reporting date.

The maturity analysis for financial liabilities as at 31 December 2010 and 2009 is as follows:

31 December 2010	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
LIABILITIES					
Deposits by credit institutions	12,755,231	4,951,238	6,671,004	4,672,006	29,049,479
Deposits by customers	22,350,904	28,234,189	18,688,821	31,793,379	101,067,293
Debt securities issued	1,571,491	7,675,117	12,525,993	8,799,614	30,572,215
Total potential future payments for financial obligations as at 31 December 2010	36,677,626	40,860,544	37,885,818	45,264,999	160,688,987
Guarantees and letters of credit	690,760	10,442,552	3,631,970	654,126	15,419,408
Credit related commitments	503,892	-	-	-	503,892

31 December 2009	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
LIABILITIES					
Deposits by the Central Bank of the Russian Federation	1,641,461	3,566,541	1,081,370	-	6,289,372
Deposits by credit institutions	4,726,087	1,872,443	1,628,673	3,492,153	11,719,356
Deposits by customers	12,653,364	17,576,871	9,535,569	10,526,534	50,292,338
Debt securities issued	1,081,830	7,266,483	2,854,005	2,104,310	13,306,628
Total potential future payments for financial obligations as at 31 December 2009	20,102,742	30,282,338	15,099,617	16,122,997	81,607,694
Guarantees and letters of credit	245,752	4,812,211	6,072,272	7,182	11,137,417
Credit related commitments	294,333	-	-	-	294,333

The following tables show all assets and liabilities as at 31 December 2010 and 2009 by their remaining contractual maturities with the exception of securities included in financial assets at fair value through profit or loss and available-for-sale that are approved by the Central Bank of the Russian Federation as collateral for its loans. Such securities are shown in the category "Less than 1 month". The amounts shown here represent carrying amounts on the reporting dates and do not include cash flows associated with future interest and coupon payments.

As at 31 December 2010 the contractual maturities of all securities included in financial assets at fair value through profit or loss and available-for-sale securities were as follows:

	Less than 1 month RUR'000	1 to 6 months RUR'000	6 months to 1 year RUR'000	1 to 3 years RUR'000	3 to 5 years RUR'000	Over 5 years RUR'000	No maturity RUR'000	Total RUR'000
Financial instruments at fair value through profit or loss	-	3,211,012	4,104,788	8,560,974	9,536,426	2,061,953	-	27,475,153
Available-for-sale securities	-	729,542	777,134	2,266,619	525,147	103,404	59,799	4,461,645

As at 31 December 2009 the contractual maturities of all securities included into financial assets at fair value through profit or loss were as follows:

	Less than 1 month RUR'000	1 to 6 months RUR'000	6 months to 1 year RUR'000	1 to 3 years RUR'000	3 to 5 years RUR'000	Over 5 years RUR'000	No maturity RUR'000	Total RUR'000
Financial instruments at fair value through profit or loss	268,803	2,361,139	3,071,495	4,082,599	2,439,831	248,423	-	12,472,290
Available-for-sale securities	223,765	763,866	29,819	81,966	463,884	1,601,720	70,025	3,235,045

As at 31 December 2010, the Bank had no funds borrowed or available for borrowing under a credit line agreement from the Central Bank of Russian Federation. As at 31 December 2009, the Bank had a revolving line of credit with the Central Bank of Russian Federation, allowing it to draw funds within given limits at any time during the term of the agreement. Cash flows associated with the credit line are presented in the relevant maturity table below.

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31 December 2010

	Less than 1 month RUR'000	1 to 6 months RUR'000	6 months to 1 year RUR'000	1 to 3 years RUR'000	3 to 5 years RUR'000	Over 5 years RUR'000	No maturity RUR'000	Overdue RUR'000	Total RUR'000
ASSETS									
Cash and cash equivalents	23,336,426	-	-	-	-	-	-	-	23,336,426
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	-	756,584	-	756,584
Due from credit institutions	-	436,968	150,000	-	-	-	-	-	586,968
Financial instruments at fair value through profit or loss	24,153,390	582,640	708,848	851,524	1,178,751	-	-	-	27,475,153
Available-for-sale securities	2,436,745	-	310,803	1,094,020	525,147	35,131	59,799	-	4,461,645
Loans to customers	5,991,701	34,496,158	23,184,002	25,715,433	8,580,143	4,833,587	-	1,051,285	103,852,309
Property and equipment	-	-	-	-	-	-	4,255,117	-	4,255,117
Other assets	164,058	166,952	245,111	74,220	12,554	-	83,546	-	746,441
	56,082,320	35,682,718	24,598,764	27,735,197	10,296,595	4,868,718	5,155,046	1,051,285	165,470,643
LIABILITIES									
Deposits by credit institutions	12,740,236	4,859,385	6,504,503	1,959,843	1,189,779	609,538	-	-	27,863,284
Deposits by customers	22,340,004	28,062,409	18,461,959	14,794,925	3,838,723	6,057,760	-	-	93,555,780
Debt securities issued	1,475,287	7,291,566	11,830,121	8,186,370	-	-	-	-	28,783,344
Income tax liability	142,237	-	-	-	-	-	493,903	-	636,140
Other liabilities	319,510	110,673	103,946	-	-	-	330,871	-	865,000
	37,017,274	40,324,033	36,900,529	24,941,138	5,028,502	6,667,298	824,774	-	151,703,548
Net position	19,065,046	(4,641,315)	(12,301,765)	2,794,059	5,268,093	(1,798,580)	4,330,272	1,051,285	13,767,095
Accumulated gap	19,065,046	14,423,731	2,121,966	4,916,025	10,184,118	8,385,538	12,715,810	13,767,095	

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31 December 2009

	Less than 1 month RUR'000	1 to 6 months RUR'000	6 months to 1 year RUR'000	1 to 3 years RUR'000	3 to 5 years RUR'000	Over 5 years RUR'000	No maturity RUR'000	Overdue RUR'000	Total RUR'000
ASSETS									
Cash and cash equivalents	8,629,775	-	-	-	-	-	-	-	8,629,775
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	-	401,006	-	401,006
Due from credit institutions	-	957,665	-	-	-	-	-	-	957,665
Financial instruments at fair value through profit or loss	10,197,400	1,150,056	388,038	696,050	40,746	-	-	-	12,472,290
Available-for-sale securities	3,062,740	24,841	-	7,811	69,628	-	70,025	-	3,235,045
Loans to customers	4,615,850	20,353,018	10,585,415	15,137,129	2,863,307	3,478,593	-	1,257,203	58,290,515
Property and equipment	-	-	-	-	-	-	2,616,418	-	2,616,418
Other assets	95,502	153,063	128,240	26,242	-	-	53,239	-	456,286
	26,601,267	22,638,643	11,101,693	15,867,232	2,973,681	3,478,593	3,140,688	1,257,203	87,059,000

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	Less than 1 month RUR'000	1 to 6 months RUR'000	6 months to 1 year RUR'000	1 to 3 years RUR'000	3 to 5 years RUR'000	Over 5 years RUR'000	No maturity RUR'000	Overdue RUR'000	Total RUR'000
LIABILITIES									
Deposits by the Central Bank of the Russian Federation	1,629,195	3,500,000	1,000,000	-	-	-	-	-	6,129,195
Deposits by credit institutions	4,713,359	1,863,437	1,537,211	1,660,095	414,680	864,121	-	-	11,052,903
Deposits by customers	12,628,836	16,960,160	8,719,591	5,068,657	2,247,447	-	-	-	45,624,691
Debt securities issued	1,076,394	6,685,492	2,585,509	2,038,507	-	-	-	-	12,385,902
Income tax liability	153,797	-	-	-	-	-	250,262	-	404,059
Other liabilities	140,935	109,198	1,624	3,296	-	-	163,751	-	418,804
	<u>20,342,516</u>	<u>29,118,287</u>	<u>13,843,935</u>	<u>8,770,555</u>	<u>2,662,127</u>	<u>864,121</u>	<u>414,013</u>	<u>-</u>	<u>76,015,554</u>
Net Available credit lines	6,258,751	(6,479,644)	(2,742,242)	7,096,677	311,554	2,614,472	2,726,675	1,257,203	11,043,446
Net Deposit	1,629,195	3,500,000	1,000,000	(6,129,195)	-	-	-	-	-
	<u>7,887,946</u>	<u>(2,979,644)</u>	<u>(1,742,242)</u>	<u>967,482</u>	<u>311,554</u>	<u>2,614,472</u>	<u>2,726,675</u>	<u>1,257,203</u>	<u>11,043,446</u>
Accumulated gap	<u>7,887,946</u>	<u>4,908,302</u>	<u>3,166,060</u>	<u>4,133,542</u>	<u>4,445,096</u>	<u>7,059,568</u>	<u>9,786,243</u>	<u>11,043,446</u>	

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.

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	Less than 1 month RUR'000	1 to 6 months RUR'000	6 months to 1 year RUR'000	Over 1 year RUR'000	Overdue RUR'000	Total RUR'000
31 December 2010						
Interest-bearing assets	40,303,835	35,515,766	24,353,653	42,813,737	1,051,285	144,038,276
Interest-bearing liabilities	18,519,259	40,213,360	36,796,583	40,636,938	-	136,166,140
Net interest sensitivity gap as at 31 December 2010	21,784,576	(4,697,594)	(12,442,930)	2,176,799	1,051,285	7,872,136
31 December 2009						
Interest-bearing assets	17,875,990	21,527,915	10,973,453	22,293,264	1,257,203	73,927,825
Interest-bearing liabilities	12,962,560	29,009,089	13,842,311	12,293,507	-	68,107,467
Net interest sensitivity gap as at 31 December 2009	4,913,430	(7,481,174)	(2,868,858)	9,999,757	1,257,203	5,820,358

An analysis of sensitivity of profit or loss and equity to changes in market interest rates based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2010 and 2009 is as follows:

	2010		2009	
	Profit or loss RUR'000	Equity RUR'000	Profit or loss RUR'000	Equity RUR'000
100 bp parallel rise	(152,662)	(152,662)	(5,012)	(5,012)
100 bp parallel fall	152,662	152,662	5,012	5,012

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value 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 2010 and 2009 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2010		2009	
	Profit or loss RUR'000	Equity RUR'000	Profit or loss RUR'000	Equity RUR'000
100 bp parallel rise	(526,594)	(585,445)	(144,750)	(285,370)
100 bp parallel fall	526,594	585,445	144,750	285,370

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2010 and a simplified scenario of a 20% change in USD to Russian Rouble exchange rates is as follows:

	2010	
	Profit or loss RUR'000	Equity RUR'000
20% appreciation of USD against RUR	(76,187)	(76,187)
20% depreciation of USD against RUR	76,187	76,187

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and a simplified scenario of a 20% change in USD to Russian Rouble exchange rates is as follows:

	2009	
	Profit or loss RUR'000	Equity RUR'000
20% appreciation of USD against RUR	(31,525)	(31,525)
20% depreciation of USD against RUR	31,525	31,525

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

An analysis of sensitivity of profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 5% change in all securities prices is as follows:

	2010		2009	
	Profit or loss RUR'000	Equity RUR'000	Profit or loss RUR'000	Equity RUR'000
5% increase in securities prices	-	2,392	-	2,801
5% decrease in securities prices	-	(2,392)	-	(2,801)

Interest rate analysis

The interest rate policy is reviewed and approved by ALCO. The average effective interest rates for interest bearing financial instruments are as follows:

	31 December 2010			31 December 2009		
	USD	RUR	Other foreign currencies	USD	RUR	Other foreign currencies
Interest bearing assets						
Cash and cash equivalents	0.7%	3.9%	1.2%	0.5%	-	-
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	-
Due from credit institutions	6.2%	6.0%	-	-	-	-
Financial instruments at fair value through profit or loss – government bonds	5.4%	6.9%	-	-	7.7%	-
Financial instruments at fair value through profit or loss – corporate notes and municipal bonds	-	8.3%	-	-	10.4%	-
Available-for-sale securities – government bonds	-	6.4%	-	6.0%	8.1%	-
Available-for-sale securities – corporate notes and municipal bonds	9.7%	9.9%	-	-	11.3%	7.0%
Loans to customers	11.6%	14.0%	11.9%	12.6%	17.8%	13.0%
Interest bearing liabilities						
Deposits by the Central Bank of the Russian Federation	-	-	-	-	9.13%	-
Deposits by credit institutions	4.1%	4.8%	2.3%	4.5%	7.9%	2.1%
- Syndicated loans	4.0%	-	-	3.7%	-	-
- Subordinated debt	7.1%	-	-	6.4%	-	-
Term deposits by customers	7.5%	9.7%	7.4%	10.5%	14.4%	10.0%
Debt securities issued	3.6%	7.1%	4.7%	6.3%	14.2%	8.5%

Currency analysis

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Supervisory Board sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation. The exposure of The Group's assets and liabilities to foreign currency exchange rate risk is as follows:

	31 December 2010				31 December 2009			
	USD RUR'000	RUR RUR'000	Other currencies RUR'000	Total RUR'000	USD RUR'000	RUR RUR'000	Other currencies RUR'000	Total RUR'000
ASSETS								
Cash and cash equivalents	1,887,758	17,550,107	3,898,561	23,336,426	830,003	5,889,957	1,909,815	8,629,775
Obligatory reserves with the Central Bank of the Russian Federation	-	756,584	-	756,584	-	401,006	-	401,006
Due from credit institutions	235,303	150,000	201,665	586,968	-	-	957,665	957,665
Financial instruments at fair value through profit or loss	2,059,403	25,415,750	-	27,475,153	-	12,472,290	-	12,472,290
Available-for-sale securities	127,883	4,333,762	-	4,461,645	1,601,721	1,566,744	66,580	3,235,045
Loans to customers	13,853,038	84,589,069	5,410,202	103,852,309	9,883,588	44,843,957	3,562,970	58,290,515
Property and equipment	-	4,255,117	-	4,255,117	-	2,616,418	-	2,616,418
Other assets	75,648	668,208	2,585	746,441	19,294	435,641	1,351	456,286
	18,239,033	137,718,597	9,513,013	165,470,643	12,334,606	68,226,013	6,498,381	87,059,000

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	31 December 2010				31 December 2009			
	USD RUR'000	RUR RUR'000	Other currencies RUR'000	Total RUR'000	USD RUR'000	RUR RUR'000	Other currencies RUR'000	Total RUR'000
LIABILITIES								
Deposits by the Central Bank of the Russian Federation	-	-	-	-	-	6,129,195	-	6,129,195
Deposits by credit institutions	10,978,350	15,463,943	1,420,991	27,863,284	4,469,566	5,518,362	1,064,975	11,052,903
Deposits by customers	8,341,260	76,321,425	8,893,095	93,555,780	6,442,761	31,945,888	7,236,042	45,624,691
Debt securities issued	702,440	27,681,738	399,166	28,783,344	397,599	11,281,757	706,546	12,385,902
Income tax liability	-	636,140	-	636,140	-	404,059	-	404,059
Other liabilities	9,263	853,417	2,320	865,000	3,349	415,268	187	418,804
	20,031,313	120,956,663	10,715,572	151,703,548	11,313,275	55,694,529	9,007,750	76,015,554
Net position	(1,792,280)	16,761,934	(1,202,559)	13,767,095	1,021,331	12,531,484	(2,509,369)	11,043,446
Spot contracts	1,316,113	(2,263,026)	946,913	-	(1,218,365)	(1,035,006)	2,253,371	-
Total	(476,167)	14,498,908	(255,646)	13,767,095	(197,034)	11,496,478	(255,998)	11,043,446

Geographical risk

The geographical risk is the risk of losses in the result of a foreign counterparty failing to meet its obligations due to political, economic or social instability in the respective country.

The geographical concentration of financial assets and liabilities as at 31 December 2010 and 2009 is disclosed in the table below:

	31 December 2010				31 December 2009			
	Russia RUR '000	OECD RUR '000	Other non- OECD RUR '000	Total RUR '000	Russia RUR '000	OECD RUR '000	Other non- OECD RUR '000	Total RUR '000
ASSETS								
Cash and cash equivalents	18,020,750	5,314,349	1,327	23,336,426	6,392,284	2,234,737	2,754	8,629,775
Obligatory reserves with the Central Bank of the Russian Federation	756,584			756,584	401,006			401,006
Due from credit institutions	385,303	201,665		586,968	-	957,665	-	957,665
Financial instruments at fair value through profit or loss	27,321,018	-	154,135	27,475,153	12,316,938	-	155,352	12,472,290
Available-for-sale securities	4,461,645	-	-	4,461,645	3,235,045	-	-	3,235,045
Loans to customers	103,401,019	451,290	-	103,852,309	58,084,109	-	206,406	58,290,515
	154,346,319	5,967,304	155,462	160,469,085	80,429,382	3,192,402	364,512	83,986,296
LIABILITIES								
Deposits by the Central Bank of the Russian Federation	-	-	-	-	6,129,195	-	-	6,129,195
Deposits by credit institutions	15,768,554	12,094,730	-	27,863,284	5,735,136	5,317,765	2	11,052,903
Deposits by customers	85,984,456	75,078	7,496,246	93,555,780	45,124,467	37,683	462,541	45,624,691
Debt securities issued	28,440,705	229,631	113,008	28,783,344	12,043,374	222,518	120,010	12,385,902
	130,193,715	12,399,439	7,609,254	150,202,408	69,032,172	5,577,966	582,553	75,192,691
Net position	24,152,604	(6,432,135)	(7,453,792)	10,266,677	11,397,210	(2,385,564)	(218,041)	8,793,605

30 Fair value of financial instruments

For financial instruments whose fair value is estimated by using active market data, the fair value represents quoted market prices at the reporting date without any deduction for transaction costs. The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash and discount rates for similar instruments at the reporting date.

The following table provides an analysis of financial assets and liabilities, for which the discounted cash flow techniques are used to estimate their fair value:

	2010 RUR'000	2010 RUR'000	2009 RUR'000	2009 RUR'000
	Fair value	Carrying value	Fair value	Carrying value
ASSETS				
Cash and cash equivalents	23,336,426	23,336,426	8,629,775	8,629,775
Obligatory reserves with the Central Bank of the Russian Federation	756,584	756,584	401,006	401,006
Due from credit institutions	586,968	586,968	957,665	957,665
Loans to customers	104,521,779	103,852,309	57,712,021	58,290,515
LIABILITIES				
Deposits by the Central Bank of the Russian Federation	-	-	6,129,195	6,129,195
Deposits by credit institutions	27,863,284	27,863,284	11,052,903	11,052,903
Deposits by customers	95,234,842	93,555,780	46,357,273	45,624,691
Debt securities issued	28,970,940	28,783,344	12,489,310	12,385,902

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The following table shows an analysis of financial instruments recorded at fair value, for which fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2010:

	Quoted market prices	Valuation techniques based on market observable inputs	Total
	RUR'000	RUR'000	RUR'000
Financial assets at fair value through profit or loss	27,245,376	229,777	27,475,153
Available-for-sale securities	4,310,667	150,978	4,461,645

The following table shows an analysis of financial instruments recorded at fair value, whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2009:

	Quoted market prices	Valuation techniques based on market observable inputs	Total
	RUR'000	RUR'000	RUR'000
Financial assets at fair value through profit or loss	12,221,365	250,925	12,472,290
Available-for-sale securities	3,098,834	136,211	3,235,045

As at 31 December 2010 and 2009, the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

31 Events subsequent to the reporting date

In January 2011 the Bank paid out the first coupon in the amount of RUR 97.34 million or RUR 48.67 per bond on domestic bonds series 07. The issue was placed in the amount of RUR 2 billion with a maturity of 5 years.

In January 2011 the Bank opened a new branch in Moscow.

In February 2011 Mustafa Boran, Vice-President Banking of Black Sea Trade and Development Bank, joined the Supervisory Board of the Bank as a new independent member.

In February 2011 the Bank paid out the third coupon in the amount of RUR 93.74 million or RUR 46.87 per bond on domestic bonds series 06. The issue was placed in the amount of RUR 2 billion with a maturity of 3 years.

In February 2011 the Bank placed its exchange bond issue series BO-1 with a nominal value of RUR 3 billion with a 3-year maturity at MICEX.

In March 2011 the Bank repaid its domestic bonds series 04. The issue was placed on 18 March 2008 in the amount of RUR 2 billion.

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